Ibero-American stock 'boom' could be a bust

by Cynthia R. Rush

The latest propaganda from *Business Week* and other Wall Street investment experts is that Ibero-America is the new "growth area" of the world, emulating the Asian Tigers with booming stock markets and investment opportunities galore. The June 15 *Business Week* dedicated its cover story to "Latin America, The Big Move to Free Markets," with subheads blaring that "Latin Financial Markets Are Sizzling," and "U.S. Companies Benefitting." The magazine coos over the U.S.-trained, English-speaking Ibero-American "whiz kids" who are "pushing aside nationalist graybeards who ruled for decades," and working in coordinated fashion to produce economic miracles.

But on June 4, the U.S. Treasury Department's sudden announcement that it had called a meeting of 11 Ibero-American finance ministers for June 24-25 in Washington, suggests that not everyone is confident that all is as rosy as the story portrays. If the Ibero-American boom should suddenly go bust, U.S. banks could be in big trouble, since they are the primary beneficiaries of the speculative orgy taking place on the continent. Citicorp has already taken $200 million of the loan loss reserves it set aside to cover bad debt to Ibero-America, and transferred it to cover bad real estate debt, arguing that the lesser developed countries (LDC) debt crisis is now "resolved."

President George Bush has his hands full with political troubles at home, including a volatile banking and economic crisis and uncertainty over his political future. Bush has already faced two crises in Ibero-America this year—one in Venezuela on Feb. 4, and the other in Peru in early April—both stemming from those populations' rejection of the U.S. strategy of imposing "democracy" backed by the International Monetary Fund's (IMF) free market austerity reforms.

Given the actually fragile nature of most Ibero-American economies, were there to be another Venezuela or Peru, and the potential for this is great, it would deal a death blow to Bush's phony democratization campaign. At a time when Bush is trying to ram through the North American Free Trade Agreement (NAFTA) with Mexico, the centerpiece of his hemispheric policy, he can't afford such problems.

What the U.S. administration needs above all is some guarantee of economic stability in Ibero-America which, at bottom, is a political question. Hence the finance ministers' meeting, which is being described as "unprecedented" by many observers.

The meeting is to be chaired by U.S. Treasury Secretary Nicholas Brady, and it is officially intended to discuss an unexciting agenda of trade, debt, and investment developments in the region, as well as further Bush's Enterprise for the Americas free trade initiative, which many are calling moribund. But a Reuters wire published in the June 5 Buenos Aires daily *Ambito Financiero* reported more forthrightly on Washington's nervousness over Ibero-America's continued ability to apply IMF policy, and quoted an unnamed Treasury official who said that a major purpose of the ministers' meeting will be to reinforce Ibero-America's "orientation" toward free market reforms.

Stock market mania

The stability which the United States seeks rests largely on its ability to enforce IMF policies now in place throughout the continent, while maintaining the myth that the speculative stock market booms under way in countries such as Argentina, Chile, Brazil, and Mexico are the reflection of an "economic recovery" allegedly spurred on by the Fund's neoliberal economic reforms.

This "recovery" in fact is really the product of dismantling what remained of these countries' protectionist, or mercantilist, economic structures, and opening them up wholly either to foreign investors, or domestic ones who've brought back flight capital, to make a killing in a speculative orgy which has nothing to do with real production or the health of any of the economies involved.

Argentina is a case in point. According to the June 4 *Financial Times,* starting last year, the Buenos Aires stock market was hit with an "avalanche of money" which has caused prices to rise; the influx of money from abroad, which is "fleeing low international interest rates," continuously pushes up the price index, attracting more money, and forcing the index even higher. Since the beginning of 1992, an average of $42 million has entered the country every day, part of which goes to the stock market. President Carlos Menem's economic policies helped establish "investor confidence," the *Times* explained.

On June 4, the Argentine daily *Clarín* described this feeding frenzy as the "market bicycle." One's own capital is no longer enough, the paper explained, "so you borrow. In the market, the buyers pay only 30% of a share and borrow the other 70%, hoping to pay it off with a sale within days or weeks. There are some companies which, to buy shares, offer the banks the chits they obtain for their credit card sales. For every 100 pesos to be collected, the banks advance them 95 pesos (21 days before), and with those funds the companies go to the market to buy stock."

Precarious stability

No matter that Argentina's manufacturing sector is being wiped out by a flood of cheap foreign imports, or that Venezuela, with a $5 billion fiscal deficit and disastrous economic situation, could face a financial blowout by September. Those Ibero-American companies whose stock is booming on the market for reasons unrelated to production are "the new darlings of Wall Street," *Business Week* gushed. They need only show "their formidable resumes showcasing how they survived debt and depression, weathered hyperinflation, and sailed the waves of shock therapy."

Similar booms are evident elsewhere, and for the same reasons. The June 14 *New York Times* reported that prices on the Brazilian stock market have increased 40.9% this year alone; in Chile, the gain in dollar terms has been 35.4%; in Mexico, 29.4%.

But because these market booms have nothing to do with real economic processes, they can shift on a whim—at the first whiff of scandal or political uncertainty. Discussing the Argentine market, the *Financial Times* commented on June 4 that "it is vulnerable to an unpredictable shift in investor sentiment, say cautionary voices. This could suddenly turn the virtuous circle vicious, sending prices crashing and flight capital winding its way back to Miami bank accounts as quickly as it left."

On Monday, June 15, the Brazilian stock market dropped 8% in response to new rumors of corruption involving President Fernando Collor de Mello, who is already embroiled in scandal, and whose ability to comply with an IMF agreement is in question. On the same day, the Mexican stock market dropped by 67.34 points, or 3.7%, and dropped another 10% on June 17. That decline was reportedly due to selling from investors worried about comments made by the as yet undeclared presidential candidate, H. Ross Perot, criticizing NAFTA.

The drop of Mexican mutual funds and equities listed in New York the previous week, prompted the *Wall Street Journal* to editorialize on June 15, "No Mexican or foreign investor in Mexico is likely to deny that the fortunes of the Mexican stock market are directly tied to the fortunes of the proposed North American Free Trade Agreement." The *Journal* went on to warn that if NAFTA were not approved, it could bring down the Mexican stock market.

Controlling unrest

Business Week does admit that there is one hitch in the Ibero-American economic boom. "As Latin leaders look beyond downtown Buenos Aires and São Paulo . . . they see the immense underclasses still untouched by the bonanza. If the new money doesn't lift the poor, this latest boom, like all the others before it, is sure to go bust."

As rampant poverty, spread of disease, and collapse of infrastructure demonstrate, IMF policy over the past 10 years has done nothing to "lift the poor." In an effort to keep the lid on social unrest caused by wretched conditions, the Anglo-American establishment is promoting social control programs such as Mexican President Salinas de Gortari's National Solidarity Program, or Pronasol. Backed by an enormous propaganda machine, Pronasol selectively hands out rewards such as electricity or water in exchange for political support, maintaining the illusion that the poor are benefitting from Salinas's free market policies.

Aside from speculators and quick-buck artists, the real beneficiaries of these policies are U.S. creditor banks. The June 15 *New York Times* reported that Citicorp, with large investments in many local Ibero-American companies, has benefitted from rising stock prices. Many of these investments occurred when the bank accepted stock in a company in exchange for a bank loan that could not be repaid. Citicorp chairman John Reed recently revealed that the value of Citicorp's various stock investments was now *greater* than the original amount of the loans that were exchanged for the corporate stock.

Kevin J. Mulvaney, head of global banking at the Bank of Boston Corp., added that in some cases, loans are proving to be worth more than banks had estimated years ago when they set aside reserves to cover expected losses.