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THE CARTAGENA CONSENSUS: FROM FAILURE TO DIALOGUE FOR LATIN AMERICAN REGIONALISM

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Abstract

This article aims to analyse the history of the meetings organised by the group of Latin American debtor countries, which, within the debt crisis of the 1980s, tried to develop common strategies to implement during the negotiations with their creditors within the Cartagena Consensus. The biggest debtors, Argentina, Mexico and Brazil, along with other states in the region that joined the initiative, started a series of meetings to politicise the issue of debt unpayability. The meetings of the so-called *Consenso de Cartagena* are often portrayed as a story of failure, as the case-by-case approach favoured by the US Treasury finally prevailed, separating the interests of the debtors and leading to differentiate negotiations. An attempt will be made to give a new reading of the Cartagena Consensus, re-evaluating its results on the basis of the objectives that the participants realistically thought they could achieve, and analysing the important legacy of institutional contacts and ideas that would soon lay the foundations for an important season of Latin American regionalism. The analysis of the most recent literature on Cartagena will be complemented by the results of a field research conducted in Argentina.

Keywords: *Cartagena Consensus, debt crisis, Latin America, regionalism, Argentina*

Introduction

The 1980s are considered a *decada perdida* for Latin America. The expression indicates a lost decade of development, made impossible by the need to pay off the enormous debt accrued to international creditors. This debt had been incurred by military regimes that, with the favour of international financial institutions, rather than fomenting development projects that would benefit their countries, only ended up enriching the corruption of their ruling classes. The modality for resolving the debt crisis that erupted in the region and threatened to engulf the entire world initially involved placing the entire burden on the debtor countries, some of which were painstakingly transitioning to democracy. Such was the case with Argentina, examined in this analysis, which aims to reconstruct the specific weight of the Cartagena Consensus meetings, within which Latin America's debtors attempted to politicize the issue and ultimately developed a practice of dialogues, common strategies and relationships that would influence the season of continental regionalism that immediately followed

1. The Latin American Debt Crisis

The Latin American debt crisis originated in two important moments of imbalance within the world-system which, according to Wallerstein's reading (Wallerstein, in Arrighi, Hopkins & Wallerstein, 1989), entered into crisis with the 1968 world revolution. The 1970s bequeathed to the previously established geopolitical arrangements two consequences of this profound systemic crisis. The first was the oil crisis, particularly the one following the Yom Kippur war, which led to a rise in the price of oil and the placing on the financial markets of petrodollars, which were liberally lavished on Latin American countries. These consisted of huge amounts of money that were not used to promote the economies and free them from peripheral dependence, but ended up financing the military expenditures of the regimes in the region, the importation of goods of secondary importance or, even

worse, to be absorbed by the corruption of the ruling classes. Between 1970 and 1980, the region's public debt thus increased twelvefold, from USD 20 billion to USD 240 billion (Nocera & Trento, 2013, p. 194). The second consequence of the aforementioned great systemic crisis was the change in the relative importance of the US market in the world economy in comparison to the German and Japanese markets, which, alongside other factors, led the Federal Reserve to raise interest rates, tightening credit conditions for Latin American states. The alteration of the parameters established to pay the service played a key role in causing the crisis, more than the amount of debt itself. (O'Connell, 2011).

1.1. A global risk

Since Mexico announced a temporary debt moratorium in August 1982, several countries in the region began failing to make payments on their external debt and requesting these to be rescheduled. This was, as Devlin (1988) argues, a de facto default, but not a de jure one, as the OECD countries continued to undertake bailout operations to avoid a global financial crash. In fact, Latin American debt accounted for 20% of the loan market and the exposure of the nine largest banks in the United States reached 180% of its net worth (Tussie, 2015). In 1984, according to the International Monetary Fund, 49% of Third World debt concerned the Latin American region. The total figure exceeded 360 billion dollars, of which Brazil owed \$105.4, Mexico \$94.7, and Argentina \$44.3 (Erismán, 1988). This was, without a doubt, a global problem: for the creditors, the stability of the financial system was at risk, while for the debtors, the unsustainable expenditure involved in servicing the debt would depress, as it did, the national economies for years, holding back any possibility of development.

