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Peru, in Its Darkest Hour, May Be Close to Dawn

The Americas

By David Gallagher

LIMA—Economic mismanagement in Peru has reached such proportions that statistics that reflect it sound unreal. Despite tight control of prices, inflation reached 1,720% in 1988 and 2,775% in 1989. Gross National Product per capita dropped 11.1% and 14.2% in each of the same years, and real wages have fallen 60% in the past 12 months.

With seven different artificial exchange rates and a labyrinth of subsidies, Peruvians can devote their energies to spectacular fiddles. For instance, you can get an "agricultural credit" at an interest rate of 255% per annum, in real terms the equivalent of minus 2,520%. With it you can import a tractor at an exchange rate 11 times more favorable than the market rate. You then sit and wait for the chain to reverse, and sell the tractor—probably even re-export it—at a 1,000% profit. In the meantime, you would not actually use the tractor, because as a local producer you could not compete with lavishly subsidized food imports.

In an economy where some people make fortunes but most get poorer, you can buy matches at a newsstand in individual units, because some people cannot afford a whole box. Add the activities of the narcotics mafia and the Maoist "Shining Path," perhaps the world's most vicious terrorist group, and one wonders if there is any hope for Peru?

Actually, Peru, with a presidential election due on April 8, is one of the few Latin American countries about which one can be cautiously optimistic. This is due to the happy convergence of several factors. For one it is probable that novelist Mario Vargas Llosa, the pro-free-market candidate, will win. The polls give him 50%, with leftist Alfonso Barrantes second at 14% and the government party's Luis Alva Castro trailing at 10%. But there are deeper grounds for optimism.

Peru may be the first country where Latin America's inefficient statist model dies a natural death, without foreign or military intervention. Credit for this is partly due to President Alan Garcia, a caricature of the Latin American demagogue. Incapable of the soft-spoken incompetence of Brazil's Jose Sarney or Argentina's Raul Alfonsin—who managed to make their statist policies sound plausible in the midst of disaster—Mr. Garcia's wild gesticulating from the balcony of the presidential palace has made him look like a character out of Chaplin's "Great Dictator" or Woody Allen's "Bananas." Peruvians could not help but grasp the irrationality of his policies.

Also Mr. Garcia's populist measures have been more tellingly audacious than those of his neighbors. By freezing prices, raising wages by decree, subsidizing credit and inflating public expenditure in 1985, he achieved growth of 9.5% in 1986 and 7.8% in 1987. The very gap between the expectations thus aroused and the disaster that followed has had a salutary didactic effect. By the time Mr. Garcia staggers to the end of his mandate, Peruvians should be immune from demagogic interventionism.

The Peruvian mess stems from years of irrational resource allocation by pea-brained bureaucrats (at the present count, 800,000 of them) driven either by self-interest or by the pressures of favor-seeking businessmen and union bosses. To undo the mess, deep structural reforms are necessary. Mr. Vargas Llosa knows all this, and his governmental program, "Action for Change," spells out in detail the reforms needed to get the country moving again.

Other countries, as disparate as Poland and Argentina, have taken half-measures that do more harm than good because they impose hardships on the population without reaching the roots of the problems. Typically they administer International Monetary Fund-style monetary shocks without the deep structural changes that release market-led growth. Monetary orthodoxy is worse than useless if you do not also unravel the overmanned state enterprises, eliminate monopolies, dismiss redundant bureaucrats, free rigid labor markets, reform prohibitive tax systems and remove barriers to foreign investment.

Mr. Vargas Llosa may be aware of all this. But does he have the right advisers, and does he have the clout?

The economists working for him are capable, and they have been preparing themselves for months. As for himself, Mr. Vargas Llosa has demonstrated his tenacity by the years he has devoted to writing his complex yet polished novels. His courage was demonstrated by his unflinching criticism of the totalitarian aspects of the Cuban revolution, when it was suicidally unfashionable to do so. He gradually turned away from socialism because of his interest in actual evidence. Without abandoning his concern for the poor, he saw that socialist policies invariably decreased the few options open to the poor.

Mr. Vargas Llosa has been accused of being a "fundamentalist." Fortunately, on economic matters he is, because what Peru needs is a return to basic principles. But he is not naive. Like most novelists, he is in fact a skeptic. His novels could even be accused of undue pessimism, with their merciless exposures of man's corruptibility and abuse of power. The few characters who preserve their ideals in them come across like knights without armor. But then the libertarian principles that he has turned to are the only ones coherent with this skeptical vision. It is only with political and economic freedom, and their ensuing competition, that society can function despite man's imperfections.

Mr. Vargas Llosa also has been accused of being stubborn and authoritarian. But true leaders, such as Winston Churchill and Margaret Thatcher, are often thought to be stubborn. Only a combination of a strong character with the right ideas can get a country like Peru out of the mess it is in. The combination is rare. Too many other countries in a similar plight have either no strong leader to guide them or have a strong leader with the right instincts but little knowledge of economics (Poland's Lech Walesa or Argentina's Carlos Menem).

Thanks to Mr. Vargas Llosa's openness and his gift for words, the simplest of Peruvians have learned to grasp economic fundamentals. This means he will have a clear mandate for Latin America's first well-thought-out program of political and economic freedom. The potential demonstration effect on other countries should have Western governments queuing up to help. And help he needs, with millions of Peruvians already close to hunger levels.

