

In this way, the Ibero-American nations would be able to coordinate their positions in order to maintain, if possible, a single voice in those things which are common problems discussed in major organizations like the OAS and United Nations.

EIR: What would be the relationship between this consulting mechanism and the United States?

Valencia: It is necessary to realize that the interests of the developing nations are essentially different from the interests of the United States.

The United States is a major world power with economic, political, and military interests all over the world. Our countries are developing nations with regional or sub-regional concerns, and for this reason our interests are different.

For the United States, the Latin American continent of course has political importance, but it also has military importance. The United States looks at Latin America as a region of military security. We can't look at it in that way. As a result, it is necessary for this coordination to first take place among the developing nations for there then to be a single negotiating voice with the United States on items of common interest.

EIR: Since the Malvinas conflict there have also been many proposals made by various political leaders for the renegotiation of the global debt. Lyndon LaRouche, founder of *EIR*, has made a specific proposal that the Ibero-American countries unite, and together renegotiate their foreign debt as well as form a common market. What do you think of the possibility of taking these steps?

Valencia: It is true that since the Malvinas crisis there have been many proposals of one kind or another. There have been suggestions for the creation of an organization of American states without the United States, and various formulations for overcoming the current difficulties.

I estimate that there is much to be done in the economic field. The economic association SELA has worked and is working efficiently in many ways. In spite of this, what is necessary now is some political momentum. . . .

The proposal that you referred to, for example, has been analyzed, studied in different governments, but has been left on that level because the political decision of the countries has been lacking.

EIR: Finally, will you comment briefly on the economic situation in your country and on Ecuador's negotiations with the IMF?

Valencia: In his message to Congress in the final sessions, the President of the Republic stated that the major enemy of the Ecuadorian democracy now is, in fact, the grave economic crisis that threatens the nation.

In whatever way is necessary, the President has said, we must join forces internally as well as externally to fight this evil.

Flight Capital

Has Venezuela made a deal with London?

by Christian Curtis

Venezuelan Finance Minister Luis Ugueto announced in London Oct. 6 that his government has decided to return at least part of the more than \$5 billion in reserves it had withdrawn from British banks following the British invasion of the Malvinas Islands. Two days later, the British showed their characteristic gratefulness by deploying the pathetic government of Guyana to stage a temper tantrum on the floor of the Non-Aligned Foreign Ministers' meeting in New York, wrecking Venezuela's bid to join the Non-Aligned Movement.

Ugueto did get something for his efforts, however. He netted some \$800 million in loans from New York and London banks, plus promises of up to \$3 billion in medium- and long-term financing for part of Venezuela's \$8.8 billion in short-term obligations. Despite its oil wealth, Venezuela is in urgent need of cash as a result of a massive capital-flight attack—led by the British themselves—that reached a peak last month. The situation was so acute that discussion mounted in Caracas of following the Mexican example and imposing stiff exchange controls.

The Ugueto deal, plus a series of measures by the central bank, seems to have somewhat dampened the crisis, but at best this can only be a temporary arrangement. Venezuela is still extremely vulnerable to another plague of capital flight, and under present arrangements it still must depend on the good graces of London for credit.

Like Mexico and Brazil?

Ugueto, anxious to please the bankers, has insisted that Venezuela is not like Mexico and Brazil. But the facts show that all three countries are in the same boat.

As Development Minister Maritza Izaguirre has emphasized, international lenders began to cut off the country's credit sources soon after Caracas expressed its support for Argentina during the Malvinas crisis. Credit dried up even further after Mexico—almost bled to death by capital flight—was forced to nationalize its banks on Sept. 1.

Venezuela's problem was compounded by the second-quarter collapse of oil demand in the depressed advanced sector. As a result, Venezuela's trade surplus this year will be only one-tenth its 1981 level. The country is also expected to run a balance-of-services deficit of over \$6 billion, including some \$4 billion on state-sector foreign debt, estimated at

over \$20 billion.

