EIR Economics

BRAZIL CASE STUDY

Globalization: Merely Unfair, or Is It Genocide?

by Dennis Small

In the days leading up to the Doha round of the World Trade Organization, meeting in Hong Kong Dec. 13-18, 2005, Brazilian Foreign Minister Celso Amorim took to the pages of the *International Herald Tribune* to issue a policy statement on globalization and free trade, on behalf of the Lula da Silva government. Given Brazil's leadership role among developing sector nations, and the country's obstinate—and sometimes successful—resistance over more than a decade to the Free Trade Area of the Americas (FTAA) lunacy (and other ruses) emanating from Washington, Amorim's statement takes on broader significance.

Amorim's Dec. 9 piece, "Unfinished Business," nowhere questions the axiomatics of free trade, nor the prevalent mantra that "globalization is here to stay." Rather, he argues, free trade has simply not been applied equitably or fully across the globe. The Doha agenda, he says, is the opportunity to complete the "unfinished business" of trade liberalization and rectify its injustices. Developed nations—the United States, Japan, and Europe—must be pressured to reduce their tariff barriers to Third World exports, especially of agricultural goods. "The Doha agenda is to redress the development-deficit in world trade, by allowing developing countries to benefit from their comparative advantage, most of all in agriculture," Amorim writes.

For anyone familiar with the recent history of Brazil's agricultural sector, Amorim's argument that *more* free trade will lead to development, is particularly preposterous. The best that can be said about it, is that Amorim—and most of the Brazilian government—almost surely does not believe most of what he himself wrote (see box, p. 44).

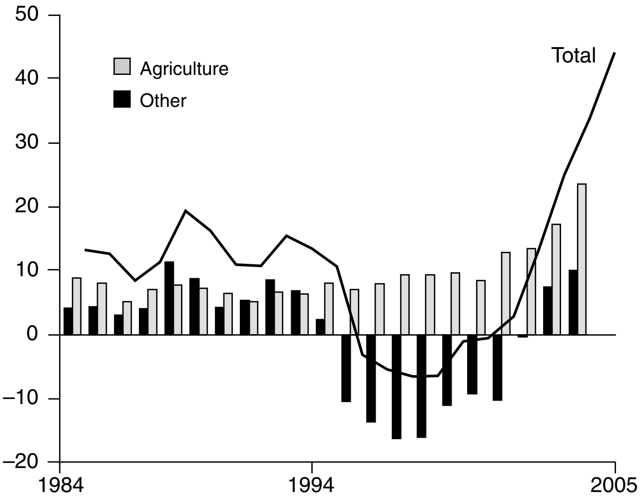
A Giant Agro-Export Platform

Carlos Lessa, the former president of Brazil's BNDES (National Bank for Economic and Social Development), and one of the country's leading economists and critics of globalization, hit the nail on the head in a late November 2005 seminar in the Senate. Brazil has been transformed into the fourth largest producer of grain in the world, Lessa reported, but there are still 10 million farmers and peasants—out of a national population of 185 million—who live in misery, or extreme poverty. (Nationally, about 50 million Brazilians, some 25% of the population, live in poverty.) These most immiserated Brazilians in effect "still live in the 18th Century," Lessa told the seminar, while the country's agriculture is dominated by large, multinational corporations that have little or nothing to do with the Brazilian domestic economy.

Lessa's comments point towards the reality underlying Brazil's recent agricultural boom.