Governments and banks will have to be understanding about Peru's foreign debt. The U.S. government is anxious that the Peruvian coca plantations be uprooted, despite strong demand from American consumers. The U.S. should contribute generously to crop replacement. Otherwise Peru might be tempted to legalize the drug barons in order to concentrate its resources on the defeat of terrorism.

Mr. Vargas Llosa's success depends on two additional factors. Fredemo, the coalition that supports him, must gain an overall majority in Congress. And some of the coalition's conservative politicians, who still believe in economic paternalism, will have to swallow their pride and let Mr. Vargas Llosa govern. Two very big "ifs," but despair can breed wonders.

Mr. Gallagher is a writer and investment consultant based in Santiago, Chile.

CONTRAS

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release March 24, 1989

Bipartisan Accord on Central America

The Executive and the Congress are united today in support of democracy, peace, and security in Central America. The United States supports the peace and democratization process and the goals of the Central American Presidents embodied in the Esquipulas Accord. The United States is committed to working in good faith with the democratic leaders of Central America and Latin America to translate the bright promises of Esquipulas II into concrete realities on the ground.

With regard to Nicaragua, the United States is united in its goals: democratization; an end to subversion and destabilization of its neighbors; an end to Soviet bloc military ties that threaten U.S. and regional security. Today the Executive and the Congress are united on a policy to achieve those goals.

To be successful the Central American peace process cannot be based on promises alone. It must be based on credible standards of compliance, strict timetables for enforcement, and effective on-going means to verify both the democratic and security requirements of those agreements. We support the use of incentives and disincentives to achieve U.S. policy objectives.

We also endorse an open, consultative process with bipartisanship as the watchword for the development and success of a unified policy towards Central America. The Congress recognizes the need for consistency and continuity in policy and the responsibility of the Executive to administer and carry out that policy, the programs based upon it, and to conduct American diplomacy in the region. The Executive will consult regularly and report to the Congress on progress in meeting the goals of the peace and democratization process, including the use of assistance as outlined in this Accord.

Under Esquipulas II and the El Salvador Accord, insurgent forces are supposed to voluntarily reintegrate into their homeland under safe, democratic conditions. The United States shall encourage the Government of Nicaragua and the Nicaraguan Resistance to continue the cessation of hostilities currently in effect.

To implement our purposes, the Executive will propose and the bipartisan leadership of the Congress will act promptly after the Easter Recess to extend humanitarian assistance at current levels to the Resistance through February 28, 1990, noting that the Government of Nicaragua has agreed to hold new elections under international supervision just prior to that date. Those funds shall also be available to support voluntary reintegration or voluntary regional relocation by the Nicaraguan Resistance. Such voluntary reintegration or

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voluntary regional relocation assistance shall be provided in a manner supportive of the goals of the Central American nations, as expressed in the Esquipulas II agreement and the El Salvador Accord, including the goal of democratization within Nicaragua, and the reintegration plan to be developed pursuant to those accords.

We believe that democratization should continue throughout Central America in those nations in which it is not yet complete with progress towards strengthening of civilian leadership, the defense of human rights, the rule of law and functioning judicial systems, and consolidation of free, open, safe, political processes in which all groups and individuals can fairly compete for political leadership. We believe that democracy and peace in Central America can create the conditions for economic integration and development that can benefit all the people of the region and pledge ourselves to examine new ideas to further those worthy goals.

While the Soviet Union and Cuba both publicly endorsed the Esquipulas Agreement, their continued aid and support of violence and subversion in Central America is in direct violation of that regional agreement. The United States believes that President Gorbachev's impending visit to Cuba represents an important opportunity for both the Soviet Union and Cuba to end all aid that supports subversion and destabilization in Central America as President Arias has requested and as the Central American peace process demands.

The United States Government retains ultimate responsibility to define its national interests and foreign policy, and nothing in this Accord shall be interpreted to infringe on that responsibility. The United States need not spell out in advance the nature or type of action that would be undertaken in response to threats to U.S. national security interests. Rather it should be sufficient to simply make clear that such threats will be met by any appropriate Constitutional means. The spirit of trust, bipartisanship, and common purpose expressed in this Accord between the Executive and the Congress shall continue to be the foundation for its full implementation and the achievement of democracy, security, and peace in Central America.

George Bush
President of the United States

James C. Wright, Jr.
Speaker of the House

Robert Dole
Senate Republican Leader

George J. Mitchell
Senate Majority Leader

Robert H. Michel
House Republican Leader

Thomas S. Foley
House Majority Leader

THE WHITE HOUSE,
March 24, 1989.

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release March 24, 1989

STATEMENT BY THE PRESIDENT

The President of a Central American democracy was asked recently what is the most important step the United States can take. He said, "Speak with one voice." Today, for the first time in many years, the President and Congress, the Democratic and Republican leadership in the House and Senate, are speaking with one voice about Central America.

In my inaugural address I reached out my hand to the leadership of Congress in both parties asking them to join with me to rebuild a bipartisan foreign policy based on trust and common purpose. Today, I am gratified that the Speaker and the Majority and Minority Leaders of the Senate and House have extended their hands back to me.

We have signed today together a Bipartisan Accord on Central America. It sets out the broad outlines of U.S. policy towards that troubled region and commits both the Executive and Congress to work together to achieve it.