Then there is the capital flight. A process similar to that which tore more than \$22 billion out of the Mexican economy is draining capital from Venezuela, a process referred to by Maritza Izaguirre as a "powerful conspiracy" to "destabilize" the nation's currency, the bolívar, orchestrated, she said, from Caribbean offshore banking centers. During the week ending Sept. 24—the week the central bank centralized all dollar holdings—capital flight had reached alarming proportions. Central bank sales of dollars were an average of \$160 million a day, and international reserves dropped an incredible \$705 million on the week. After the central-bank measures, the average declined by almost 40 percent to just over \$97 million per day. The question now is what happens when flight operations heat up again, as they certainly will.

And since credit is tight and oil sales flat to sluggish, Venezuela could very easily run down its reserves within a few months or even weeks, and look very much like Mexico or Brazil.

Initial steps

Sensing this danger, the Caracas government—or a section of it, at any rate—took two important steps in mid-September. First the central bank asserted control of all dollar deposits previously held by autonomous state agencies, most notably the state oil company, PDVSA, which held \$5.5 billion in deposits abroad.

Second, Finance Minister Ugueto was dispatched to New York and Europe to seek refinancing for state-sector short-term debt, as noted above.

Though Ugueto has been able to land loans, there are signs that his pact with London will meet opposition after he returns to Caracas.

At a meeting of international bankers in Caracas on Sept. 22, central bank chief Díaz Bruzual, challenged on the question of Venezuela's credit-worthiness, snapped, "Venezuela is more disturbed about getting our funds back from you foreign banks than we are about paying off our debts. Given the illiquidity of international banks nowadays and the careless way in which they overlent themselves during the '70s, we fear that we have much more to fear from the banks than the banks have to fear from us."

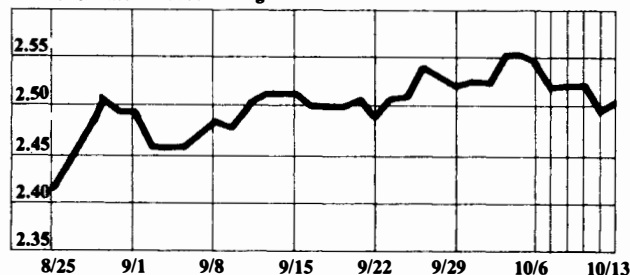
"Today it is the Venezuelan central bank that must doubt the competence of the international banks," he continued. The fact that the banks are "squeezing" so hard to collect, he said, may indicate they are having liquidity problems. Díaz Bruzual added, "Furthermore, in many of these banks, we have deposits of great importance, and what we could well do is withdraw our deposits."

"Don't underestimate the effect of Mexico in all this," one New York banker told *EIR* in mid-October. "Venezuela won't devalue. It won't do any good. It didn't in Mexico." Nor can bank nationalizations be ruled out. Only a few weeks ago, how many bankers would have guessed Venezuela's next-door neighbor, Colombia, would make such a move?

Currency Rates

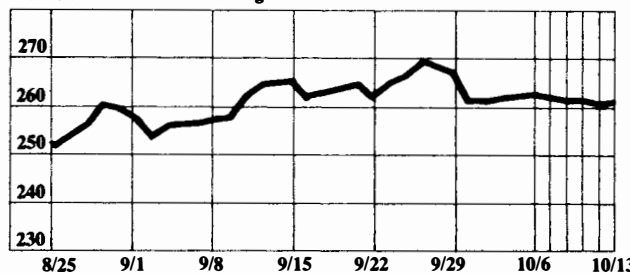
The dollar in deutschemarks

New York late afternoon fixing



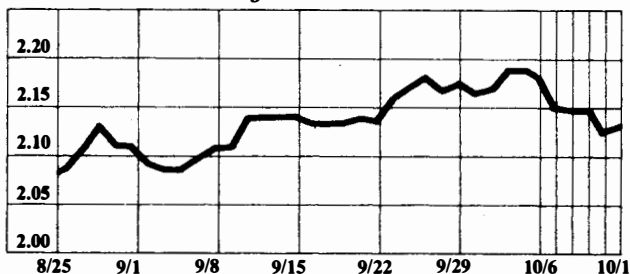
The dollar in yen

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