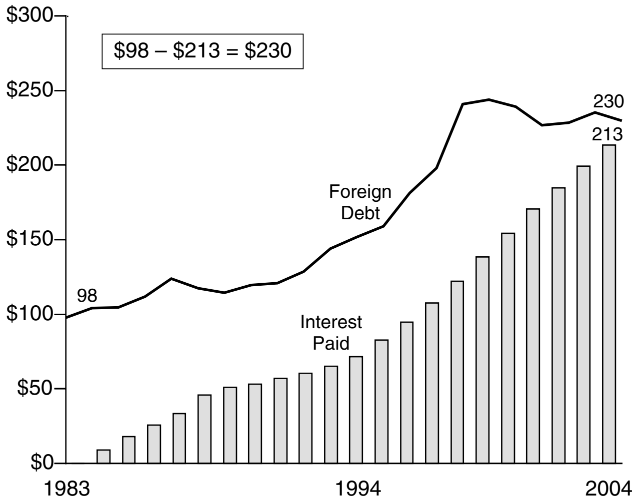
Over the past 15 years, the country's agricultural sector has been transformed into a giant export platform under the control of a handful of multinational cartels, such as Monsanto, Cargill, ADM, and others. Soaring agricultural exports have been the bedrock of the country's large trade surplus, which is the way that the country has managed to keep servicing its enormous foreign debt—the largest in the developing sector, at about $230 billion.

FIGURE 1
Brazil: Balance of Trade
(Billions $)



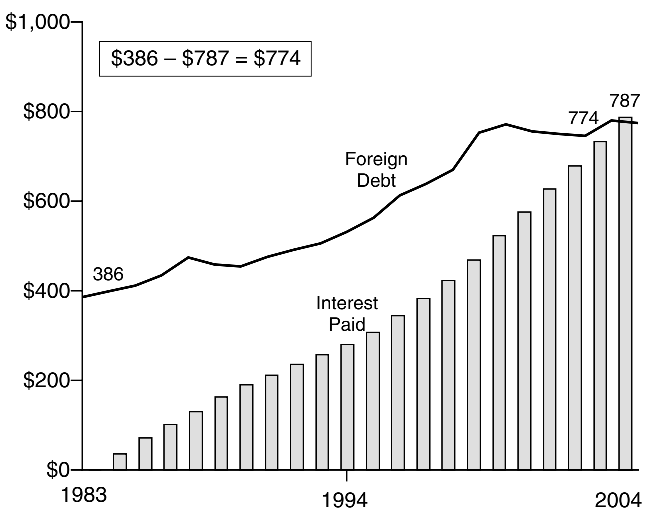
Sources: FAO; Secex (Brazil).

FIGURE 2
Brazil: Bankers' Arithmetic
(Billions $)



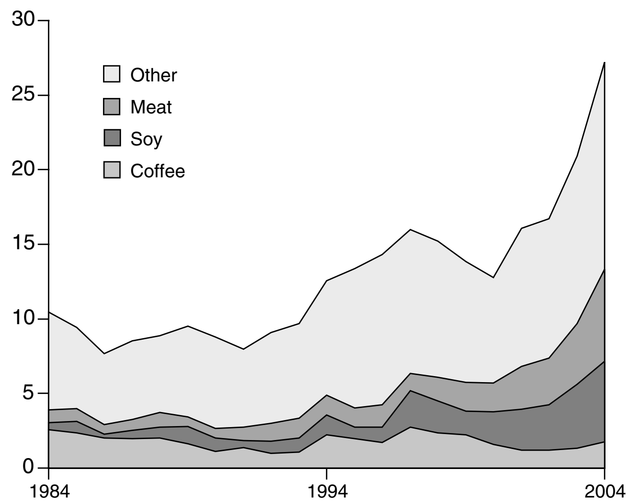
Sources: World Bank; Central Bank (Brazil).

FIGURE 3
Ibero-America: Bankers' Arithmetic
(Billions $)



Source: World Bank.

FIGURE 4
Brazil: Agriculture Exports
(Billions $)



Sources: FAO; Secex (Brazil).

As **Figure 1** shows, out of the 2004 total trade surplus of $34 billion, 70% ($24 billion) came from the agricultural sector. (The 2005 total trade surplus has soared to an astounding $44 billion, although the breakdown by sector is not yet available—but it is certain that agriculture continues to dominate.) For the better part of the last decade, the trade balance for all sectors other than agriculture was actually *negative,* while agriculture has stayed steadily positive over the last two decades, zooming up by nearly 300% in the last four years alone.

Over the period 1984-2004, agricultural trade ran a cumu-

On the Subject of Brazilian Diplomacy

And then there's the story that Brazilians relish telling foreigners, about the middle-aged. well-to-do European couple that was visiting northeastern Brazil. The tourists ran across a very humble Brazilian woman sitting in front of her shabby house, surrounded by a scraggly cat and her litter, drinking milk out of a bowl made of the most exquisite, valuable china.

