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Obstacles to Brazil's export push mean investment cuts, devaluation pressure

by Mark Sonnenblick

Brazil's plans for staging an economic recovery this year from last year's recessionary disaster are threatened by the collapse of world trade. An aggravation of Brazil's crisis could lead to drastic economic and political shake-ups in that nation.

Brazil's hopes are contingent upon raising its exports from $23.5 billion last year to $27-28 billion this year, an increase of 15 to 19 percent. However, during the first two months, exports were *down* 7.2 percent in value. The quantities shipped did not fall nearly that much, but prices of coffee, soy, and other commodities are falling as "demand"—the ability to pay—collapses worldwide.

Brazil managed to boost exports by 15 to 20 percent annually during the early years of the world recession by means of hefty export subsidies which made its quality manufactures a bargain. (See *EIR*, Nov. 3, 1981.) Aggressive marketing conquered Third World and East bloc markets. Now, the South American and West African countries which snapped up Brazilian cars and other products can no longer afford such imports.

The Brazilian authorities have had to slash imports to compensate for shortfalls in exports under the terms of an informal agreement they worked out with teeth-gnashing Eurodollar lenders. The agreement is that Brazil will be given the right to borrow the $17 billion needed for each year's debt service only so long as Brazil generates a trade surplus. Thus, Brazilian authorities cut out $2 billion of imports during the last months of 1981 to achieve a surplus. Stockpiles of inputs needed for industry and agriculture have run out. But, during the first two months of this year, imports were down by 16.8 percent from the same period last year; non-petroleum imports were repressed by a whopping 23.5 percent.

Devaluation pressures

Brazilian policy makers are still willing to impose whatever sacrifices of internal consumption and investment are needed to spend billions subsidizing exports. But the United States and other trading partners are increasingly using GATT prohibitions of subsidies as a bludgeon against Brazil's entire dirigistic system of economic management.

If its export subsidies are banned, Brazil will be forced into a shock devaluation such as the one imposed by Finance Minister Mario Simonsen in a December 1979 deal with Carter aides Michael Blumenthal and C. Fred Bergsten. Simonsen promised to end export subsidies. Now on the board of Citibank (to whom Brazil owes $5 billion), Simonsen is still united with Blumenthal and Bergsten in the new Institute for International Economics (see page 8).

Unlike the "free market model" of Chile, Brazil has not frozen its exchange rate—it couldn't, with its 88 percent inflation. Instead, Brazil devalues by about 2 percent every week or so at a rate equal to inflation. However, since about the time of Henry Kissinger's November trip to Brazil, the black market cruzeiro has cheapened much faster than the official one. The spread between the two rates reached a record 42 percent on March 11.

This rise is being publicized to promote the capital flight and speculation which precedes—and compels—major devaluations, such as the recent ones in Argentina, Mexico, and Ecuador. Some importers argue that the dual exchange rate is causing a flood of contraband imports which cannot be stopped through law enforcement, but through making the criminal exchange rate legal.

Assault on development projects

Brazil's export officials admit that exports will fall $1.7 billion below programed levels during the first quarter and achieve 1982 goals only with a dramatic, and highly improbable, upturn in the world economy. The creditors to whom Brazil owes over $70 billion (in gross long- and short-term debt) will not tolerate any failure to meet balance of payments commitments made to them by Brazil's managers.

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The liberalizing faction within the Brazilian regime desires to reflate the economy to reduce record unemployment and calm the voters before the crucial November elections. They understand that military hardliners will not permit elections leading to a landslide repudiation of Brazil's 1964 Revolution. The ratchet collapse of world trade and credit, however, not only rules out any improvement, but poses Brazil's rulers with the thorny problem of how to hold off murderous additional cuts in Brazilian living standards until after the elections presumably bolster the government's political flank.