The goals we seek are the goals which the people of Central America yearns for: democracy, security, and peace. Those are the pledges made by the Central American Presidents in the Esquipulas II Accord. That agreement is an integrated whole: all of its provisions must move forward together if any of them are to be fulfilled. Our challenge now is to turn those promises into concrete realities on the ground.

The only way we can meet that challenge is if Latin democratic leaders and the United States work together, with the support of our European friends and allies, as true partners with candor and mutual respect. I believe Latin leaders are asking for that kind of relationship as we confront together the many challenges facing our hemisphere. As President, I pledge the United States is ready to respond.

Under this Central America agreement, insurgent forces have the right to re-integrate into their homeland under safe, democratic conditions with full civil and political rights. That is the desire of the Nicaraguan Resistance. It is what they are fighting for. We hope and believe it can be achieved through a concerted diplomatic effort to enforce this regional agreement.

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To achieve these goals the bipartisan leadership of Congress has agreed to support my request for continued humanitarian assistance to the Nicaraguan Resistance through the elections scheduled in Nicaragua for February 28, 1990.

There will be extensive consultations and review with respect to these funds effective November 30, 1989 by the bipartisan leadership and relevant committees. However, I have been assured that the leadership in both Houses supports the extension of this assistance through the Nicaraguan elections barring unforeseen circumstances.

There is no shortcut to democracy; no quick fix. The next weeks and months will demand patience and perseverance by the democratic community and the hard, technical work of ensuring compliance with the Esquipulas Accord. The United States will work in good faith to support that kind of diplomatic effort, but we will not support a paper agreement that sells out the Nicaraguan people's right to be free.

We do not claim the right to order the politics of that country. That is for the people of Nicaragua to decide. We support what the Esquipulas Accord requires: free, open, political processes in which all groups can fairly and safely compete for political leadership. That means the playing field must be level; all, including the current government must respect the majority's decision in the end, and the losers much also retain the political rights to operate as a legal opposition and contest again for political authority in the next recurring election contest.

The burden of proof is on the Sandinista government to do something it has steadfastly refused to do from 1979 to 1989: to keep its promises to the Nicaraguan people to permit real democracy; keep its promises to its neighbors not to support subversion in Central America; and keep its obligation to this hemisphere not to permit the establishment of Soviet bloc bases in Central America. If those promises are kept we have an opportunity to start a new day in Central America; but if those pledges continue to be violated, we hope and expect that other nations will find ways to join us to condemn those actions and reverse those processes.

The Soviet Union also has an obligation and an opportunity: to demonstrate that its proclaimed commitment to "new thinking" is more than a tactical response to temporary setbacks, but represents instead a new principled approach to foreign policy.

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In other regional conflicts around the world the Soviet Union has adopted a welcome new approach that has helped resolve long-standing problems in constructive ways. In Central America what we have seen from the Soviet Union and Cuba can only be described as "old thinking."

In the last decade, the Soviet bloc has poured at least $50 billion in aid into Cuba and Nicaragua. Soviet and Cuban aid is building in Nicaragua a military machine larger than all the armies of the other Central American nations combined and continues to finance violence, revolution, and destruction against the democratically elected government of El Salvador. Indeed, Soviet bloc military support for the Marxist guerrillas has increased since the United States ended military support for the Nicaraguan Resistance and Soviet military aid to the government of Nicaragua continues at levels wholly uncalled for by any legitimate defensive needs. The continuation of these levels of Soviet bloc aid into Central America raises serious questions about Soviet attitudes and intentions towards the United States.

The Soviet Union has no legitimate security interest in Central America; and the United States has many. We reject any doctrine of equivalence of interest in this region as a basis for negotiations. Instead, the Soviet Union and Cuba have an obligation to the leaders of Central America to stop violating the provisions of the Esquipulas Accord which the Soviet Union and Cuba both pledged to uphold. The time to begin is now.

In signing the Esquipulas Accord, President Oscar Arias of Costa Rica said: "Without democracy, there can be no peace in Central America." He is right. But with democracy and peace in Central America can come new hope for economic development in which all of the people of the region can share. One can look at the terrible violence ravaging Central America and despair, but I have a different vision of its future.

I can see a democratic Central America in which all of the nations of the region live in peace with each other; where the citizens of the region are safe from the violence of the state or from revolutionary guerrillas; where resources now devoted to military defense could be channeled to build hospitals, homes, and schools. That is not a dream if all the people and nations of the Americas will it to be true. I hope the Esquipulas Accord and perhaps, also, the Bipartisan Accord, will someday be seen as the first step toward its fulfillment.

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WALL STREET JOURNAL 03/20/90

Help Latin America and Help Ourselves

By Peter F. Drucker

Who needs Latin America? "We don't," most American businessmen would say. But it is the wrong answer. Latin America, rather than Japan, holds the key to the U.S. trade deficit.

Whatever may be wrong with American industry—and many things are surely wrong—it is not "lack of international competitiveness." Since the overvaluation of the dollar was corrected nearly five years ago, U.S. industry has turned in a stellar performance, especially in exporting to Western Europe and Japan. A host of industrial exporters—South Korea, Brazil, Taiwan, Singapore—became bigger players in world trade. Yet the U.S. has regained the share of the world's manufactured-goods exports it held before the overvaluation—as large a share as the U.S. ever held except in the immediate post-World War II period.

