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EIR Economics

Americas Summit: Shotgun Marriage to Globalization

by Gretchen Small

Heads-of-state summits often contain more window-dressing than substance, but the Third Summit of the Americas, convened in Quebec City April 20-22, had the quality of the theater of the absurd. Thirty-four Presidents and Prime Ministers gathered around the rotting corpse of globalization, to announce their official betrothal to a hemispheric Free Trade of the Americas Agreement (FTAA), which, they proclaim, will allow them to better enjoy the corpse's future. Some wrangled over the date of the wedding and the terms of the dowry, but no one had the gumption to mention publicly the stench rising from the corpse, decomposing ever more rapidly even as they spoke.

It was truly a pathetic scene: The Finance Minister of one of the leading summit participants, Argentina, spent the same weekend scrambling to avoid defaulting on its $150 billion public debt. Central Bank officials in Brazil, with a public debt more than double Argentina's, began preparing to do the same. It is the fourth time since December 1994 (when Mexico's debt exploded) that a debt crisis in Ibero-America threatens to "go systemic."

For years, it has been insisted that gaining greater access to the United States' market under "free trade," will assure the cash flow to end these debt crises. Already, nearly 60% of all Ibero-American exports are sold in a United States market upon which every other country in the world also now depends. Poof! The U.S. Commerce Department confirmed April 25 what governments already knew from their own shrinking export revenues: that the U.S. market is imploding. The dollar value of consumer and capital goods imported by the U.S. fell again in February with a record 4.4% drop. With March and April dominated by announcements of record first-quarter corporate losses and job cuts by the thousands, only a Coke salesman like Mexican President Vicente Fox could still insist that the U.S. market will pick up "any day now."

At the same time, for all the desperate liquidity pumping by Federal Reserve Chairman Alan Greenspan et al., the global "wall of money" which kept Brazil from defaulting in 1999 is proving too weak to stop national defaults from spreading across the globe. The head of the private bankers' Institute of International Finance, Charles Dallara, estimated on April 17 that net private capital flows to the developing sector will be $60 billion less this year, at $150 billion, from the average $210 billion a year which entered from 1996-2000. Does anyone believe that the U.S. Treasury and the International Monetary Fund can bail out Turkey, Argentina, Brazil, Indonesia—and the Mexicos, Polands, etc. which can explode, also, at any time?

Tick, Tick, Tick...

Brazil's was the only government which dared hint at reality, going into the summit. In an April 16 press conference in Brasilia, Foreign Minister Celso Lafer said President Fernando Henrique Cardoso considered it more urgent for Ibero-America that the summit discuss the region's financial crisis, than debate the "advantages" of free trade. Cardoso will raise the problems caused by the "extreme volatility" of financial flows, he said.

As the summit opened, Argentina's finances were unravelling. The $41.5 billion bailout package put together by the IMF in December 2000, had proven worthless. Five billion dollars, at least, left the country between the end of February and April 16. A public, international debate over when, not if, Argentina would default, was set off by an opinion column by Columbia Business School Prof. Charles Calomiris, published prominently in the *Wall Street Journal* April 13. Under the headline, "Argentina Can't Pay What It Owes," Calomiris pointed out that to meet interest payments alone, Argentina would either have to cut its imports by half, permanently

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(politically not feasible), or increase its exports by half (unlikely!). He argued that the sooner Argentina's debt is restructured, and this must include an orderly write-down of some 25%, the less the regional damage.

The situation was such, that President George W. Bush personally assured the summit's closing press conference that his team was watching the Argentine situation "closely," prepared to throw in either bilateral aid or from the international financial institutions.

Argentina's country-risk—the interest points above U.S. Treasury-bill rate which it must pay to borrow money—hit an astronomical 13% on April 25. Finance Minister Domingo Cavallo, with Crédit Suisse First Boston's David Mulford, concocted a new scheme, a mega-swap of up to $20 billion in short-term debt for new longer-term bonds, to put off the day of reckoning—with a hefty government-paid premium to get bondholders to go along, hiking the already-unpayable public debt yet further. Daniel Muchnik, economics columnist for Argentine daily, *Clarín,* pointed out April 22: No country in the world can send $18 billion (6% of its GNP) a year out of the country in interest payments, profit remittances and dividends, while seeking financing for $26 billion a year to cover amortizations, when its exports earn only $28 billion a year. The debt will have to be written down.

