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Central Intelligence Agency

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Directorate of Intelligence

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The Cartagena Conference of Latin American Debtors: Dynamics and Fallout [redacted] 25X1

Summary

In late June eleven Latin American debtors met in Cartagena, Colombia to discuss a unified approach to their financial situation. Reporting before, during, and after the meeting points to lack of real agreement except at the lowest common denominator. Most specific proposals were watered down into general statements of unified concern. We believe the flavor and results of the meeting suggest that the key Latin debtors support joint action as long as it does not threaten their ability to deal unilaterally with banks and creditor governments. [redacted] 25X1

While all of the participants at Cartagena see benefit in coordinated positions, the general nature of the final communique points to a continued belief that each country's situation is unique and an unwillingness to buck the system at this point. The existence of a debtors "secretariat", however, will help push

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This memorandum was requested by the Secretary of State. It was prepared by analysts in the Office of African and Latin American Analysis with a contribution from the Office of Global Issues. This analysis is based on information as of 5 July 1984. Comments and queries may be directed to the Chief, South America Division, ALA, [redacted] 25X1

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individual countries in the direction of a more unified front. Whether this occurs and how quickly will depend on: 1) creditors' reactions to concerns expressed at Cartagena, 2) whether interest rates rise further, and 3) progress in Argentina's and Mexico's debt negotiations. [redacted] 25X1

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Latin Objectives at Cartagena

In response to a call by Argentine President Alfonsin, Latin American foreign and finance ministers met on 21-22 June in Cartagena to discuss their common concerns on international debt questions. The participants had different motives for attending:

-- [redacted] the Argentines wanted to exert combined political pressure on creditors to obtain easier IMF programs and better repayment terms on bank debt for Latin countries. 25X1

-- Mexican President de la Madrid hoped to find pragmatic solutions to regional financial problems and believed that consultations would provide important leverage in future talks with international bankers.

-- Brazil, which reluctantly participated to strengthen its relations with Argentina, nevertheless wanted an opportunity to voice concern over higher US interest rates, an objective shared by Colombia, Peru, and Chile.

-- Venezuela lacked enthusiasm for the Cartagena initiative, [redacted] 25X1 25X1

-- Bolivia hoped the meeting would enable it to garner support for its decision unilaterally to suspend payments to bankers.

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-- Ecuador and the Dominican Republic [redacted] 25X1 hoped that the conference would 25X1 result in a consolidated front in negotiations with creditors. [redacted] 25X1

Prior to the meeting, the major Latin American debtors voiced reservations that the gathering might be seen as an effort to form a debtors' cartel. [redacted] 25X1 [redacted] the Presidents of Mexico, Brazil, and Venezuela opposed a 25X1 cartel because it might jeopardize their individual financial negotiations and future access to external funds. For example, Mexican officials announced in press conferences before the Cartagena conference that they would not support a debt cartel. Instead, Mexico committed itself to a negotiating process for resolving Latin debt problems on an individual basis. [redacted] 25X1

[redacted] 25X1 reports from US Embassies throughout Latin America indicated that the participants agreed that additional steps by creditors were necessary to alleviate the debt burden. They hoped that the Cartagena conference would dramatize the Latin debt repayment plight and their willingness to use political pressure to obtain longer repayment periods and limits on debt servicing payments from private lenders. The delegates also hoped to sensitize the IMF to the need to ease austerity programs to avert political instability. Moreover, they wanted to press Washington and other industrial country governments to lower interest rates and resist protectionist pressures. [redacted] 25X1

The Dynamics of the Conference

After two days of lower-level preparatory meetings, Colombian President Betancur gave the opening address on 21 June. Although generally moderate in tone, he mentioned the United States repeatedly in an exposition on the "largely external" causes of Latin America's crisis. The US Embassy in Bogota reported that late that evening delegates drafted the 15 points that later became the Cartagena Consensus. The

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participants made a concerted effort to draft a responsible statement aimed at convincing world opinion that "we all are going to survive or fall together", the US Embassy in Bogota reported. [redacted]