Nor can the U.S. trade deficit be blamed on "excessive imports." Manufactured-goods imports account for a smaller share of America's GNP—9%—than they do in any other developed-country except Japan. And the Japanese are now "outsourcing" at such a furious rate that the import share of manufactured goods in Japan's GNP is likely to match the U.S. figure within four or five years.

What then explains the massive American trade deficit? Its main cause is the collapse of the world's food and raw materials economy in the past decade.

World's Largest Producer

The U.S. is the world's largest producer and exporter of agricultural and forest products, and about one-third of the trade deficit is directly traceable to this collapse in prices and demand. Another third or so is owing to the impact of the raw-materials depression on what traditionally was one of U.S. manufacturers' best foreign customers—Latin America. Indeed in most Latin American countries U.S. imports traditionally accounted for half or more of all manufactured-goods imports. (By the way, most of Japan's export surplus is far less a result of industrial prowess than of the raw-materials depression; Japan—the world's largest raw-materials importer—is the main beneficiary.)

The trade deficit will not be eliminated by increasing exports of manufactured-goods to Western Europe and Japan. Indeed if Japan removed *all* restrictions to U.S. imports, U.S. exports would at most grow by $5 billion—as against a trade deficit with Japan of $50 billion. And the U.S. will be hard pressed to maintain current export volume with the developed world in the years ahead, when world manufacturing competition is bound to intensify.

We also cannot realistically expect food exports to bounce back. For a few short years ahead there may be sharply increased demand to assuage almost certain famine in the Soviet Bloc, but food relief on a massive scale can be maintained only for a few short years. Yet the U.S. trade deficit cannot continue indefinitely, and perhaps not even for many more years.

The interest payments on the debt due our suppliers already greatly exceed our capacity to earn foreign exchange to service them. While the foreign creditors can convert their dollar claims into U.S. assets—that is, buy American businesses and real estate—and most economists consider this to be harmless and perhaps beneficial, "buying America" clearly will not be tolerated long politically.

There are, in effect, only two ways to cut the trade deficit. In the wrong but traditional way, a very sharp recession cuts domestic consumption by 10% or so. The alternative: a revival of Latin America as a customer for U.S. manufactured goods.

It would be a great deal easier to turn around Latin America than to turn around Eastern Europe, the region on which most attention is focused now. Latin America is home to 300 million people—almost as many as in the Soviet Bloc. In sharp contrast to the Soviet Bloc, Latin America comfortably feeds itself and has a substantial surplus of both food and industrial raw materials. In the larger countries there is an excellent supply of well-trained engineers, entrepreneurs, accountants, economists and lawyers. And they did not have to become moral eunuchs to get an education or to get and hold a decent job.

Drucker on Management

About one-third of the trade deficit is directly traceable to the collapse in raw-materials prices and demand. Another third or so, to the impact of the depression on one of U.S. manufacturers' best foreign customers.

Nor do the educated people of Latin America have to be "re-educated" to function in a free economy. Until the raw-materials depression hit, Latin Americans worked effectively in a market economy and participated in rapid economic growth. And there is enormous pent-up demand for goods of all kinds.

Finally, Latin America, unlike the Soviet Bloc, has an adequate supply of capital. Indeed, Latin America probably has three times as much capital—or more—than it has foreign debt. There is only one thing wrong with it: It is not in Latin America. It has been driven out systematically—and often purposefully—by government policy.

But if the money that is now in Miami and New York, Zurich and Geneva—but also in the mattresses of virtually all but the poorest families in Latin America—could be enticed into productive investment at home, every Latin American nation, save perhaps the smallest and poorest, would have all the capital it needed for rapid economic growth. And the holders of Latin America's capital are willing, and indeed eager, to invest their money at home if only their governments were to stop expropriating savings and investment through inflation and punitive taxation, and were to stop discouraging productive investment through the granting of monopolies to military and governmental enterprises. As a result of these policies, even the shoeshine boys in Buenos Aires and Sao Paulo demand to be paid in dollars.

What needs to be done is clear enough: Stop inflation by turning off the spigot of government spending; dismantle the grossly overstaffed and unproductive monopolies owned by the government or the military (especially in Brazil and Argentina) or by the government's political cronies and the ministers' relatives (especially in Mexico); cut excessive nominal tax rates that discourage honest enterprise, but increase actual tax collection.

That these things can be done, and without political catastrophe, has been shown by two of the smaller countries: Chile under Augusto Pinochet's dictatorship, and (reasonably) democratic Bolivia. And there is now widespread demand throughout the region for a return to sanity.

Mexico has taken some fairly big steps in the right direction, especially in dismantling protection for governmental monopoly industries; the immediate results have been most impressive (including a more than two-fold increase in Mexico's purchases from the U.S.). The first priority of the new government inaugurated in Brazil last week is to sell more than a hundred unproductive, overstaffed and loss-making government enterprises. And the albatross of the foreign debt that the Latin American countries incurred when the raw-materials economy collapsed has largely been removed—it has been written down in all but legal fiction.