If Argentina blows, Brazil may follow, an hysterical executive of Bear Stearns & Co. warned in a Letter to the Editor run April 25 in the *Wall Street Journal*. Look at the damage to Brazil's "debt dynamics" that the mere discussion of an Argentine default caused, he protested. This is already more than a "specter." Since the opening of the year, Brazil's currency, the real has lost 15% of its value. Every drop in the value of the real, raises the cost of Brazil's heavily dollar-denominated debt (the 5.7% devaluation in March increased the debt by over $3 billion). The remedy adopted—to raise interest rates so as to entice in foreign capital—worsened the problem, as four-fifths of Brazil's public debt carries floating interest rates. The Central Bank's 0.5% interest rate rise in March, alone, increased the total debt by $8.1 billion! Yet, on April 18, the same day Greenspan lowered the U.S. Fed rate, Brazil raised its interest rate another 0.5%. Again, to no avail. On April 25, Brazil's real closed at its lowest rate since its creation in 1994.

Brazil The Issue

To that financial-economic reality looming over the delusionary hemispheric free trade plans, was added the possibility that Brazil may, still, pull out of the FTAA process altogether. President Cardoso's tough speech to the opening session of the Americas Summit startled many. A Community of the Americas presupposes a recognition that "the historical paths of each people to mold their economic institutions can vary. There is no single thought which can dicate the course of nations. Free trade is one of those instruments," said Cardoso. Brazil welcomes the negotiations towards a FTAA, but "we will insist that free trade benefits should be equally shared by all participants, that trade opening should be reciprocal, and that it should lead to the attenuation rather than the aggravation of the disparities that exist in our region." A pact which does not accomplish this, would be "irrelevant, or, in the worst case, undesirable."

Several years ago, Cardoso announced his "bet" that the future lay with globalization. But two fires are burning Cardoso's feet, however, which may shift his "bet." One is the recognition of global reality. "When the two largest economies in the world, Japan and the U.S., which represent 40% of the world's GDP, have a drastic reduction in their growth rates, of course this has implications for the rest of the world," Treasury Minister Pedro Malan told *Folha de São Paulo* April 25. It's not "reasonable or plausible that Brazil would remain immune."

The other fire is the building domestic opposition to the FTAA, ranging from São Paulo industrial interests, to a strong grouping within Itamaraty (the Foreign Ministry). The most outspoken of the latter group, Ambassador Samuel Pinheiro Guimaraes, was just removed from his post as head of Itamaraty's Foreign Relations Research Institute, a move which resulted in gaining him more access to the national press. In several interviews and articles published before the summit, he warned that the FTAA is an instrument of "sophisticated neo-colonialism," a plan to negotiate a reduction in sovereignty. Brazil cannot develop as an independent nation under the FTAA, and it should stop seeking an "illusionary credibility" with the international financial community, which, in the end, will "limit the autonomy of its political economy," and most likely lead to a debt crisis as well.

More than one Brazilian journalist in Quebec City exclaimed when they heard Cardoso's summit speech, that it could have been written by Pinheiro. A television interview given on April 19 by a close friend of President Cardoso, Helio Jaguaribe, reveals the debate under way in Brazil. Calling the FTAA "national suicide" for Brazil, Jaguaribe warned that the country could "cease to exist" if the negotiations end badly. Brazilian companies will not be able to effectively compete with U.S. companies for the next 20 to 30 years, he said. This, Jaguaribe insisted, is also the point of view of President Cardoso, with whom he has discussed the FTAA several times. But because the government fears the heavy economic penalities which the U.S. superpower could inflict upon Brazil in a head-on conflict, the government has adopted the strategy of tying Brazi's participation to various conditions (elimination of U.S. non-tariff barriers to Brazilian products, for example) which it believes the United States cannot meet.

Beware Shotgun Weddings, Texas-Style

As the architects of the looting scheme acknowledge, without Brazil, there will be no FTAA. Already, Brazil stalled the Bush team's effort to push up the final date for FTAA negotiations to be completed, to 2003. Because of opposition by Brazil, the final declaration coming out of Quebec City

commits the nations to complete the negotiations "by no later than" January 2005.

There are fatal flaws lurking in the Cardoso government's stall strategy, however. As Pinheiro Guimaraes warns, it is an illusion for it to believe that Brazil can participate in the negotiations, and then freely decide at their conclusion if it joins the final pact or not; that ignores the dynamics of negotiations and the power of the U.S. political presence, he points out.

