Japan and Mexico pose 'American System' policy

by Peter Ennis, Cancún Correspondent

When Mexican President José López Portillo and Canadian Prime Minister Elliott Trudeau, the Co-Chairmen of the first-ever International Meeting on Cooperation and Development, entered the crowded Convention Center in Cancún, Mexico on Oct. 23 to read a summary statement on the conference, few among the approximately 3,000 journalists and staff present failed to notice the decidedly opposite mood of the two men. López Portillo was optimistic; Trudeau was dejected. Cynics in attendance claimed López Portillo had no choice but to act in this fashion, as host of the conference. It was Trudeau, they said, who accurately reflected the results of the conference.

But the two leaders had ample reason for their respective states of mind. The Mexican President and his friends from, in particular, India and Japan, had succeeded in diffusing the many diversionary tactics launched at the conference, and placed their goal of international economic development through drastic reform of the International Monetary Fund at the top of the conference agenda. On the other hand, Trudeau, along with his fellow social-democrat French President François Mitterrand and Socialist sympathizer Alexander Haig, had failed to provoke "right-wing/left-wing" confrontation.

Cancún was the first gathering of heads of state from both the industrialized "North" and the Third World in the postwar period to discuss the fundamental issue of modernizing the underdeveloped countries, and in the course of the two days of discussions, every essential element of a plan to revive the world economy was presented, at least in outline form.

The Cancún summit also set back the prestige and influence of the Soviet Union in the Third World. Hardly a speaker failed to attack the Soviets for boycotting the conference, even as Moscow was issuing daily sour-grapes bulletins denouncing the proceedings as a front for "imperialist" interests.

Reporters were denied access to the conference proceedings themselves, which occurred in the remote Cancún Sheraton Hotel; all high-level delegates to the summit confined themselves to the Sheraton as well. *EIR* assembled this exclusive report based on discussions with diplomats from many countries, from occasional general briefings given by delegations, and from information from journalists from many nations who were regularly briefed by their delegations.

Japan's active role

The role that Japan played at Cancún, both in setting the environment for overall development discussions and in mediating between the North and South was unprecedented.

Japanese Prime Minister Zenko Suzuki came to Cancún intent on taking a much more active role than is customary for Japan in international forums. In recent months, Japan has moved to rectify the world economic situation, particularly in the developing countries, by expanding lending to these countries on a large scale, to enable them to import Japanese and other advanced technologies. The basis for this effort is "American System" economics: deliberately fueling industrial growth through technological development, mass education, and political leadership dedicated to nation-building.

In this regard, relations between Japan and Mexico have become particularly friendly in recent months.

Reliable sources reported to *EIR* that midway through the first day of the summit, President López Portillo spoke to Prime Minister Suzuki and asked him to speak to Reagan about moderating the American position at the talks. Suzuki, who had been eager to assume such a role, immediately accepted. The problem for Suzuki was that the White House was refusing to arrange a meeting between Suzuki and Reagan. Alexander Haig was reported to be well aware of Suzuki's desire to mediate at Cancún, and calculated that Suzuki could not perform this role if he were denied access to Reagan.

Japanese sources reported that Haig was particularly upset that, several days before the Cancún summit, PLO leader Yasser Arafat had visited Tokyo and met with Suzuki. "Haig is worried that Japan is adopting a more independent policy stance," one source stated.

Though Suzuki could not meet with Reagan, Japanese Foreign Minister Sunao Sonoda told Haig late one evening that the United States was in danger of becoming "totally isolated" at the summit, and urged a softening of American policy stance.

Meanwhile, in his presentation to the conference, Suzuki had taken note of the effect of IMF "adjustment" (austerity) programs in the developing countries, and announced that Japan was expanding its foreign aid program. He also delivered a remarkable characterization of Japan's own successful drive to modernize, saying that "nation-building" depends on raising the skill levels and modernizing commitment of the nation's population.

A difficult question remained for Suzuki, López Portillo, and their allies: how will President Reagan absorb the education in statecraft that was given to him at Cancún? The short-term results were unpromising; at the prompting of Haig and Britain's Margaret Thatcher, Mr. Reagan kept up a stubborn defense of the IMF as if oblivious to the statements by numerous conference speakers, patient but emphatic, that the IMF's policies pose the greatest obstacle to Third World development, and thus the greatest cause of instability and the danger of war.

The origins of the conference were themselves two-sided. It was organized largely on the initiative of President López Portillo, yet the meeting has first been suggested by the report issued two years ago by the "independent commission" chaired by former West German Chancellor Willy Brandt to study the North-South question. Brandt was urged to establish his commission by former World Bank President Robert McNamara, an unabashed advocate of reducing the population of the developing countries. Among the commission's leading members were Peter Peterson, Chairman of the New York investment firm Lehman Brothers-Kuhn Loeb, and Katharine Graham, owner of the *Washington Post* and daughter of Eugene Meyer of the Lazard Frères investment firm. The two firms have played essential roles in imposing the IMF/World Bank austerity programs in developing countries.