Latin America's turnaround is, in other words, no longer a matter of economics, but largely of the political will. It requires, above all, the backbone not to cave in—as did the governments of both Argentina and Brazil in both 1988 and 1989—at the first protest by a powerful group such as the labor unions or the army. The things that need to be done will at first be painful and unpopular. But within a year they will begin to produce results and to enjoy wide popular support.

But the U.S., too, has a crucial role to play: to stop the well-meaning but destructive policies it has pursued for almost 40 years. Maybe Latin America needs fairly small short-term loans to help assuage the pains of the transition. But the favorite "aid" policies of the past four decades—government-to-government aid; military aid; World Bank loans—must not be continued. They are largely to blame for the current crisis of the continent.

Anti-Entrepreneur Bias

These policies encouraged government spending. They paid for bloated government bureaucracies and for military establishments that are, in many countries, four or five times as large proportionately as that of the U.S.—and without any foreign threat. They diverted capital from productive investment into "prestige projects"—steel mills, for instance—without domestic markets that, in their own way, were not too different from the monstrosities of Stalinist planning. Above all, these policies all had a strong anti-business and anti-entrepreneur bias. To continue them would be like pushing drink on an alcoholic.

What Latin America needs from the U.S. is trade, not aid. It needs political support for policies that reward enterprise and discourage monopolies and protectionism, policies that stress savings rather than spending, and economic growth rather than growth of the bureaucracy.

And these policies also are needed precisely because the U.S. needs Latin America.

Mr. Drucker is a professor of social sciences at the Claremont Graduate School in California.

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OPIC Overseas Private Investment Corporation

1615 M Street, N.W.
Washington, D.C. 20527
(202) 457-7200
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March 19, 1990

Ms. Chriss Winston
Deputy Assistant to the President
For Communications
The White House
(By Fax)

Dear Chriss,

In the past week, there has been considerable news coverage of the inability to get the Panamanian economic aid package out of Congress and into that country. I hope you can use facts about the recent OPIC mission to Panama to defend the President's ability to act quickly and effectively.

While the OPIC mission (February 24 - March 3) is no longer news, the $70 million of private sector investment it generated is. THERE OPIC element of the aid package is already providing jobs and investment capital in Panama.

Highlights include:

- While on OPIC's mission, Radisson announced plans for a $40 resort complex 70 miles north of Panama City. This project will provide jobs for 200 Panamanians as early as this summer. Radisson's commitment demonstrates their faith in the long-term political stability of the country.

- Altrix International, a small Florida aqua-cultural business, is expanding a shrimp operation in Parita, a small village in Northern Panama. The expansion will add 100 jobs and employ virtually 100 percent of the town.

- Strategic Resources Corporation is seeking investors and OPIC assistance for a Panama Economic Recovery Fund -- a vehicle which would rush money for housing starts and other essentials into that country. Considering that a housing crisis in Chorrillo seems to be the lighting rod for the recent civil disturbance in Panama, this is a clear example of a private sector solution to a foreign policy challenge.

- Great American Farms Inc. is establishing an infrastructure which will take advantage of Panama's reverse growing season to provide fruits and vegetables for export during the "winter window" period. Great American will work with Panamanian farmers to help them diversify into production and packaging of high-value fruits and vegetables. This project is scheduled to begin within one month.

- American Express Bank joined the OPIC mission and was instrumental in providing commercial credit for many of the projects.

In the past week, I've tried (with marginal results) to inject OPIC's success into news coverage of Congressional treatment of the aid package. Perhaps your office can use this information to mitigate questions about the administration's commitment to economic recovery in Panama.

If you need more specific information on the OPIC investment mission to Panama, please feel free to call.

Regards,

JBr

Jeffrey Brown
Marketing and Communications Officer

Overseas Private Investment Corporation
1615 M STREET, N.W. WASHINGTON DC 20527 / TELEPHONE (202) 457-7011

CONTACT: Jeff Brown or Jim Hall

RELEASE: IMMEDIATE 3/6/90

U.S. OPIC MISSION GENERATES $70M OF INVESTMENT IN PANAMA

* * *

RADISSON TO BUILD 450 ROOM RESORT AT CORONADO

WASHINGTON, D.C., -- Returning from Panama today, OPIC President and CEO Fred M. Zeder announced that the recent investment mission there has already produced $70 million in initial project commitments. American investors found business opportunities in Panamanian agriculture, aquaculture, light industry and tourism.

"This was a highly successful OPIC mission," said Zeder. "It proves that American business is bullish on Panama's economic future."

During the mission, the TransAmerica Hotel Group announced plans to build a 450-room resort about 75 miles west of Panama City. "This project is testament to our belief in the on-going vitality of the Panamanian economy," said TransAmerica Hotel Group Vice President Richard A. Rozier. "Coronado is a spectacular beach with proven ability to attract vacationers."

The facility, to be called the "Radisson Coronado," will feature two restaurants, two bars, tennis, pool, golf and beach facilities. Construction is scheduled to begin mid-summer and will employ approximately 250 Panamanians. The hotel is scheduled to open December of 1991 and will employ about 400 permanent full-time workers.

Before traveling to Panama, the investors attended an unprecedented send-off ceremony at the White House where President Bush told them that America is deeply committed to helping the Panamanians. That message was conveyed when Zeder and the investors met with Panamanian President Guillermo Endara and Vice President Guillermo Ford.

The OPIC Panama mission was attended by 27 representatives of American business including AT&T, American Express, UnoCal Geothermal, GTE and others.