"Just look at that incredible *objet d'art!*" the woman whispered to her husband. "Let me handle this."

Turning to the poor Brazilian woman, the elegant European lady said in her best broken Portuguese: "Oh, *senhora,* what a lovely mama cat! I'm in love with it. Would you be willing to sell it to me for 100 dollars?"

"Well, she is my family cat," said the Brazilian reluctantly, "but I suppose so."

"Oh, thank you, *senhora.* But you know, I don't want the mama cat to be lonely, so will you sell me one of her kittens for another 100 dollars?"

"Well, my children will be so sad," said the Brazilian woman, even more reluctantly, "but I suppose so."

"Oh, thank you," said the European, handing over the money, taking the cats, and beginning to walk away with her dumbfounded husband. Then she turned back, almost as an afterthought, and casually said to the Brazilian:

"Oh, *senhora,* do you think you could give me that old milk bowl, just so I can feed the cats when I get back to our hotel?

"Oh no, I can't do that," replied the Brazilian woman. "That's my bowl for selling cats."

—Dennis Small

lative *surplus* of $197 billion, while non-agricultural trade ran a *deficit* of $6 billion over that same time period.

What became of that $197 billion agro surplus? It was gobbled up, dollar for dollar, by the $213 billion in cumulative interest payments on Brazil's foreign debt, which were made over that same 1984-2004 period. **Figure 2** shows what we have frequently referred to as "bankers' arithmetic" regarding the foreign debt of developing sector nations. In the case of Brazil, its total official foreign debt was $98 billion at the end of 1983. The accumulated interest paid on that debt over the next 20 years added up to $213 billion—more than twice the original debt owed. But at the end of those two decades, Brazil's foreign debt had *grown* to $230 billion, despite the fact that it had paid off almost that entire amount in interest payments alone. Bankers' arithmetic!

Such insanity is, of course, not limited to the case of Brazil. Under the International Monetary Fund system of globalization and free trade, the official foreign debt of Ibero-America as a whole showed a similar pattern (see **Figure 3**). The debt was $386 billion at the close of 1983; over the ensuing two decades, $789 billion in cumulative interest was paid (here, too, more than twice the original debt owed); but by 2004, the total foreign debt had risen to $774 billion. Again, bankers' arithmetic.

The Soy Revolution

Now, consider the changes that globalization has wrought in the structure and composition of Brazil's agricultural exports over the last two decades.

Brazil is known the world round for its coffee. And in fact, back in 1984, a quarter of the dollar value of its agro exports came from coffee. But over the intervening two decades, coffee's share has dropped down to 6% of the total (**Figure 4**). The newcomers are soy and meat exports, which together account for 43% of all Brazil's agricultural exports. Coffee is now a has-been.

The sharp rise of the value of Brazil's soy and meat exports is not principally a result of rises in the prices of those primary products. *The physical volume produced, and exported, has skyrocketed.*