Cancún preparatory meetings in August 1981 agreed to follow the outline of the Brandt report and focus on four issues: food and agriculture; energy; trade and industrialization; and monetary and financial issues. The Brandt Commission backers hoped to protect the IMF and its affiliated private interests by dividing discussions into isolated topics with a shared premise of inevitable austerity and financial blackmail.

At the same time, the Brandt Commission-allied Club of Rome, operating through Dr. Ervin Laszlo and his "Futures Project" at the United Nations Institute on Training and Research, had dragged the procedural issue of future "global negotiations" onto center stage. The ostensible question was whether future talks would take place in the U.N. General Assembly, where developing countries can out-vote developed countries, or in the so-called "specialized agencies" like the IMF and World Bank, where OECD nations dominate the voting due to the larger contributions they make to those institutions.

Finally, with Haig encouraging President Reagan to harangue the Third World on "free enterprise," the stage was to be set for a confrontation between the "haves" and the "have-nots," with Trudeau and Mitterrand encouraging this confrontation.

Mexico sets the tone

But from the moment López Portillo greeted President Reagan with a warm embrace at the Cancún airport, it was clear the Mexican leader was determined to prevent any such confrontations. The tone was set in his conference inaugural address on Thursday, Oct. 22. He urged that the sterility and tension characterizing previous discussions on North-South relations be put aside. Instead, he said, attention should be focused on the obvious harmony of interest of the developed and developing countries. World prosperity can be achieved, he said, if ways can be found to link the *financial resources* of OPEC and other countries, the *technologi-*

cal and industrial capacities of the developed countries, and the acute *need for technology and consumer products* in the developing sector.

That redefinition of the economic question, 180 degrees away from "redistribution" or "small is beautiful" toward expanded credit and production, became a theme dominant throughout the entire conference. It was repeated with striking unanimity by heads of government all the way from communist Yugoslavia to the "right-wing" regimes of Brazil and the Philippines, and brought forward with particular eloquence by Prime Minister Gandhi of India and Foreign Minister Saraiva of Brazil. López Portillo himself emphasized that fundamental changes in the international monetary system are necessary to realize this potential.

López Portillo also set another theme for the conference: failure to pursue that objective harmony of self-interests in technological development would result in economic and political disaster—"whirlpools of world-wide decline."

Philippines President Marcos and Yugoslav President Kraigher asserted that the Third World's balance-of-payments deficits and consequent indebtedness have reached a breaking point. "There is no way of paying these debts in the present situation," Marcos said bluntly in his opening address to the conference. Kraigher warned, "This is leading to the danger of repayments moratorium," adding, "There is no need to emphasize what all this may mean for the overall world financial structure." Mrs. Gandhi took these warnings a step further: "Surely the whole point of this conference is to try and avoid war as an outgrowth of the North-South problem," she told a press conference.

The Reagan script

Mr. Reagan's personal reaction to these warnings is not known at this time; but the script handed him by Haig and the State Department advocates of depopulating the Third World made the President the backroom laughing stock of the underdeveloped countries' diplomats—insofar as they pushed aside their knowledge that U.S. defense of the IMF and "free enterprise" will mean accelerated mass murder in the coming period.

It was a startling scene: Ronald Reagan, who can count his trips abroad on his two hands, preaching to the experienced leaders assembled at the conference table on the importance of "free markets" and "free enterprise" in achieving economic development. Most of the nations present had not long been liberated from the British version of "free enterprise," and continue to suffer what the Philippines' Marcos called the "disastrous inheritance" of this period: widespread illiteracy in the population, a wholly inadequate industrial base, little infrastructure, and less technology to bring to bear on their nagging food shortages.

Speaker after speaker tried to direct the President's attention to the practical reality of "market forces" under the IMF's regime, some well aware that it was "free-market" colonialism against which the United States fought a revolution. Indira Gandhi reminded the President that before a nation can pull itself up by its own bootstraps, it needs a pair of boots. When India became free 35 years ago, she said, "we had nothing—literally nothing—in the country. No technology, no industry—we barely had a beggar's bowl." But sheer determination has led to great success in modernizing India, she asserted. Marcos urged that all "platitudes be left in the marketplace." And Brazilian leader Saraiva, whose country is a favorite investment site for American corporations, told the conference that "the marketplace" will not build the infrastructure needed in the developing countries. "Even in Brazil," he said, "it has been necessary for the state to pragmatically take over considerable responsibilities in important sectors. What can be said of countries that do not possess a business community, or sufficient capital accumulation, or even technical cadres?"

At one point, the reaction against Reagan's preaching was so serious that López Portillo had difficulty maintaining a non-confrontational atmosphere. An African diplomat stated privately that "Reagan is in another world. He seems to have no idea what the world around him looks like."