OPIC is an agency of the United States Government committed to promoting private sector investment in more than 110 developing countries throughout the world. An increasingly vital instrument of American foreign policy, OPIC has led recent investment missions to Latin America, Africa, Asia and Eastern Europe. In April, OPIC will lead a group of Americans on a mission to Poland and Hungary.

# # #

JB&JH/847

UNCLASSIFIED Jeff Brown INCOMING TELEGRAM

Department of State

ACTION ARA-00

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USIA

USIA FOR P/M, AR, P/PFL, VOA/BRL
USIA PASS TO OPIC FOR JEFF BROWN
STATE FOR ARA/PAN, ARA/P
SOUTHCOM FOR PAO
FBIS FOR NAQUIN

E.O. 12356: N/A

SUBJECT: MARCH 6 PANAMA MEDIA REACTION: U.S. INVESTMENT IN PANAMA

1. INDEPENDENT "LA ESTRELLA DE PANAMA" CARRIES VERY POSITIVE HALF-PAGE EDITORIAL ON OPIC AND "PRESENCE OF NORTH AMERICAN PRIVATE ENTERPRISE IN PANAMA." FULL TEXT FOLLOWS:

2. BEGIN QUOTE: "NOTHING IS MORE BENEFICIAL FOR THE FUNCTIONING OF A FULL DEMOCRACY THAN THE ACTIVE AND DECISIVE PARTICIPATION OF PRIVATE ENTERPRISE. ITS CONTRIBUTION IS A BASIC AND FUNDAMENTAL FACTOR IN THE ADVANCE AND CONSOLIDATION OF THIS SYSTEM. FOR THIS REASON, WE HAVE TO RECEIVE WITH GREAT SATISFACTION THE PRESENCE IN THIS COUNTRY OF A GROUP OF DISTINGUISHED NORTH AMERICAN BUSINESSMEN, WHO HAVE COME WITH THE PURPOSE OF OBSERVING OUR NATIONAL REALITY ON ITS HOME GROUND.

3. UP UNTIL NOW, THE MEMBERS OF THE COMMISSION OF PRIVATE INVESTORS OF THE U.S. HAS SUCCEEDED IN MAKING CONTACTS AND INTERCHANGING IDEAS WITH THE MOST NEEDY ECONOMIC SECTORS, AT BOTH THE OFFICIAL AND PRIVATE LEVELS OF THE COUNTRY. THE ACTIVITY HAS BEEN COORDINATED BY THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC).

4. THE ACTION IS AT THE INITIATIVE OF U.S. PRESIDENT GEORGE BUSH, WHO HAS TRACED THE MOST EXPEDIENT ROUTE FOR PANAMANIANS TO PUT INTO ACTION THE GREAT ECONOMIC RECOVERY OF THE COUNTRY. MORE THAN THIRTY INVESTORS, REPRESENTATING LARGE U.S. COMPANIES SPECIALIZING IN ACTIVITIES IN OUR REPUBLIC, HAVE SHOWN A DEFINITE INTEREST IN DOING BUSINESS IN PANAMA AND IN TRYING IN THIS WAY TO BUILD A LAUNCH PAD FROM WHICH THE CRIPPLED NOIONAL ECONOMY CAN TAKE OFF.

5. THESE EXECUTIVES OF COMPANIES SPECIALIZING IN TELECOMMUNICATIONS, SEA PRODUCTS, SUGAR PRODUCTION, FRUITS AND VEGETABLES, SUPERMARKETS, FOOD PROCESSING, CONSTRUCTION, CEMENT FACTORIES, HOTEL DEVELOPMENT, AND ENERGY AND FERTILIZERS HAVE SEEN DURING THEIR DAYS HERE ALL THE ADVANTAGES OF OUR NATION FOR THE INVESTOR IN THE MOMENT IN WHICH HE IS MOST NEEDED.

6. INDEPENDENT OF WHAT ECONOMIC AID REPRESENTS FOR

THE PANAMANIAN PEOPLE, THE PARTICIPATION OF NORTH AMERICAN COMPANIES IN THIS COUNTRY THROUGH INVESTMENT IN PRIVATE INITIATIVE, IS VITAL OXYGEN FOR THE IMPORTANT SECTOR OF JOB CREATION, WHICH IS PRECISELY THE WEAKEST IN THESE MOMENTS OF CRISIS. THE HIGH LEVEL OF UNEMPLOYMENT CONSTITUTES ONE OF THE MOST DESTRUCTIVE SOCIAL ILLS OF PANAMANIAN SOCIETY. EVERY ATTEMPT TO RESCUE OUR COMPATRIOTS FROM THE CLAWS OF MISERY AND HUNGER HAVE TO DESERVE THE STRONGEST SUPPORT AND THE GREATEST SENSE OF SATISFACTION.

7. THE DEPLORABLE CONDITIONS IN WHICH OUR ECONOMY OPERATES TODAY REQUIRE THE TYPE OF INTITIATIVE WHICH THESE NORTH AMERICAN ENTREPRENEURS HAVE BROUGHT TO OUR COUNTRY. THEIR CONTRIBUTION WILL BE DECISIVE FOR THE ECONOMIC PROGRAMS WHICH BOTH THE PRIVATE AND PUBLIC SECTORS SHOULD PUT IN PRACTICE.