1.2. The formation of a club of creditors

In the autumn of 1982, the international financial institutions, together with the creditor banks and the most industrialised countries gathered in the G7, agreed to create a fund to deal with the emergency. The blame for the crisis was attributed entirely to the Latin American countries, as if they had caused it by borrowing the 'petrodollars'. Here, the same banks that had granted these loans, with the blessing of the countries that had caused the crisis without regulating their actions (having preferred to give space to policies of extensive deregulation), established the guidelines to follow for the recovery of Latin American economies (Nocera & Trento, 2013). Between 1982 and 1985, creditors addressed the debt issue by coordinating their action on several levels and under the protection of the US government. During the first three rounds of negotiations, the central stage was occupied by the central banks of the industrialised countries. The International Monetary Fund monitored the private banks' provision of new financing to Latin American countries so that they would continue to pay their debts. Meanwhile, the banks themselves set up committees to negotiate with debtors, with the support of the IMF and central banks (Tussie, 2015). The banks, as a private entity, not only enjoyed an international legitimacy accorded to them by the IMF and the G7 countries, but also had the possibility to negotiate as a real group. These circumstances only emphasised the power asymmetry that existed in relation to the debtor countries, which were called upon to negotiate individually (Stallings, in Ocampo, Stallings, Bustillo, Velloso & Frenkel, 2014). An imbalance to which the Latin American region felt the need to respond.

2. The Argentine case: from the restoration of democracy to Cartagena

When, in April 1982, General Leopoldo Galtieri commanded the occupation of the Falkland/Malvinas Islands, he was not aware that he was heading towards the undoing of his government and the military dictatorship that had taken office in Argentina in 1976. He was aware, however, of the state of his country, which was a long way (as it had been under his predecessors' rule) from realising the promises of security and prosperity that the regime had delivered as part of the 'National Reorganisation Process'. It was precisely from an awareness of Argentina's economic fragility and the growing unpopularity of the regime, which had to confront the Madres de Plaza de Mayo movement, that the need for a patriotic war to unite the home front had emerged.

London's sudden reaction to the invasion of the reclaimed Malvinas and the international isolation put an end to Buenos Aires' claims within a few months. The conflict had indeed succeeded in mobilising the population but, with the death of thousands of young Argentines and the harsh defeat,

had ended by definitively delegitimising Galtieri's regime. The junta was thus forced to call elections in 1983, from which Raul Alfonsín emerged the winner. In addition to the immense cost in terms of lives and human rights denied, culminating in the disappearances of tens of thousands of activists, militants or even just suspected opponents to the regime, the years of dictatorship had entailed a reorientation of economic policies that would prove almost irreversible for the country (Novaro, 2005).

2.1. The economic legacy of dictatorship

From the time they took office, the military had dedicated their efforts to reverting the economic regime to the model of industrialisation by import substitution and the removal of state regulatory action in the name of market liberalisation. Central elements of the junta's economic policy had been the drastic reduction of wages and the adjustment of the labour market, the asymmetrical opening to the outside world and the liberalisation of markets, especially the financial one. Workers had experienced the loss of a third of their real wages at the beginning of the adjustments. For all the years in which the military junta had been in government, there had also been a constant and systemic process of redundancies, the intensity of which, disassociated from the production process, betrayed the alignment of industrial enterprise with the social and economic discipline imposed by the military. Regarding the opening of markets, a law had already been passed in mid-1976 aimed at foreign investment, which entailed the general deregulation of the operations of transnational companies (Azpiazu, 1991). The dictatorship had left a foreign debt of \$46.2 billion, multiplying by seven what they had found when they took office in 1976 (Mendoza, 2023).

