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COLOMBIA

Illiquidity at home, cash outflow abroad

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The announcement of President Reagan's Caribbean Basin Initiative (CBI) on Feb. 26 brought a flood of protest from Colombia's private-sector producers, especially those involved in production of sugar, bananas, coffee, and leather goods. The elimination of duties on U.S. imports of these products from the Caribbean Basin, they protested, will give unfair advantage to Colombia's competitors in that region. "It could prove catastrophic," declared one large sugar grower.

Yet Colombia has just promulgated a series of monetary measures with the alleged purpose of opening up the Caribbean to Colombia's commercial and financial sectors. Those measures will in fact impose a "final solution" on what were once Colombia's industrial and agricultural sectors, and deliver the economy to the financial interests behind that country's drug trade.

The huge quantities of drug money that have flooded Colombia's financial sector over the past five years have given immense power—both political and economic—to entities like the Bank of Colombia, Colombia's largest. This "dirty" liquidity—combined with the government's Friedmanite policies of tight money—has enabled the country's three or four largest financial groups to bankrupt and buy out one chunk after another of the productive economy, to the point that even some of the fiercest Friedmanites in industrial circles, such as the president of the National Industrialists Association, Fabio Echeverri Correa, have begun to demand lower interest rates and "a genuine industrialization program."

Economist Edgar Gutiérrez Castro, at a conference last month in the depression-wracked city of Medellín, warned that Colombia was undergoing a process of "de-industrialization, when it is imperative that just the reverse occur." He pointed out that of 28 major industries in Colombia, 24 had drastically cut back their work forces in 1981, 14 due to negative growth rates. At lease 78 percent of the industrial sector, he said, is suffering a underutilization of capacity that is reaching 30 percent in many cases.

The textile industry, once the pride of Medellín and the entire country, is now operating at less than 50 percent of capacity and, according to latest figures, laid off some 180,000 workers in 1981. Nearly every textile company which has managed to survive to date is now threatened by or in the midst of labor strikes.

Food production, which grew by a reported 8.1 percent in 1979, *declined* at a 6.4 percent rate for the first nine months of 1981. Colombia, traditionally touted as having an "agricultural vocation," is today a net importer of food.

The new program

The government's latest measures could prove a disaster for the already weakened economy. The stated intent of the Feb. 15 decrees is to bring interest rates—now about 45 percent—down "naturally" by issuing credit "for production, not speculation." In fact, while the measures do "unfreeze" a portion of the country's banking reserves, the extra liquidity is to be channeled into government-run "development" funds *whose priority by law is to pay off the foreign debt.* What liquidity does escape in the form of "credit for domestic capital-goods production," its nominal purpose, will do little for an industrial sector presently indebted by up to as much as 60 percent of its assets.

The new measures also order a reduction in previous import surcharges on both raw materials and many consumer goods from 35 to 20 percent—guaranteed to finish off domestic producers such as the textile and auto industries—and allow for increased foreign indebtedness of the private sector, a measure widely interpreted as a violation of the Andean Pact's Article 24, which prohibits foreign takeover of an economy.

Probably the most significant aspect of the government's new economic package is its Caribbean initiative. In a meeting with the nation's top 19 banks Feb. 12, Development Minister Gabriel Melo Guevara invited the Colombian banking sector to enter the Caribbean offshore market as part of the government's strategy of "commercial colonization" of that region. Bank of Colombia president Jaime Michelsen Uribe took up the challenge with a proposal to form a single trust company made up of all of Colombia's banks, to facilitate "a more efficient penetration" of the Caribbean.

One Washington-based Colombia-watcher observed that Colombia had neither the transport capability nor the internal economic health to "open up" the Caribbean as a marketplace for Colombian goods. He acknowledged, however, that Colombia's drug-generated liquidity, with no place to go in the bankrupt Colombia economy, could establish a cozy home for itself in the Caribbean. As the London-based *Latin America Weekly Report* observed in its Feb. 26 issue, "Colombian financial presence in the Caribbean . . . fits in very well with such key aspects of U.S. policy towards the area as the Caribbean Basin Initiative."

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