8. THE CREATION OF JOBS IN THESE MOMENTS OF ECONOMIC ANGUISH IS OUR MOST NOURISHING FOOD. THERE IS NO DOUBT THAT AFTER THE DESTRUCTION OF OUR SOCIAL STRUCTURES, THE COUNTRY REQUIRES URGENT FOREIGN AID. HOWEVER, THIS SHOULD NOT BE THE PRINCIPAL OBJECTIVE OF THE GOVERNMENT AND OF PANAMANIAN PRIVATE BUSINESSMEN. WE SHOULD NOT CROSS OUR HANDS AWAITING ONLY SUCH HELP.

9. ON THE CONTRARY, IT IS NECESSARY TO TAKE JUDICIOUS ADVANTAGE OF OUR OWN EFFORT, OF THE NATIONAL DYNAMISM, AND OF THE INTERNAL INITIATIVE TO PUSH FORWARD THE ECONOMIC CARE OF THE REPUBLIC. THERE IS NO DOUBT THAT THE NORTH AMERICAN BUSINESSMEN WHO VISIT UNDER THE AUSPICES OF OPIC WILL HELP US TO REALIZE THESE OBJECTIVES." END QUOTE. EDMONSON, ACTING

White House Fact Sheet on the Partnership With Panama: Action Plan To Foster Economic Recovery

January 25, 1990

The President today announced the following action plan to foster economic recovery in Panama:

I. *Humanitarian Assistance*

The Agency for International Development (AID) will initiate a $42 million humanitarian assistance program for Panama, covering:

- replacement housing for the former residents of the Chorillo area;
- an emergency public works program, principally for Panama City and Colon, but also including rural areas;
- small business rehabilitation to assist those businesses affected by the looting; and
- technical assistance to Government of Panama (GOP) agencies.

The Departments of the Treasury and Defense will develop ways to assist U.S. firms wishing to donate products to Panamanian businesses.

II. *Loans, Guarantees, and Export Opportunities to Strengthen Panama's Private Sector and to Create Jobs*

The Export-Import Bank (Exim) will provide up to $400 million in short-term and medium-term guarantees, through Exim and its affiliate, the Foreign Credit Insurance Association, to finance sales of American products.

AID will use $15 million in Trade Credit Insurance Program funds authority to support additional Exim lending to private sector borrowers.

The Overseas Private Insurance Corporation (OPIC) will reopen its insurance and finance programs to support American private investment in Panama. This program is valued at $50 million.

The Department of Agriculture will initiate a $15 million P.L. 480 title 1 program and a $15 million Commodity Credit Corporation program for Panama.

The United States Trade Representative will:

- restore Panama's suspended 1990 sugar quota and, consistent with U.S. policy, compensate Panama for its foregone 1989 quota. This is estimated to be worth a total of $28 million;
- initiate an educational program to ensure Panama makes full use of trade benefits under the CBI and GSP programs; and
- remove the quota on cotton pants.

The Department of Transportation will arrange for the Federal Aviation Administration to negotiate a Memorandum of Agreement with the GOP on the provision of technical assistance in order to ease air travel to and from Panama.

The Department of State will, if the GOP so wishes, arrange that the already-negotiated bilateral investment treaty be resubmitted to Congress.

The Department of the Treasury will:

- discuss with the GOP the conclusion of a Tax Information Exchange Agreement (TIEA), thus permitting U.S. firms, under established tax guidelines, to deduct expenses of conventions held in Panama. A TIEA would also make Panama eligible for section 936 funds;
- working with other interested agencies and organizations, offer technical assistance to the Panamanian banking sector; and
- initiate discussions with the GOP with the view toward concluding an agreement pursuant to section 4702 of the Anti-Drug Abuse Act of 1988 for the exchange of large currency transaction information.

The Department of Commerce will lead a business development mission to Panama and undertake other efforts to stimulate trade and investment with Panama.

The Department of Defense will:

- resume promptly preferential buying of Panamanian goods and services by U.S. military authorities in Panama, the Panama Canal Commission, and all other U.S. entities, in accordance with the provisions of the Panama Canal Treaty of 1977; and
- authorize the return of U.S. military dependents to Panama when the military situation permits.

In addition, Panamanian flag vessels will continue to have full access to U.S. ports.

III. *Promoting Sustained Economic Recovery*

Significant but temporary external economic assistance will be required to assure that Panama's economy returns to a sustained growth pattern. This undertaking will be a partnership involving the United States, Panama, other donor countries, and international financial institutions (IFI's).

The administration will seek an additional $500 million in FY '90 for U.S. assistance to Panama. This amount shall be offset from other programs. The $500 million would be used to help Panama normalize relations with the IFI's, for balance of payments support and business credit, for a public investment program, for public-sector restructuring, and for development support.

The Administration will also:

- work to establish a support group of friendly donor countries to help clear Panama's arrears to the IFI's;
- seek an early and generous rescheduling of Panama's debt to foreign governments under the auspices of the Paris Club; and
- take steps to assist the conclusion of a satisfactory financing package for Panama's commercial bank debt that addresses the amount of debt and the level of debt service payments in the context of the strengthened debt strategy.