2.2. From the "odious debt" doctrine to the regional meetings

During the electoral campaign and his first two years in power, Alfonsín, flanked by his Finance Minister Bernardo Grinspun (Cisneros & Escudé, 1998, p. 449), had been referring to an 'odious debt' and had declared himself unwilling to pay it. The reference, encouraged above all by the leftmost area of the coalition which had backed his campaign, was to the doctrine theorised in the 1920s by the Russian jurist Alexander Sack on issues concerning the secession of states ('The personal debt of the power that has contracted it without respecting the condition of legality according to which the debts of a state must be contracted to satisfy the needs and interests of the state') (Sack, 1927). The newly elected president, on the very day of his election, had a 50-minute conversation with the then vice-president of the United States, George Bush. On that occasion, the extreme position expressed during the election campaign was already moderating: Alfonsín declared that Argentina would pay its debts, as it had always honoured them. Already on that occasion, however, he demanded a lowering of the interest rate in order for what he had declared to be possible (Morgenfeld, 2023, p. 60). As already mentioned, it was the sudden raising of interest rates by the Federal Reserve that had unnerved the debtors and greatly aggravated their condition. That kind of monetary policy, nevertheless, continued. And each rise was a real challenge in the eyes of the indebted Latin American countries. The US fear of the formation of a club of debtor countries, recalcitrant to pay external debt and in full power to create a global financial crash, was unfounded. What is certain, however, is that the asymmetry of power between the emerging global South and the countries and financial institutions representing the interests of the North catalysed the Latin American countries' call to unite the front.

3. The Cartagena Consensus

The debt crisis affected not only the big debtors, Argentina, Brazil and Mexico, but also the smaller countries in the region. Ecuador, in February 1983, had already asked CEPAL (Comisión Económica para América Latina y el Caribe) to establish a common cooperation strategy on the issue. In January 1984, within the framework of CELA (Conferencia Económica Latinoamericana), the idea of treating the debt issue as a political matter and regionalising it was concretely born (Mendoza, 2023). In the same months, Venezuela was putting up considerable resistance to rescheduling its payments, as was Brazil, while Argentina took a six-month period to examine the extent of the foreign debt inherited from the dictatorship in order to understand the legitimate amount it would pay. Argentina's particularly tough position was represented by its Economy Minister, who, in New York, before the International Monetary Fund and the Inter-American Development Bank set out his country's

claims. Firstly, the need to recognise the co-responsibility of creditors and debtors in having caused the crisis. Secondly, that the debt service owed be measured on the basis of individual countries' exports and trade. In March, Argentina declared that it was leaving the stand-by agreement the dictatorship had concluded with the IMF without effect. The task of finding as feasible a solution as possible for the country was given to Raúl Prebisch. The creditors feared the tough approach shown by Buenos Aires, since it represented a self-sufficient economy in terms of both energy and food and, in addition, still had a considerable trade flow with the Soviet Union (Tussie, 2015). At that time, Colombia, Mexico and Brazil ensured that Argentina reached an agreement with the USD 500 mln rescue fund. Along with Venezuela, they provided their own resources so that the country would not stop paying (Tussie, 2013). Following the news of the rise in prime rates, Argentina initiated contacts with Brazil and Mexico, joined by Colombia, for a high-level meeting. At that meeting, a Declaration of the Four Presidents was drafted, reiterating what the Argentine delegation had already expressed in various fora: the possibility of paying the debt was directly linked to the Federal Reserve's interest rate policy and was linked to trade, which was the only way the countries involved in the crisis could earn foreign currency to meet their obligations ('O Connell, 2011). The reference in terms of diagnosis and policy analysis was to the deterioration of the terms of trade for national exports and the protectionist policies in the trade sphere implemented by the United States (Mendoza, 2023). On the sidelines of the meeting, an inter-ministerial conference was also convened to address the issue of external debt.

3.1. The Cartagena Consensus meetings

Finally, on 21st and 22nd June, representatives from Argentina, Brazil, Mexico and Colombia met with foreign and economic ministers from seven other Latin American countries in Cartagena (Chile, Dominican Republic, Bolivia, Ecuador, Peru, Uruguay, Venezuela), Colombia. Colombia's regional solidarity was particularly relevant: the country, which had not encountered any particular problems during the negotiations, offered itself as the venue for the meeting, avoiding retaliation against the other committed states that might spoil its progress ('O Connell, 2011). This, together with the saving of Argentina's economic solvency, already gives an idea of the caution with which the debtors decided to move on that occasion. Overcoming the most extreme positions, expressed by Bolivia and Argentina, the debtor countries essentially demanded the politicisation of the crisis. Their demand linked to this diagnosis was that the co-responsibility of the industrialised countries in having caused the crisis be recognised, through the protectionist policies inaugurated in the wake of the oil crisis and the policy of raising interest rates that continued to aggravate payment conditions. They also demanded new flexible loans from the International Monetary Fund and the rescheduling of payments calibrated to the collection of resources from their exports (Tussie, 2015). The debtors, in the final document, reiterated their intention to honour what they owed and that they did not want to activate any collective responsibility mechanism: each state would answer for itself. In September 1984, the Consensus met again in Mar del Plata, Argentina, where the idea of a more direct confrontation with creditors, promoted by the host country, was once again marginalised, especially by Brazil and Mexico in an effort to preserve their negotiations (Roett, 1986). Subsequent Consensus meetings were held in February in Santo Domingo and in December in Montevideo. The last meeting at inter-ministerial level was held the following year in Punta del Este, once again in Uruguay ('O Connell, 2011).

