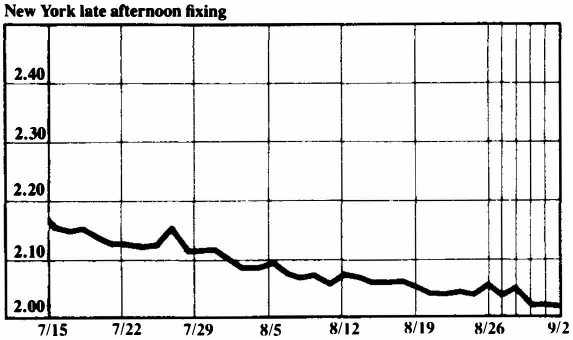
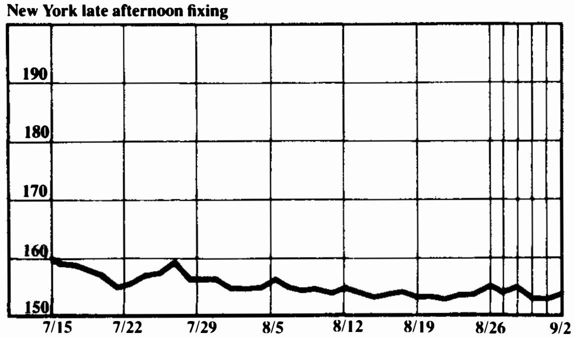
Currency Rates

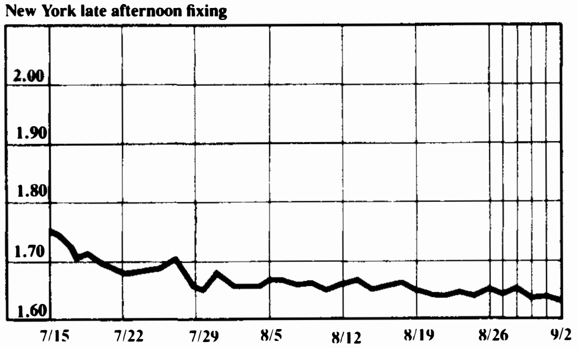
The dollar in deutschemarks
New York late afternoon fixing



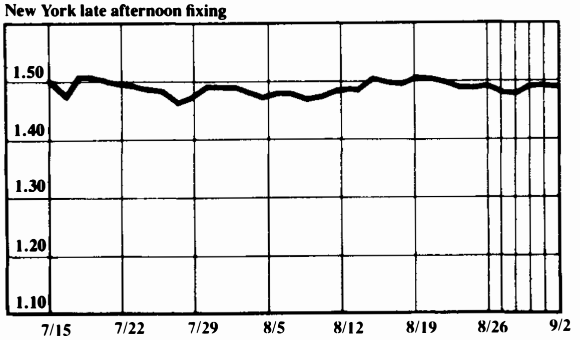
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The debt-for-equity

by Valerie Rush

The Sept. 4 announcement of a new foreign-investment policy in Mexico speaks volumes about the degree of capitulation to International Monetary Fund (IMF) dictates hidden behind the recent $12 billion debt-bailout pact. That policy, issued by presidential decree, may in fact prove the death blow to the country's tradition of nationalist resistance to foreign capital takeover of the Mexican economy. Unfortunately, it is also just one of a series of similar policy decisions made in the recent period across the continent, which threaten to usher in a new imperialist era under the Kissingerian "debt-for-equity" rubric.

The Mexican government's foreign investment announcement also came on the heels of President Miguel de la Madrid's annual report to the nation of Sept. 1. In his report, any hopes that the Mexican head of state would heed the call of his Peruvian colleague for unity in defense of political and economic sovereignty were dashed. Instead, de la Madrid told Mexico's population to expect "permanent austerity," while promising its creditors "responsible dialogue and non-confrontation" on the debt (see *Documentation* below).

Opening the floodgates

Mexico's changes in foreign-investment policy are more than a foot-in-the-door for international finance capital. Rather, they are likely to throw open the floodgates to Mexico's international creditors desperate to convert $100 billion in unpayable debt paper into hard equity gouged from the Mexican economy.

According to the Sept. 4 *Official Bulletin,* Mexico's National Commission on Foreign Investment is now authorizing international finance companies to either purchase outright or convert debt-holdings to equity in Mexican companies, without being considered "foreign investors" subject to Mexico's traditional restrictions on foreign investors. The only condition? The foreign capital involved is expected to be "primarily" channeled into the economic and social development of Mexico.

The decree also authorizes small- and medium-sized foreign companies to establish themselves as majority holders inside Mexico without previous authorization, a decision which explicitly overturns standing legislation which sets a

scam takes hold

49% ceiling on foreign participation in a Mexican company.

The delight with which U.S. banks and investment houses have greeted the decree is reported in *La Jornada* of Sept. 4, which notes that Citicorp, Chase Manhattan, Morgan Guaranty, Bankers Trust, Salomon Brothers, Shearson Lehman, Drexel Burnham Lambert, and Bear Sterns are already lining up for a piece of the action. One Chase Manhattan executive based in Mexico commented to *La Jornada* that the new government decree "strengthens the initiative of the creditor banks and U.S. investors" to capitalize the debts of Mexican companies, an initiative first launched in August 1985 around the Mexican debt restructuring. *La Jornada* comments that this group of U.S. lenders and investors have been peddling the "miracle drug" of debt-for-equity for more than a year. *EIR* actually dates it from August of 1983, when Henry Kissinger joined with other mouthpieces of international finance capital in a secret Aspen Institute meeting in Vail, Colorado. It was there the debt-for-equity scheme was first launched.