A Latin American View of the Brady Plan

The Americas

By Hernando de Soto

LIMA—Like the Baker plan, U.S. Treasury Secretary Nicholas Brady's debt-relief plan contains sweeteners to encourage Latin leaders to swallow bitter economic-policy pills. But regardless of the stimuli, the indebted nations will need to reform their economies if they are to achieve sustainable economic growth, create jobs and alleviate poverty. Indeed, real structural adjustment is in the interest of the poor and the middle classes of the indebted Latin American countries.

However, truly effective structural adjustment must well up from the bottom, not be imposed by international institutions and foreign governments. This is not as far-fetched a proposition as it might seem. In fact, recent events in Peru attest to a groundswell of support for the same types of policies that would have been required by the IMF.

A typical IMF requirement is the liber-ization of the foreign-trade sector. But ith no intervention from the IMF, infor-al transportation operators in Peru suc-ssfully lobbied the government for the actment of a package of measures that cluded the reduction of taxes and tariffs, d the removal of duties on tire im-rts.

The latter measure is of vital impor-nce because, as the Lima-based Institute Liberty and Democracy (ILD) has monstrated, the sales price of domesti-lly manufactured tires is 2.5 times eater than that of imported tires. Duty-e imports would directly benefit 300,000 ormal transportation entrepreneurs and rkers, as well as an additional 390,000 vate-car owners. And five million public-transportation riders would benefit indirectly from the reduction in costs. In real terms, the liberalization of the tire trade represents a $101 million saving.

The government of Peru agreed to these measures with a willingness that would not have existed had the adjustment been a condition imposed by an international lending organization. Why? Because pressure for adjustment welled up from the bottom, and 300,000 transportation entrepreneurs are an unquestionable constituency for any government—even more so in the case of a populist government (as many Third World governments are likely to remain).

Yet there is an ironic twist to this tale. In early March, Goodyear of Peru filed an appeal that temporarily prevents the duty-free import of tires and seeks to permanently rescind all the measures. The arguments used by Goodyear to justify its actions are the defense of the domestic tire industry and the protection of 1,258 jobs in the domestic tire industry.

The significance of this turn of events goes far beyond the obvious irony: A company that produces goods at 2.5 times the international price can obstruct a reform supported by informal entrepreneurs who provide transportation services at one-tenth the cost of the same service in Washington, D.C., and employ 300 times more people. This case proves that the main cause of Peru's poverty and foreign indebtedness lies in its mercantilist system, which imposes excessively high transaction and legal costs on domestic producers.

There is ample evidence that similar cases occur throughout the Peruvian economy. We can therefore conclude that structural adjustment has ample support as long as the costs and benefits apply across the board at all. This instance of "bottom-up" structural adjustment is clearer than most because the informal transportation entrepreneurs of Peru are unusually well organized, considering their marginal status. In addition, the ILD has provided them with the technical expertise necessary to make their case.

However, in most cases, the victims of bad economic policies cannot successfully lobby their government for the implementation of a structural adjustment that satisfies their needs. Even if political elections are free and fair, the additional democratic institutions that in the developed countries facilitate the enactment of rules and policies that take into account the interests of the majority of the population are lacking here and in other developing countries. For example:

- Common people lack the resources and procedures to challenge government decisions on the basis of economic and legal criteria.
- We lack the means to ensure that laws and regulations are formulated openly and in a way that allows for the measurement of their economic impact on the poor. There are no comment and review periods, no public hearings, no cost/benefit analyses of proposed regulations.
- We lack referenda or "sunset laws" that provide for the evaluation of proposed laws and regulations.
- There is no ready access to public information. As a result, citizens are unable to weigh the consequences of the policies imposed upon them or to ensure that they do not distribute power or property arbitrarily.
- The executive branch is not subject to the prior authorization of the Congress in the adoption of trade barriers.

In other words, in the absence of guarantees and institutions that ensure economic opportunity, the state receives no input from those affected by its decisions. Thus, the state does not govern in accordance with the interests of the majority. As a result, structural adjustment "from the bottom up" is impossible. This makes the IMF and foreign governments appear "imperialistic" and causes the poor undue hardship because they do not realize who the proposed adjustments are affecting.

Unfortunately, this particular situation represents only one more case in a mercantilist society, where everyone, in one way or another, must adapt to its practices. However, it also represents a golden opportunity to set a precedent that would modify the status quo.

For this reason, the ILD proposed to the president of Goodyear of Peru that instead of allowing its lawyers to entangle the transportation entrepreneurs in a web of legal and bureaucratic red tape, it should take advantage of this incident to join us in making proposals that would unfetter the Peruvian economy, thereby lowering their production costs. The ILD is involved in many such proposals now being disseminated in Peru.

How do we encourage structural adjustment from the bottom up? Any program for resolving the debt crisis should specifically promote institutions that create incentives for and protect the rights of the unorganized majorities of the Third World. This will allow the "informal Boston Tea Party" to achieve the objectives without resorting to force. It also will prevent the impoverished majority (who must ultimately bear the burden) from despairing and accepting violent terrorist solutions, employment by drug lords or massive emigration to the U.S.

If as a major component of any structural adjustment plan debt negotiators insist that the majority of our citizens be guaranteed a more effective means for accessing their government, then we will be attacking the causes of underdevelopment as well as its effects.

Mr. de Soto is president of the ILD and author of "The Other Path" (Harper & Row, 1989).