The final summary

The entire summit came to a head at about 5:00 p.m. on Friday, the second day of the two-day conference. At this moment, Japan's Suzuki finally got his chance to mediate.

It had not been expected that the conference would make any dramatic announcements or agreements. Thus, the only announcement expected was where and when future talks would take place, and a final summary statement containing this and other related information; it was in this context that the much-publicized issue of "global negotiations" assumed some prominence.

At that time, the conference adjourned for a period of two hours, during which time a most unusual procedure was visible. The 22 heads of state broke up into small, roving negotiating groups, trying to work out the final language of a statement to indicate when and where future talks would take place.

Reagan spent virtually the entire time with Margaret Thatcher, insisting that any reference to "global negotiations" be clarified with a statement reaffirming the power of the IMF and the other specialized agencies. Venezuela and Algeria insisted that the statement include reference to "global negotiations" in "the United Nations." When this was finally agreed to, Mrs. Gandhi had the words "with a sense of urgency" included, noting that any talks at the United Nations could last forever.

The chief diplomat during those final two hours was Suzuki of Japan. Japanese sources reported that Haig told Sonoda the United States would compromise on procedure "if you back us up on substance when the talks take place."

Reagan had announced in his speech to the conference that the United States was willing to take part in future talks, but the power and authority of the "specialized agencies" must be maintained. For Haig, this was not a question of voting tallies; the point is to maintain the IMF's ability to enforce backwardness.

Similarly, for many of the developing countries, the issue is not merely to switch the talks to the U.N. General Assembly so as to "outvote" the developed countries. The goal is to transform the policies and/or reduce the power of the IMF. This is exactly what Indira Gandhi told a press conference: "We are not wedded to certain phrases. We are more interested in the results and the substance."

Thus, the issue at Cancún was, and remains: will the IMF continue to determine North-South relations? The summit did not resolve this question, but placed it clearly at the top of the agenda.

Developing nations mount a challenge to IMF austerity

The most important debate in the Cancún summit revolved around proposals to drastically reform the philosophical basis and the functions of the International Monetary Fund. In the words of Philippine President Marcos, there were "bitter remarks" on this issue. "Proposals to resolve this problem were presented," announced Miguel de la Madrid, the presidential candidate of Mexico's ruling PRI party.

The developing countries have for some time considered the IMF the chief obstacle to matching the obvious economic demand in the Third World with the obvious economic production capacities of the advanced countries. The 1976 heads of state meeting of Non-Aligned Nations held in Colombo, Sri Lanka, and the 1979 meeting of the same organization in Havana, had raised the issue of creating a new monetary system to meet the actual needs of the developed and underdeveloped economies. What was striking about Cancún was the sharpness and anger of Third World attacks on the IMF, and the clarity of their ideas about changing the system. Moreover, Cancún was the first forum for this debate comprising leaders of both the advanced and underdeveloped countries.

The controversy forced French President François Mitterrand to shed his image of "friend of the developing countries." Mitterrand strongly defended the IMF, arguing that the agency is "evolving" its policies to be "more in line" with the needs of the developing countries. Mitterrand's Brandt Commission policies were thus revealed publicly as a soft-sell version of Reagan and Thatcher's "free enterprise."

A particularly heated exchange took place between President Reagan and President Julius Nyerere of Tanzania, who was the spokesman on balance of payments problems for the African nations in attendance. Nyerere, whose country has been ripped apart by IMF "conditionalities," objected to Reagan's constant emphasis on private capital as the key to development. "Mr. President, can you please tell me one American company that will come to my country and construct the power lines, the dams, and other infrastructure that we desperately need? Please tell me which ones, because I would like to invite them." Nyerere went on to emphasize that private capital has been too timid to enter many countries, and official loans from government and international agencies are indispensable.

Reagan responded that, nonetheless, official loans and aid should be the "seed crystal" around which private capital builds. He told Nyerere that if the World Bank or some other international agency finances a project, the project should then be sub-contracted by the recipient country to a private firm.

Insiders say Canada's Trudeau intervened at this time, and asked Nyerere to guarantee against expropriation of foreign capital in his country. Nyerere responded by citing joint ventures that exist in his country with foreign capital.

The development programs of developing countries must be reviewed by the IMF, both Reagan and Thatcher said, in order to instill confidence in foreign investors, who hold the key to success. The developing countries, without exception, protested this demand, as indicated below in excerpts from the statements by Brazil, Yugoslavia, and the Philippines.

The "conditionalities" imposed by the IMF on its borrowers were the biggest target of developing-sector criticism. The Philippines presented an entire background paper on this issue.

Speaking to reporters, Mexico's Industry Minister José Andrés de Oteyza summed up the monetary and financial discussions in this way:

High interest rates: Developing countries insisted that high rates are leading the entire world economy into a deep recession, which will only reduce economic activ-