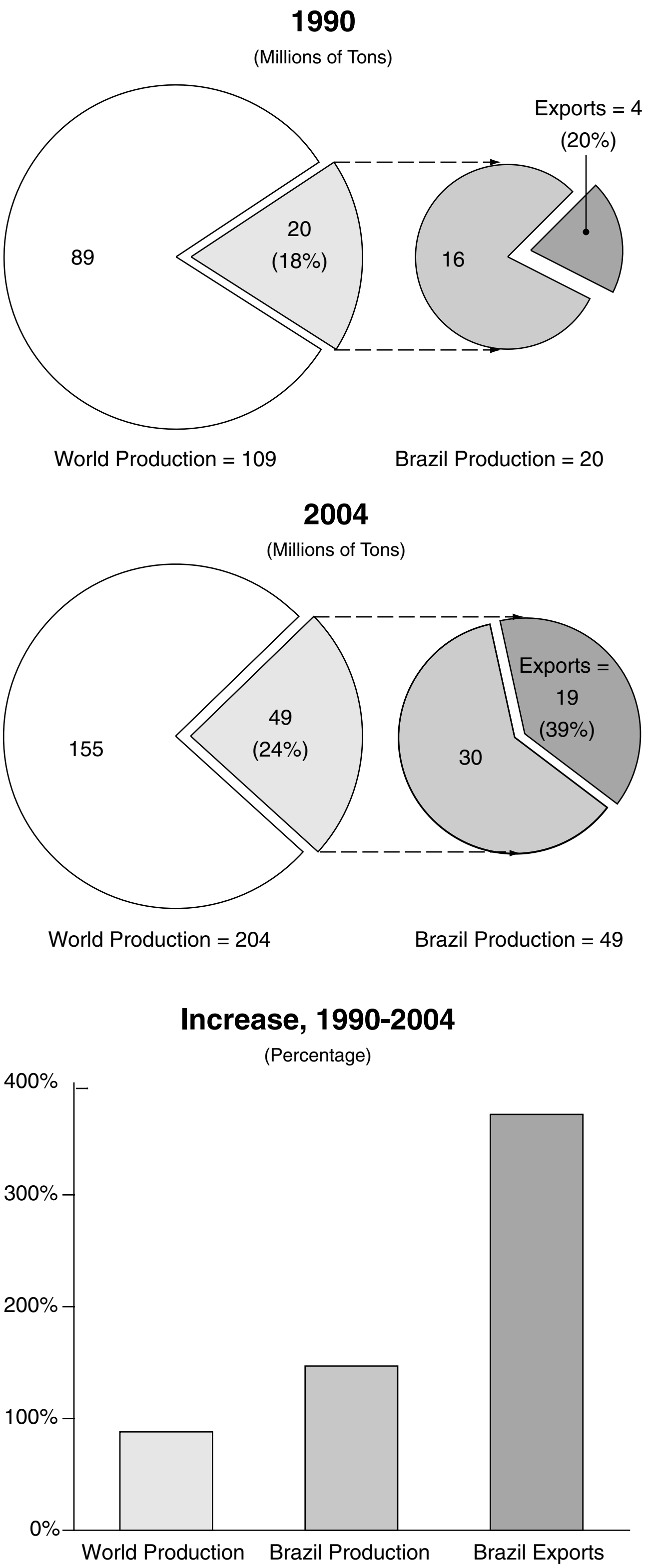
Take soybeans (**Figure 5**). Although Brazil was already a significant producer of soy back in 1990, producing 18% of the world total of 109 million tons, and exporting a fifth of its own production, by 2004 Brazil's production had increased 150%, to 49 million tons. But over the same period, its exports increased *five-fold,* rising to 39% of national production. Brazil is now the world's No. 2 producer of soybeans, after the United States.

As the bar diagram of **Figure 5** shows, world soy production increased a respectable 88% from 1990 to 2004; but Brazilian production leapt by almost 150% in the same period, and its exports soared by 372%.

In net effect, Brazil today produces soybeans in order to export them—and it exports them in order to pay its foreign debt to a bankrupt international financial system. This is globalization in action.