Despite this prevailing sentiment, press reports indicated that Argentina, then locked in a confrontation with the IMF, argued that the communique should take a tough stand against creditors. A well informed source of the US Embassy in Quito was particularly struck by Buenos Aires' radical attitude. He noted the Argentines were insistent that the delegates should press the IMF for concessions. This position was generally supported by Ecuador, Bolivia, and the Dominican Republic. As a result, Argentina managed to insert into the Cartagena Consensus a demand that the IMF give priority to economic growth and employment over debt repayment. The Mexican and Brazilian delegations, however, were highly critical in private of Argentina's refusal to accept IMF austerity, according to press reporting. [redacted] 25X1 25X1 25X1

Argentina also took a more aggressive attitude toward private banks. [redacted] For example, Argentine delegates raised the idea for a moratorium. They also were strong proponents of a proposal to limit debt payments to a specific percentage of export earnings. A proposal of this type was included in the final communique. [redacted] 25X1 25X1 25X1

The Argentine performance was in keeping with Buenos Aires' overall approach to the debt issue. [redacted] 25X1 25X1

The well informed source of the US Embassy in Quito also indicated, based on reports of conversations among the delegates, that bitterness toward foreign banks surfaced during

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the sessions. For example, Ecuador criticized its foreign bank steering committee for charging over $10,000 in fees for courier services for the dissemination of the refinancing documents. The Brazilians were particularly incensed by the "exorbitant" fees charged by its industrial country bankers for arranging refinancing packages. Bolivian Foreign Minister Fernandez stated on his return from Cartagena that his delegation had received strong support from most other debtors for La Paz' decision to suspend payments to private banks. [redacted] 25X1 25X1

<u>Results</u>. In assessing the conference an Ecuadorean Finance Ministry official told US Embassy personnel that Bolivia, Argentina, and Colombia took positions advocating a get-tough approach to foreign bankers at Cartagena while Mexico, Brazil, and Venezuela were moderate. In general, this is consistent with pre-Cartagena reporting, except that Colombia appeared on the eve of the meetings to be in the moderate camp. [redacted] 25X1

To some extent the meetings were probably tempered by the realization that more drastic action would threaten debtor cohesion and undercut the Latins' credibility. Bolivia came prepared to push for the establishment of a negotiating commission, for example, but only a consulting mechanism was formed. According to press reports, one delegate stated that the idea of a commission was not feasible because it came too close to a debtor's clan. Any real push to demand lower interest rates was also probably tempered by reality. One inside source told the press that the delegates realized that interest rates result from numerous economic and monetary conditions and as such cannot be changed by a wave of the hand. [redacted] 25X1

Argentina's initial tough stand against foreign bankers at Cartagena was probably toned down by its interaction with the other major debtors, like Brazil and Mexico, who potentially had a great deal to lose if the banks viewed Cartagena as a challenge. [redacted] 25X1
Brazil worked behind the scenes at Cartagena urging both

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Argentina and Venezuela to reach an accord with their creditors in order to avoid having their loans fall into non-performing status. Brazil was concerned that such a development could lead to a sharp cut in trade credits to all Latin debtors regardless of their willingness to make internal adjustments. The communique--which was generally moderate in tone despite heavy political rhetoric--and the mechanism for intra-regional consultations demonstrate that the spirit of Latin cooperation was maintained while disagreements over a path of action were avoided. [redacted] 25X1

The Latins' Post-Cartagena Assessments

Although numerous public statements by the attendees describe the conference in positive terms, the private reaction of the delegates has been harder to discern. [redacted] US Embassy personnel have received only selective feedback. We believe the accumulated evidence suggests that debtors perceive the conference as having advanced their efforts to obtain easier repayment terms, but creditors believe the situation remains essentially unchanged. [redacted] 25X1 25X1

The Moderates. Since Cartagena, Mexican officials have stressed the non-revolutionary nature of the conference, according to US Embassy and press reports. Finance Minister Silva Herzog told the Latin press that Cartagena did not attempt to press Western bankers, but instead represented an effort to diagnose Latin economic problems and identify areas to be addressed in the future. In an informal post-conference briefing, Mexican foreign ministry officials emphasized the co-responsibility of debtor and creditor countries to resolve financial problems and chided the developed nations for increasing roadblocks to Third World trade. [redacted] 25X1 25X1

Brazilian Foreign Minister Guerreiro, who led his country's delegation, said Cartagena heightened awareness of the debt plight. A high-level Finance Ministry official, who also attended the conference, claimed that a second major

