

# Peru defies IMF, wants infrastructure

by Peter Rush

In a rare display of defiance of the international policeman for the world's banking community, the International Monetary Fund, Peruvian President Alberto Fujimori on March 16 revealed that he had rejected a proposed letter of intent with the IMF on the grounds that it failed adequately to fund social expenditures and infrastructure construction. As of March 30, the letter had still not been signed, amidst indications that Fujimori is adamant that higher-than-expected revenues from the sale of state companies will not be used to pay off debt to the banks, as the IMF has demanded. Instead, Fujimori's government is now negotiating to develop a vast natural gas deposit at Camisea, near Cuzco, in the Andes, and is also pursuing transcontinental infrastructure projects to link the southern two-thirds of the continent by road, rail, and river.

## Funds from privatization available

Fujimori said that the IMF was refusing to allow for adequate "social investment" in the state budget, and was insisting that revenues from privatization of state-owned companies be devoted to paying off foreign debt. He specified that "social investment pertains not only to education and health, but also to the improvement of infrastructure—such as, for example, local roads—which facilitates improvements in productivity in the marginal and isolated regions of the country."

The following week, Fujimori expanded on his rejection of the IMF's meddling with Peru's budget, stating in a March 21 interview in the Chilean daily *Estrategia* that he disagreed with the charge that spending for social and physical infrastructure was inflationary. While the IMF has not made its arguments for opposing such spending public, the Lima daily *Expreso*, which often reflects the viewpoint of the international banks, presented them in an article also published March 21. The IMF maintains, according to *Expreso*, that "to inject billions of dollars into the Peruvian economy would be inflationary, and would generate an unsustainable pressure for more spending of that kind." Second, "Peru lacks the managerial infrastructure to permit greater expenditures" of this type. And third, "the position of the IMF is that Peru has debts and means to pay them. At least part of these means

must go to regulate the debt."

Fujimori told *Estrategia* that his government had estimated only about \$1 billion in revenues to come from privatizations, whereas it now appears that the true figure will be about \$3 billion. This will permit the Treasury, he said, to fund medium- and long-term investments without having to borrow at high interest rates, which will save the government money and thereby be anti-inflationary. And he specified that the funds will be used on such projects as hydroelectric dams and paving rural roads. "Our government's policy in the coming years is to improve the conditions of productivity through improving infrastructure."

Following confirmation on March 23 by an official of the Ministry of Economics that the dispute over whether to use privatization funds to pay the debt was still holding up the signing of the letter of intent with the IMF, continuing intense IMF pressure led Fujimori on March 25 to reaffirm, according to *Gestión* newspaper, that "all of these [new] resources [from privatizations], which appear likely to be about \$3 billion in 1994, will be fundamentally earmarked for social or infrastructure investments . . . social investments were already budgeted, but with the increase in funds, they will be expanded. We do not desire that they go to pay off debt because we have a great deal of infrastructure in need of construction."

## Large projects on the agenda

Peru is also moving to develop specific large transportation and energy projects, which the IMF is no doubt quite unhappy about. Ongoing talks with the Shell oil company concerning developing the large Camisea natural gas field in the Amazon, not far from the famous Inca capital of Cuzco in the Andes, have led to an agreement to study the possibility of Shell beginning exploratory drilling in early 1996, if the study confirms the feasibility of the project. The field would supply natural gas for power plants to provide electricity to the Pacific coast of Peru, including the capital of Lima, with surplus production to be sold to Brazil and, possibly, the U.S. West Coast.

And the northern port city of Paita hosted a conference March 26-27 on the nearly completed transcontinental, intermodal transportation route from Paita on the Pacific to Belém, Brazil, on the Atlantic at the mouth of the Amazon River. The ministers of transport of Brazil and Peru attended the conference. The overland portion of the route, from Paita to the Brazilian Amazon, about 1,000 miles long over the Andes mountains, lacks only about 180 miles of road. When completed, the route will initially carry 3 million tons of cargo per year across the continent.

This project coincides with the near-completion of another major multinational transportation corridor, not involving Peru, but including Brazil, Paraguay, and Argentina, which will create a 1,000-mile inland waterway linking southern Brazil, northeastern Argentina, and all of Paraguay.