Like the North American Free Trade Accord before it, the FTAA is not intended to be a *trade* arrangement, but rather a political pact through which to strip the last remnants of sovereignty from the nations of the region, impose dollarization, and tear down what barriers remain against the looting of their natural and human resources, and the crushing of any independent technological capabilities, such as Brazil still has. Bush and his team made clear in Quebec City, the Anglo-Americans don't intend to take "no" for an answer. U.S. Trade Representative Robert Zoellick told a pre-briefing on the summit on April 19, that bilateral trade accords designed to isolate Brazil and make an FTAA a foregone conclusion will go full steam ahead, because the Bush team still wants to "beat those deadlines," and conclude an overall deal before 2005. "I'm sending a signal to the Brazilians," Zoellick told the *Washington Post*.

The Quebec City summit, though surreal, was not without teeth. The final declaration signed by the Presidents contained a "democracy clause," a big step forward towards turning "the summit process" into the centerpiece of a supranational regional government. Any "interruption of the democratic order"—a formulation which can be interpreted as wished—"constitutes an insurmountable obstacle" for any country so accused to participate in "the Summit of the Americas process." The Presidents instructed their Foreign Ministers to draft an Inter-American Democratic Charter by June, in order to empower the Organization of American States (OAS) as the enforcer of such imperial "rule of law." The Action Plan adopted at the summit mandates establishing a permanent OAS bureaucracy to enforce the summit process, with some media promising that the World Bank and Inter-American Development Bank will put $20 billion behind the "process" over the next five years.

The Brazilian government would do well to learn the lesson of its last battle to defeat this drive to end sovereignty and establish a supranational government: the OAS-State Department's overthrow of Peru's President Alberto Fujimori in 2000. When Brazil put its foot down at the June 2000 OAS meeting, other Ibero-American nations rallied with it, and the drive was blocked, opening the door for the exciting discussions of South America's development at the first-ever Summit of South American Presidents. Because the Cardoso government espoused the glories of democratization and globalization, when the orders came down in October that Fujimori had to go, period, Brazil buckled.

White House Changes Tune In Turkish Crisis

by William Engdahl

The months-long banking and political crisis in Turkey has forced the Bush White House to make an apparent policy about-face on the issue of bailing out troubled "emerging market" countries. On April 18, President George W. Bush convened an emergency meeting to discuss the deteriorating economic and social crisis in Turkey, which included Secretary of State Colin Powell, Security Adviser Condoleezza Rice, Treasury Secretary Paul O'Neill, and Bush. That discussion resulted in a 180-degree shift from earlier statements by Treasury Secretary O'Neill opposing the kind of International Monetary Fund (IMF) bailouts of countries such as Thailand or Russia which had been made in 1997-98.

According to reports in the April 20 *Wall Street Journal,* the White House concluded that, given Turkey's strategic importance in the eastern Mediterranean, and its importance as a NATO member country on the border of the oil-rich Caspian Sea region, the United States will put significant pressure on the IMF to come up with billions of dollars more, if necessary, to stabilize what has become a national emergency situation. Following the talks, Turkish Prime Minister Bulent Ecevit said that Bush had phoned him to assure him of U.S. support.

Five days later, on April 25, Deputy IMF Managing Director Stanley Fischer told press on the eve of the IMF annual meeting, "Turkey deserves the support of the international community, and it will get it." Turkey's new Economics and Finance Minister, Kemal Dervis, a longtime World Bank official, has asked for another $10-12 billion from the IMF and World Bank, on top of the December IMF-led bailout of $11 billion, claiming it is necessary to implement a draconian series of "reform" and austerity measures to get Turkey back on the "track of growth and stability."

News of an open split between Prime Minister Ecevit and President Ahmet Sezer in February over the alleged pace of the government's anti-corruption drive, triggered a full-blown currency crisis as foreign banks liquidated Turkish liras for dollars, and fled. The lira, since mid-February, has fallen more than 80% against the dollar. Many Turkish companies had borrowed in dollars, and now find they are unable to repay the dollar loans.

The February crisis led the IMF to freeze further cash disbursements to Turkey, aggravating the domestic economic crisis. On Feb. 22 the Ecevit government was forced to let the lira float free against the dollar and euro, after a