In the meantime, Brazil's strategists are trying to appease their creditors by triaging the investment programs which were designed to transform Brazil into an advanced industrial power by the end of the century. Most of these projects were formulated with a careful eye towards improving Brazil's future debt servicing abilities; but they require heavy investments. One study by the left-nationalist thinktank IBASE complains that the 33 big "impact projects" now programed mean a $230 billion investment over the next 4 to 16 years. That cost becomes 41 percent greater if interest payments are counted.

Brazil is now systematically ditching the projects on which its future depends—as a sign of "good faith" to the Eurodollar bankers. As predicted in *EIR* Feb. 9, electrical energy infrastructure was the first to go. The resolution of the conflict between the "dam-builder" and the pro-nuclear factions was announced by Energy Minister Cesar Cals on March 3: "Both sides lost." The revised *Plan for Meeting Electrical Energy Requirements in the Year 2000* reschedules all electrical projects to cut growth of capacity from 12 percent to 6.2 percent. Although Brazil is starting with a third of U.S. per capita capacity, 11 dams are being delayed. Those underway will be completed an average of two years late; those not started will begin four years late. Even installation of generators on the world's largest dam, the 12.6 million kilowatt Itaipu, will be slowed down. Coal pit-mouth plants will also be delayed.

Only two of the nuclear plants ordered from West Germany are now scheduled to be on line in 1990, rather than the eight contracted for that date in the 1975 nuclear agreement.

If the investment cuts are billed as postponements rather than cancelations, it is because of the unique system of refinancing Brazil's debt burden which has been perfected by Brazil's Planning Minister Antônio Delfim Netto. Delfim arranges jumbo loan packages from each of the many countries he visits, in which Brazil agrees to buy equipment from suppliers of that country for specified projects, in return for that nation's government and bankers providing Brazil with debt rollover lending equal to three or four times the project value. Thus, Brazil has already committed itself on most of the future projects. Order books of industries throughout the developed world will shrink as Brazil is forced to let them go.

The halved electrical growth rate suggests that plans for the remainder of the economy are being revised. Coal and alcohol targets for 1985 have also been lowered, but still may not be reached.

Private sector investment has almost disappeared, thanks to the interest rates which are part of the Volcker-style deflationary package. If one gasps upon hearing that Brazilian inflation has finally fallen to below 100 percent, how does one react to hearing that commercial paper pays 260 percent? Consumer credit costs over 300 percent. Many companies survived the 14 percent industrial production drop last year only by handing increasing portions of their equities over to government development banks which provided some subsidized credit. These banks, however, are subject to control by the World Bank, which has well-formulated plans for collapsing one industrial sector after another.

World Bank orders Maoism

World Bank President Clausen spent mid-March inspecting his biggest debtor, from the new pole of the South American cocaine traffic at Manaus to the yacht of bankrupt oligarch Ermelino Matarazzo in Guanabara Bay. Clausen told reporters March 11, "The international perspectives suggest low growth rates in the world economy, inflation, high interest rates, and high unemployment. But, if you just look at what Brazil has accomplished in this pessimistic environment—paying $9 billion in interest on its foreign debt and lowering inflation—then you have got to give credit to its economic managers." Clausen indicated that the "graduation" of Brazil from eligibility for World Bank loans threatened by U.S. Treasury Secretary Donald Regan at Cancún would be held in abeyance so long as Brazil's managers continue following its owners' dictates. He praised them for reducing subsidies to agriculture and industry and for raising energy prices so as to reduce consumption. He supported Brazil's draining export drive.

But, most importantly, he mandated that "Brazil must dedicate itself to the sectors where it is possible to obtain comparative advantage: hydroelectricity and labor-intensive agriculture." Clausen stated that Brazil's debt could be paid with proper management of "the great potentials of the country, especially its human resources." His one complaint was that Brazil's leaders have been politically unwilling to abolish the cost-of-living indexing system which currently shelters the workers who earn the minimum wage of roughly $100 per month from the rapid wage erosion already suffered by skilled workers and professionals, who are terrorized by the spectre of unemployment.