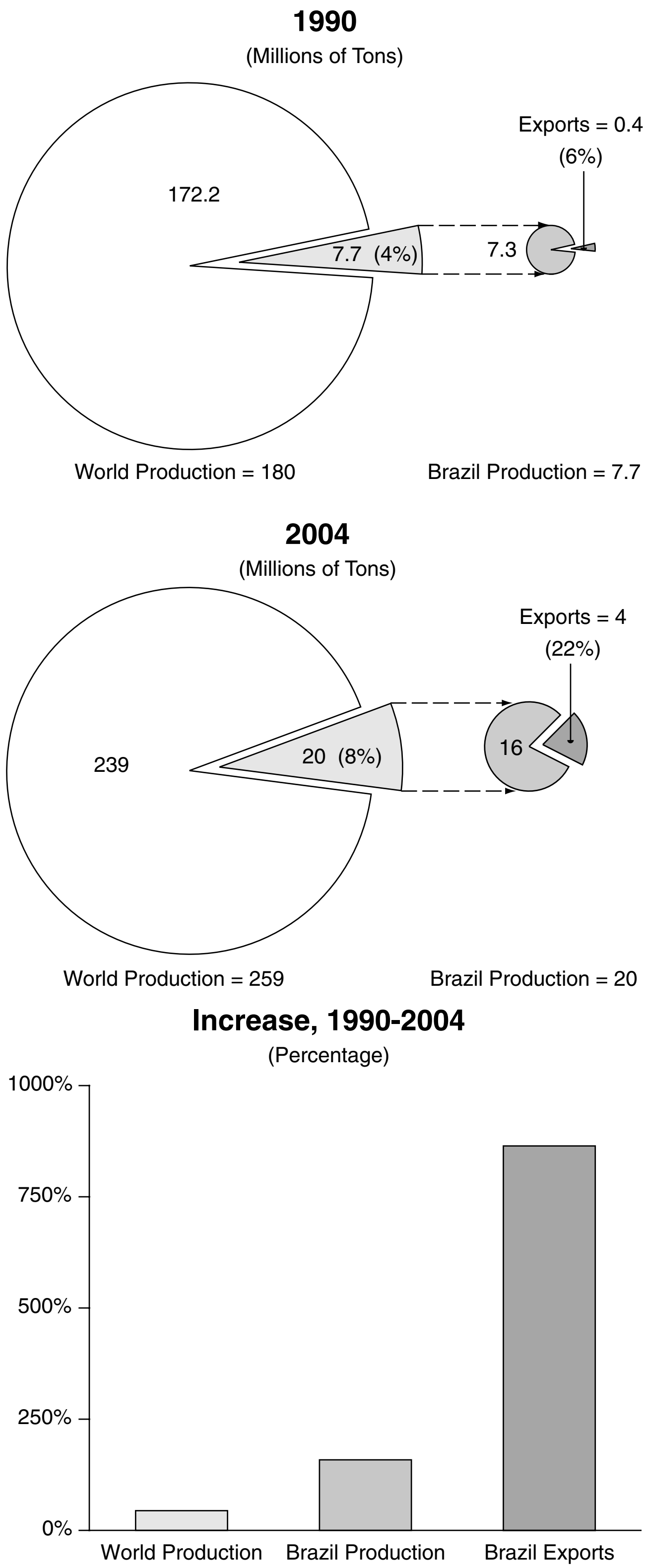
The case of meat and meat products is, in one sense, even more dramatic (**Figure 6**). In 1990, Brazil's production of 7.7 million tons was about 4% of the world total, but only a very small amount (400,000 tons, or 6% of its production) was exported. By 2004, however, Brazil's meat production had risen to 20 million tons, and 22% of that was exported. Over