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achievement was the rejection of radical proposals, according to the US Embassy. [redacted] 25X1 25X1

We judge that Venezuela--believing it will renegotiate its debt without involving the IMF--feels the conference did not further its interests. Press reports indicate that Foreign Minister Morales Paul criticized the recent rise of interest rates as retaliation against the Cartagena Consensus. At this juncture, however, Caracas is providing little more than rhetorical support for the Cartagena document. [redacted] 25X1

The Argentines. President Alfonsin commented [redacted] 25X1 [redacted] that Cartagena was a political victory for 25X1 Argentine diplomacy, [redacted] 25X1 but he failed to discuss specifics. Foreign Minister Caputo also called the Cartagena meeting a success without divulging details, [redacted] He 25X1 also told US Embassy officials he was pleased with the results. [redacted] 25X1 25X1

Caputo has indicated that the temporary Secretariat position should have a very important coordinating function, [redacted] He already 25X1 has contacted Latin governments to discuss their reactions to the most recent rise in the US prime rate, according to US Embassy and press reports. [redacted] 25X1

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<u>The Smaller Debtors</u>. We concur with the US Embassy that Bolivian Foreign Minister Fernandez' public statements indicating widespread support at Cartagena for his country are overstated and designed to try to strengthen Bolivia's position in coming talks with foreign banks. Bolivian Finance Minister Bonifaz, by contrast, has publicly stated that none of the participants favored joint action to solve the foreign debt problem. He regretted that viewpoint prevailed and noted the countries must not beg creditors for more flexible repayment terms. The US Embassy reports that government and private sources believe Bolivia received considerable sympathy, but little tangible support for its position to postpone debt payments to private banks. [redacted] 25X1

Chilean Foreign Minister del Valle said publicly that the Cartagena Consensus strengthened the political resolve among Latin countries to obtain concrete solutions to debt problems. He also pointed out, press reports indicate, that industrial nations should contribute to the solution of the debt problem by lowering interest rates and lifting protectionist measures and that commercial creditors should grant longer repayment terms and agree to limit interest payments to a set percentage of exports. Moreover, he noted that the problem ahead is how to engage creditors in a constructive dialogue. [redacted] 25X1

Dominican Republic President Jorge Blanco and Foreign Secretary Vega have not commented on the meeting. Instead, they have emphasized their intention to reopen formal

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negotiations with the IMF to resolve their debt difficulties, according to the US Embassy. The conference was a success from Ecuador's point of view because the communique advanced the Quito Declaration's proposals a step further, according to US Embassy reporting. [redacted] 25X1 25X1

Complications Posed by Rising Interest Rates

The half point rise that occurred in the prime rate just after the conference ended provoked a flurry of criticism from Latin America, especially in the press, but to date has led to no concrete moves of a joint nature. The most strident official comment came from Mexico's Finance Minister Silva Herzog, who termed the action a reprisal for convoking the meeting at Cartagena. An Ecuadorean official took the rate hike as a "provocation," and Venezuelan President Lusinchi called it an assault on the debtor countries. The official comment of the Chileans, Bolivians, Argentines, and Brazilians was restrained. [redacted] 25X1

Latin officials privately indicated the timing of the increase was regrettable, and some speculated to US officials that the hike could move debtors toward a less moderate course. Moreover, they have stated that the recent increase makes it more imperative for the debtors to remain united, because interest rate hikes are undermining the adjustment process and the ability to service debts. The Peruvians specifically stated that higher debt costs threatened their compliance with their IMF program. [redacted] 25X1

According to press reports, Ecuadorean Foreign Minister Valencia is calling for a new meeting of Latin leaders to discuss the rise in the US prime rate and he has asked Argentine Foreign Minister Caputo--as coordinating secretary of the Cartagena countries--to move forward the date of the next meeting. A well-informed US Embassy source says Quito is also

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consulting with its Andean neighbors to gain support for this proposal, but that logistic problems may prevent another session before August. Peruvian Prime Minister Mariategui has publicly indicated that his country is willing to attend such a meeting. [redacted] 25X1