3.2. The true objective of the debtors' meetings.

The Cartagena Consensus did not find much success in the academic literature. Beyond the analysts who dealt with it while it was in progress, it has been sidelined over time. When it is revived, it is spoken of as an expected and timely failure. Some attribute this 'failure' to the structures of the economies involved, dependent on commodity exports and in competition with each other (Roett, 1986). Other authors have dwelt on separate negotiations and the fear on the part of individual states of losing the advantage gained at some point, betting instead on regional responsibility and burden-sharing (Whitehead, 1989). In order to speak of Cartagena as a failure, however, it is necessary first to analyse the actual objectives. Starting from the analysis of the Argentine case, the country that most animated the debate and at least rhetorically challenged the creditors' club in several international fora, it is possible to reconstruct them. It is not necessary to look further than the bilateral relationship between

the United States and Argentina during the years of the Cartagena meetings to understand that the will to openly challenge the hegemon, whose banking system was more than exposed in the crisis, never materialised, least of all in the economic sphere. The radical Alfonsín contributed, with his campaigning and commitment to human rights during the years of dictatorship (Gerchunoff, 2020), to the recovery of a democracy whose meaning in the world had profoundly changed. In the context of the Second Cold War, within the resurgence of the clash between the East and West of the world, following the USSR's invasion of Afghanistan and while the US was fighting guerrilla warfare in Central America, the Bretton Woods compromise was already broken (Mendoza, 2023). The International Monetary Fund was preparing to be a full-fledged global Ministry of Finance, dragging with it the World Bank and all the ideas about the development of poorer countries that had proliferated in previous years (Mc Michael, 2016). Washington wanted to secure the allegiance of Buenos Aires especially with respect to the issue of stabilising Central America, which was to be removed from the expansion of communism in the region after the Cuban Revolution and the much closer Sandinista Revolution in Nicaragua (1978-1989). The Contadora Group, which brought together the Latin American countries to stabilise the region and prevent an armed intervention by the United States, was particularly targeted by the White House. In the meetings between Alfonsín and Reagan, especially during the former's visits, the economy was taken to a second level of importance by US diplomats. Although the Argentinean president even went so far as to declare before the US Congress that austerity policies would not be consummated at the expense of his people, he took care, from his first visit in September 1984, to disavow the intention to create a debtors' group and to reiterate his intention to pay (Morgenfeld, 2023). His intent, in some ways far-sighted, in others chargeable with voluntarism, was to place the issue in the dialectic between the global North and South, within an international system characterised by a profound level of interrelationship. And it is perfectly translated in the acts of the Cartagena Consensus, where the objectives of wanting to politicise the debt issue and getting creditors to sit at the negotiating table are clear (O'Connell, 2011).

3.3. Re-reading the Cartagena Consensus

A turning point for the Cartagena Consensus meetings was undoubtedly the launch of the Baker Plan, announced by US Treasury Secretary James Baker III at the annual meeting of the International Monetary Fund and World Bank in September 1985 (Roett, 1986). The Plan proposed that commercial banks would facilitate \$20 billion in loans, to which would be added another \$20 billion provided by the International Monetary Fund and the Inter-American Development Bank. To access these funds, market liberalisation reforms, public spending cuts, minimum wage reductions, and large-scale privatisation would have been necessary. Despite the limited success of the initiative, which would in fact be followed by the 1989 Brady Plan, in some ways, the Baker Plan was a means of intercepting the demands of politicising the crisis. Implicitly, it showed that it incorporated the co-responsibility of creditors and debtors and included among those responsible the US and European commercial banks, which were expected to provide these loans. The role played by financial institutions under the plan assumed the need to deal with the issue internationally (O'Connell, 2011). A few years later, the Brady Plan would also include, among the proposed solutions, the cutting off of part of the debt of the countries in the region, providing for the first time a common solution (Whitehead, 1989). The US Treasury's responses conditioned the path of negotiations, but not to the point of blocking the Latin American countries' initiative. When, during the first few months, the Baker Plan showed all its limits, as the banks wavered in granting new loans, the Cartagena Consensus meeting in Montevideo explained that it could resort, as a last resort, to unilateral solutions, since the very democratic stability of the Latin American region that had just emerged from the season of dictatorships was at stake (Roett, 1986).