FIGURE 5
Soy Production and Exports



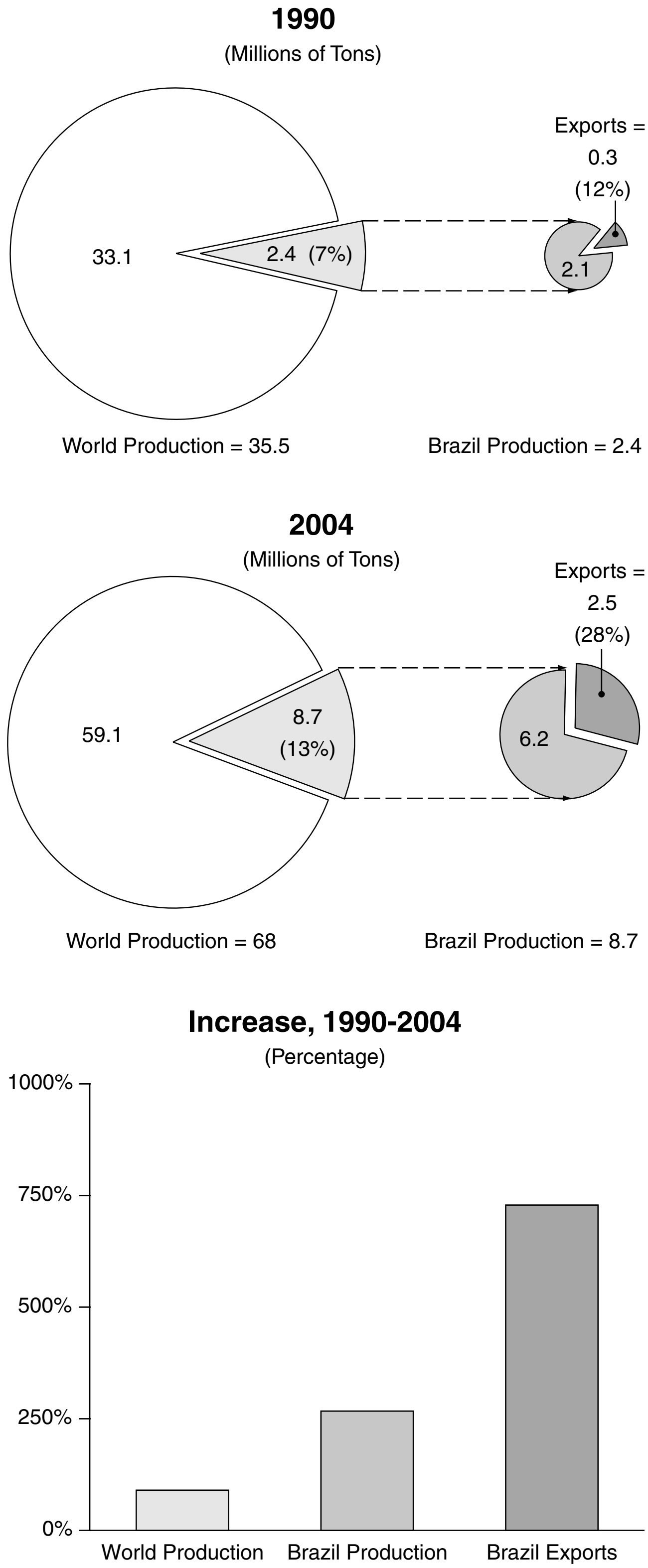
Sources: FAO; Secex (Brazil).

FIGURE 6
Meat Production and Exports



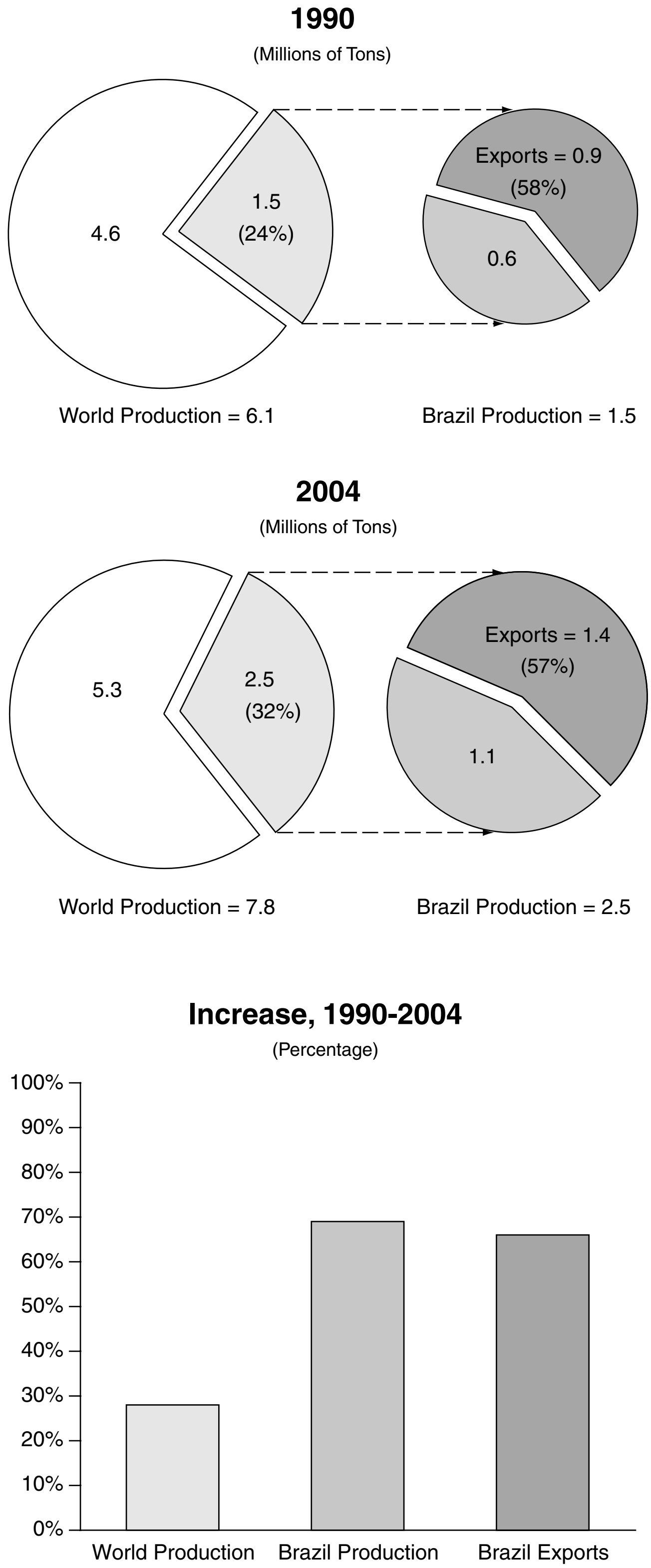
Sources: FAO; Secex (Brazil).