On top of its "modifications" in standing foreign investment legislation, the government has also announced a "liberalization" of exchange controls allegedly intended to "promote non-oil exports." Previous restrictions which limited exporters to using a maximum of 50% of their foreign-exchange profits for down-payments on imports have been lifted. Exporters are no longer obliged to convert their foreign-exchange earnings into Mexican pesos, but may use up to 100% of them for imports. The already widespread practice of over-valuing imports—a classic form of capital flight—can be expected to soar.

Venezuela joins lemmings

Venezuela has just announced a nearly identical foreign-investment package to that of Mexico. In a Sept. 3 press conference, Finance Minister Manuel Azpúrua declared that Venezuela's goal is to become "the investment center of Latin America," and was thereby eliminating the requirement that foreign investors convert their Venezuela-based companies into 51% Venezuelan-*owned* companies within a 15-year period. In addition, a regulation limiting profit remittances abroad to 20% of capital was also eliminated. The decree also explicitly permits "capitalization" of foreign private debt—debt for equity.

Several sectors of the Venezuelan economy will be exempted outright from the rules governing foreign investment, including: agriculture, agroindustry, tourism, construction, electronics, computers, and biotechnology. Exemptions will also be granted to companies which export more than 60% of their production or have joint ventures with the government.

Minister Azpúrua explained that the Venezuelan economy has been sorely battered by the collapse in oil prices internationally, and noted, "The deficit for 1987 will be very significant if we don't take a series of measures" like this. He added that the new foreign-investment regulations are designed "to replace credit and financing with investment capital."

The new Venezuelan rules, which will undoubtedly delight foreign bankers as much as the Mexican decree has, have been announced just as the Venezuelan congress succeeded in burying the Fococam law they "inadvertently" voted up last July. A bi-partisan commission of congress had formulated a "debt conversion" package which, in effect, unilaterally converted $7 billion worth of private-sector debt to foreign banks into government bonds bearing a mere 5% interest—and maturing in 15 years! The Venezuelan congress, in a rare patriotic mood, passed it.

When bankers heard of the measure, they moved to snuff it out. Trade credits to Venezuela were cut, threats to sue Venezuelan companies were made, and untold behind-the-scenes pressures and blackmail were applied. The result? Venezuela backed down. The order went out from the top to bury Fococam, and the two houses of Congress have done just that. The vote to repeal Fococam was held in the Venezuelan Senate in a special late-night session on August 27.

Argentina under pressure

Argentine officials have been insistent that they would withhold any and all decisions on policy until after viewing the outcome of Mexico's negotiations with the IMF and creditor banks. Miguel de la Madrid's Sept. 1 address to the nation, and measures that followed, have unfortunately provided an unwholesome example. With its negotiating mission currently meeting with the IMF in Washington, the Argentine government appears determined to follow Mexico's lead, and has just announced the submission of legislation to the Argentine Congress which will formalize a full-scale debt-for-equity program.

Citibank had been pressuring Argentina for several months to go with such a program, and left less than subtle warnings with Argentine officials that renegotiation of the country's debt was dependent on such. Finance Secretary Mario Brodersohn has reportedly been a leading proponent of debt-for-equity, and with the recent ousting of central banker Alfredo Concepción, the way is apparently cleared.

It remains to be seen how Bolivia chooses to resolve its rapidly escalating financial crisis, but there can be little doubt that the dozens of state-owned mines that the Paz Estenssoro government has just shut down would be snapped up by the country's waiting creditors for a dime on the dollar.

The story is similar across the continent, where the accelerating bankruptcies of state and private-sector companies alike are providing ripe targets for the debt-for-equity scam. It is undoubtedly to coordinate the mapping of precisely such targets that the Inter-American Council on Trade and Production, controlled by Rockefeller's Americas Society, just met in Panama. Among the Council's directors is the Dominican Republic's vice-president, Carlos Morales Troncoso, formerly the head of Gulf and Western's sugar holdings on the island and just named director of the state-owned sugar company. On Aug. 26, Troncoso declared the state company bankrupt, and announced its imminent sale to the private sector.

Documentation

Excerpts from Mexican President Miguel de la Madrid's state of the nation address on Sept. 2:

In the internal arena, we adopted viable measures, establishing priorities, and seeking to broaden the margin for action. We made it clear that, as difficult as the state of affairs abroad was, the fundamental effort to overcome the crisis belonged to no one but ourselves. While we do not fundamentally resolve the structural problems of our economy, we cannot overcome our economic vulnerability. The debt is not our principal economic problem, but the result of more profound questions. Both our productive apparatus and our distribution system must be more efficient and equitable. In that regard, we redouble our efforts of reordering and structural change, in the great task of renewal. . . .

We are currently in a period of negotiating with the creditor banks the concessions on contracted and new debt that we need. It is a difficult phase, but we are confident in the justice of our arguments, the ability of our negotiators and the support derived from the seriousness and responsibility with which Mexico has always conducted itself in complying with its obligations. . . .

We have followed and will continue to follow the path of non-confrontation, which recognizes co-responsibility for the problem of the debt and its payment in accordance with capacity that permits growth. . . . My government will maintain its policy of obtaining resources from abroad, via new credits and concessions on existing debt, to increase production and employment. . . . The definitive solution to the debt problem lies in the growth of our economy, making it more productive and exporting more, thereby reducing the weight of indebtedness with respect to internal production and the export capacity of the country. This is the way to responsibly handle the process of indebtedness.