3.4. Verso un regionalismo post-egemonico

O'Connell (2011) offers an interesting reading of the second phase of Cartagena, which corresponds to the end of the interministerial meetings, supplanted by technical meetings on economic issues: this transition did not necessarily mark a weakening of the front of the debtor countries. Attention to the issue was still strong. The Acapulco meeting in November 1987, which brought together eight Latin American presidents to discuss the region's economic conditions, argues in favour

of this hypothesis. Only two years earlier, in 1985, the Brazilian and Argentine presidents met in Foz do Iguacu, a circumstance impossible until a few years earlier, which had been made possible by the battles shared by the two countries, from the Cartagena forum for foreign debt to the Contadora forum for the stabilisation of Central America to avert US military intervention. There they would build the foundations of MERCOSUR (Mercado Común del Sur), the most solid experience of Latin American regionalism to date (Mendoza, 2023). The Baker Plan and the Brady Plan were designed to link the resolution of the debt crisis to growth according to the neo-liberal dictates of the Washington Consensus. For the Latin American continent, this resulted in a decade of restrained development and heterodirected imposition of austerity that led to misery in large parts of the region. The imposition of these reforms was matched by a popular reaction that, from the 1989 Caracas uprisings to the enormity of the Argentine crisis of 2001, brought forth the voice of trade union, indigenous and feminist movements with radical contents that gave rise to the experience of the progressive cycle in Latin America (Gaudichaud, Webber & Modonesi, 2002). O'Connell (2011) describes a system of practices, dialogues and strategies, interactions - unimaginable during the time of the bureaucratic-military regimes- which the debtor states were able to exchange thanks to the debt crisis that sent their young democracies back to their place in the world: together, in the South. Such a spirit animated the experience of UNASUR (*Unión de Naciones Suramericanas*), which arose at the height of the *ciclo progresista*. The policy of reserve accumulation and liquidation of the International Monetary Fund practised by Brazil and immediately afterwards by Argentina in the early 2000s can be considered heirs of the Cartagena experience at the regional level. The same thing happened in Serbia, Indonesia, Uruguay and the Philippines (Tussie, 2015), in a movement of dissent against the austerity policies and conditionalities of the IMF that underlined the true nature of the problem: an issue of the Global South, exactly as Latin American leaders had interpreted it a few years earlier.

Conclusion

In order to measure the actual achievement of a goal, it is necessary to first define the goal itself. The Cartagena meetings have never aimed at creating a debtors' club or a regional default that would have damaged the entire world economy. The politicisation of the debt issue took place, first with the Baker Plan and then with the Brady Plan, responses provided by the US hegemon drawing on the wealth of political and economic ideas available at that historical juncture: privatisation, deregulation of markets, selling off state assets. Although this solution imposed through unbalanced negotiations did not coincide with that of the countries that animated the Cartagena meetings, as is evident in the case of Argentina, what is certain is that these were political solutions in which the commercial banks put their assets on the line, as did the other state actors, with a particular commitment from the United States, which covered these operations with its guarantee. Beyond the objective of politicisation, widely declared and detectable in the proceedings of the meetings, another equally relevant one emerges: the affirmation of a continental solidarity translatable into common action. Above all, Argentine foreign policy, in this sphere, was the bearer of a reading of Latin American cooperation 'South' with respect to the policies of the North, embodied by the creditors, in a world that would soon emerge from the East-West confrontation. It was a far-sighted vision that read the debt crisis as a crisis of all, since the collective exposure to risk was already telling of a new phase of globalisation. This kind of solidarity would be unlocked in the following decades that established the framework of Latin American regionalism.

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