FIGURE 7
Chicken Production and Exports



Sources: FAO; Secex (Brazil).

FIGURE 8
Coffee Production and Exports



Sources: FAO; Secex (Brazil).

the 14-year period, world production of meat rose 44%, but Brazilian production increased by 158% and its exports zoomed by nearly 900%! So the lion's share of the boom in Brazilian meat production did not go to domestic consumption—in a country where some 50 million of the country's 185 million citizens endure hunger—but to export. Again, globalization.

Within the category of meat and meat products, chicken plays a dominant role. As **Figure 7** shows, the pattern here is similar: today, 28% of national production is exported, having grown by 730% in absolute terms since 1990.

It is worth noting that this transformation of an entire economy into a giant, foreign-owned export platform, is *not* the same thing as the classic colonial syndrome of the "monoculture exporter" which characterized much of the 20th Century in many parts of the developing sector. Coffee is a good example of the latter in Brazil, and as **Figure 8** shows, the profile of production and exports has not changed markedly over the 1990-2004 period. In 1990, 58% of Brazilian production was exported; in 2004, 57% was exported. The relations in the bar diagram speak to this point, and are quite different from the corresponding diagrams for soy, meat, and chicken.

Under globalization, entire nations and their populations lose all sovereignty and become de facto *foreign enclaves* for globalized production. This production is carried out where the wage rates are lowest, the land most fertile, and the populations most desperate—and it is exported in order to channel enormous financial flows into the insatiable cancer of the bankrupt global financial system.

Physical Economic Disaster

The big loser under globalization is the physical economy of the nation-state, including its demographics.

Brazil has now joined nations such as Russia, and much of sub-Saharan Africa, where there is an outright decline either of the total population, or of certain age brackets. Brazilian economist Carlos Lessa has reported the shocking fact that the number of males between 16 and 30 years old, *is now falling in absolute numbers* in Brazil. Lessa ascribes this to the reduced life expectancy of the poorest part of the population, which out of desperation is involved in organized crime, especially the drug trade, and who therefore die prematurely. This kind of youth gang holocaust is also sweeping Central America, and parts of Mexico as well.

Another reflection of the physical economic takedown in Brazil, is what has happened to its production of machinery and equipment. Brazil has historically had the most significant machinery sector in all of Ibero-America, but that is now declining as a result of trade liberalization, combined with the world's highest real interest rates (currently at 18%), as demanded by the national and international financial oligarchy.