Implications

The Cartagena Conference established a permanent political forum to voice Latin concerns, but it did little else to unify the debtors immediately. The conference did not change the current approach of negotiating with creditors on a bilateral basis. As far as actions were concerned, no consensus was reached on radical proposals such as the creation of a debtors' cartel or a unilateral moratorium on interest payments. Indeed, the conference, by limiting itself to the lowest common denominator, helped to reinforce the moderate position taken by Brazil, Mexico, and Venezuela. [redacted] 25X1

We believe the flavor and results of the conference suggest that Latin debtors will support joint action as long as it does not threaten their ability to negotiate individually with commercial banks and creditor governments. While many of the participants of Cartagena apparently believe there is at least cosmetic benefit in coordinated positions, the final communique indicates an unwillingness to buck the system at this time. How long this feeling persists probably will depend on a number of developments:

-- The Cartagena participants are waiting for a response from creditors to the concerns they have expressed in the communique. They are asking for more concessions from commercial banks and a dialogue with industrialized countries.

-- Rising interest rates have a highly charged emotional effect on Latin governments. A further increase in the US prime rate and LIBOR will provide more of an incentive for debtor countries to band together and demand a solution to their high interest payment burden.

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-- The Argentine debt situation and the Mexican negotiations with creditor banks will be closely watched this summer by the debtors who attended Cartagena. If sufficient progress has not been made in these cases by September, the next Latin debtor meeting in Buenos Aires could well be less moderate.

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The unique and diverse financial situations of each debtor country and continuing disagreement over how to resolve the problems have combined to prevent a united Latin approach to the debt issue. Bilateral leverage, coupled with the fear of financial fallout from radical action, have contributed as well and probably will continue to undercut Latin unity for some time to come. A rapid rise in interest rates, however, and a perceived lack of concern by the IMF, industrial country governments, or commercial banks toward the Latin debtors' plight could cause them to begin moving toward more confrontational stances. Despite the conciliatory tone of the Cartagena consensus, the creation of the consultative system is the first concrete step in taking a unified stand on debt issues. It will enable the Latin debtors to coordinate their actions more effectively by sharing information on debt negotiations. Moreover, it indicates a heightened political willingness to press for financial reforms, which is confirmed by the selection of Argentina as the first coordinating secretary of the consultative mechanism.

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CONSENSUS OF CARTAGENA

SUMMARY OF PROPOSALS

1. Immediate and drastic reduction in nominal and real interest rates (the fundamental objective to which the creditor governments should give their best efforts)

2. Shift in the reference interest rate to one which does not exceed banks' cost of funds and which is not based on an "administered" rate (e.g., the US prime rate)

3. Minimal spreads and elimination of commissions and late payment fees while negotiations are underway

4. Temporary mechanisms to attenuate the impact of high interest rates, including:

   -- a compensatory fund in the IMF

   -- concessional official credits

   -- extension of repayment periods

5. Improvement in repayment and grace periods based on:

   -- the debtor's capacity for repayment and need for economic recovery

   -- multi-year reschedulings and capitalization of interest where convenient to the debtor

6. Partial deferral of interest payments in the case of countries that experience extreme balance of payments problems (e.g., Bolivia)

7. Limitation of total debt service payments to a "reasonable" percentage of export earnings compatible with maintenance of domestic productive activity

8. Elimination of the requirement for the public sector to assume private sector commercial risk

9. Elimination of regulatory rigidities which impede new commercial bank loans, recognizing the creditworthiness of sovereign debtors

10. Reactivation of capital flows, including renewal of short-term trade finance

11. Increase in the financial resources of the IMF, World Bank, and IDB

12. A new distribution of SDRs compatible with the liquidity needs of developing countries, longer terms for IMF adjustment programs, and increased access to IMF resources

13. Revision of IMF conditionality to:

    -- give priority to growth and employment creation

    -- shield the borrower from increases in interest rates

14. Accelerated use of World Bank and IDB resources through:

    -- an increase in program loans and in the maximum allowable percentage of financing of total project costs

    -- accelerated disbursements of credits already contracted

    -- a temporary but substantial reduction in local currency counterpart requirements

    -- elimination of graduation

15. Longer terms and lower interest rates for Paris Club reschedulings, accompanied by new lines of concessional credit sufficient to prevent the interruption of imports

16. Immediate attention to the developing countries' appeals for the stabilization of commodity prices at remunerative levels

17. Rapid elimination of industrial countries' tariff and non-tariff barriers for traditional and industrial products, including high technology goods

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