In a Nov. 16, 2005 statement, Newton de Mello, the President of the Brazilian Association of Machinery and Equipment Producers (ABIMAQ), reported that sales of domestically produced agricultural machinery in the first eight months of 2005 were 35% lower than the same period in 2004, while imported machinery had increased by 26%. De Mello said that the production of other kinds of machinery was also declining, warning that "we cannot simply watch while productive sectors are practically dismantled, as is occurring with agricultural machinery." He argued that "basic interest rates must be drastically reduced," and that such reduction "is now an emergency requirement."

But De Mello went beyond mere protest, and attacked some of the axiomatic underpinnings of free trade and globalization. The ABIMAQ president told the press that he had sent an open letter to President Lula, urging him to replace his economic policy team of Finance Minister Antonio Palocci and Central Bank head Henrique Meirelles, because their pro-globalization policies had unleashed "a process of de-industrialization of Brazil's productive plant and equipment. . . . Great investment projects are being cancelled. . . [in pursuit of] merely financial parameters, such as an illusory improvement of the country risk rating, which only attracts more and more speculative capital, which doesn't produce anything and only transfers profits abroad."

De Mello also attacked the idea of floating exchange rates, which have characterized the international financial system ever since Richard Nixon took the dollar off gold in August 1971. "ABIMAQ has shown," he reported, "that exchange rate instability, with sharp oscillations, makes it almost impossible for companies which import and export capital goods, to engage in planning." He also attacked the government plan to reduce the tariffs on imported machinery and equipment from 14% today, down to 6%, arguing that such protectionist measures are necessary for "a sector which is strategic for the development of the country." He noted the particular irony that the government proposal did *not* call for lowering the tariffs on the imports of components used to produce machinery in Brazil. "It is not acceptable to lower import tariffs on machinery, without a simultaneous reduction of the tariffs on components and inputs. Such a distortion would condemn the Brazilian capital goods industry to extinction," the industrialist warned.

The outlook implicit in the cited remarks from ABIMAQ President De Mello, is shared by many nationalist forces in Brazil today, and it is totally antithetical to the model of globalization that is devastating the planet. Such an outlook also converges on the American System concept of scientific physical economy developed by Lyndon LaRouche, in such locations as his Oct. 11, 2001 document "The Future of Brazil's Agriculture," which was prepared for an international conference on the subject of "Brazil and the Free Trade Agreement of the Americas," held in Brazil's Senate at the end of October 2001.

Youth Flight Leaves 'No Future' Rust-Belt States

by Paul Gallagher

A recent series of articles in the Detroit press highlighted the steady flow of college-educated young people out of Michigan—focussing on the sons, daughters, and grandchildren of autoworkers who are living through the collapse of the U.S. auto industry in the Midwest—and into service industry and financial jobs in other regions, in particular the non-union South. A stinging irony was the number of such youth moving South to work in "management" in Arkansas or some related part of the right-to-work, cheap-labor corporate empire of Wal-Mart Stores. During 1995-2000, Michigan lost, according to Census Bureau reports, almost 40% of its population of college-educated, single young people, from 42,600 down to 26,600; the only state with a worse drain of youth was Pennsylvania. There could be no more dire indicator of the "no-future" economic crisis centered around the decay of the formerly-productive, industrialized regions of the United States under "globalization and free trade," and the now near-irreversible loss of the productive capabilities and skilled labor forces of those states.

That crisis is centered in the auto industry, the last-chance arena for Congressional intervention to reverse it. Over the past 30 years, just the "Big Three" automakers have closed down 24 auto production and assembly plants in Michigan alone, permanently eliminating nearly 50,000 skilled production jobs, and perhaps another 50,000 in the auto-parts and supply industries, in a state whose total productive workforce is now down to less than 600,000. And further shrinkage in

TABLE 1
Post-Industrial Shift Stopped Population Growth, Formerly Industrial States

State	1940-70 Growth	1970-2005 Growth
Illinois	40.5%	14.9%
Indiana	51.3%	20.7%
Michigan	67%	13.9%
Missouri	23.6%	24%
New York	35.6%	5.4%
Ohio	53.8%	7.6%
Pennsylvania	19.2%	5.3%
Total	**39.7%**	**10.5%**