Report from Rio by Mark Sonnenblick

Readying for creditor reprisals

Brazilian contingency plans are in the works as the government "hangs tough" with its negotiating stance.

Many Brazilian industries are preparing contingency plans for surviving a possible cutoff of the $15 billion short-term credit lines, part of which finance imports, on March 31. Even small Rio de Janeiro pharmaceutical companies have set up special departments to find Brazilian sources for chemicals and equipment they now import.

EIR's sources say such planning began in January, when the government started restricting imports. The work went on to a pre-war footing when Brazil declared the suspension of foreign debt payments on Feb. 20.

Scare stories appear daily in the Brazilian press, warning that if Brazil does not yield to creditor demands for radical austerity under International Monetary Fund (IMF) or World Bank control, the credit lines would be cut, and Brazilian assets abroad seized. But not really. "The credibility of reprisal threats is almost nil," one New York banker complained after observing that the banks have been impotent to take direct reprisals against Peru's Alan García during the 18 months he has limited debt payments.

While this nation's leaders are readying to win a showdown with creditors, it is not their preferred course of action. "Brazil has not the slightest intention of closing itself off from the rest of the world," Paulo Nogueira Batista, Jr., the 31-year-old foreign-debt adviser to Finance Minister Dilson Funaro, declared in an interview published March 8. On the contrary, he stressed, "Brazil wants to renegotiate the foreign debt to better integrate itself into the international community, to increase its flow of imports, and it is willing to deepen its relations in the field of direct capital [investment]. Since we need to make room for importing more capital goods and technology, to increase and modernize our industry, we should not go for a confrontation with the international financial system."

Nogueira explained with consummate politeness that creditor gripes about Brazil not having an internal economic program are nothing more than "a smokescreen" for "forcing Brazil to go back to the *status quo ante* in which it generated $12 to $13 billion annual [trade] surpluses to service the foreign debt. . . . You can't conceive of a stabilization program which would work in a country like Brazil at the same time that a situation like the one we have been living in since 1983, in which 20-22% of internal savings are transferred abroad," he declared.

"The decision taken by the Brazilian government is the biggest challenge that a debtor country has made," Nogueira states.

"We are going to have to refinance a greater part of debt service in automatic ways" to free up capital "to increase investment levels and guarantee future economic growth," he insists. Interest payments were suspended as "a negotiation instrument which will persist as long as the negotiations take. . . . Reprisals against Brazil would also hurt the creditor banks."

Brazil has acted as a gentleman toward the creditors and has not organized a debtors' club. But if the creditors attempt to strangle Brazil's trade, that is what they will get. It would take only days for Brazil's industrialists to organize a common market with Argentina and Uruguay and then other countries. Its neighbors would supply it with some of the goods it formerly imported from the North, and act as a bridge to and from the rest of the world.

Contingency plans are already in the works. Finance Minister Funaro has ordered studies into how a regional currency could guarantee imports at levels necessary to maintain economic development and normal supplies. Central bank director of foreign affairs Carlos Educardo de Freitas and the executive secretary of the Customs Policy Commission, José Tavares de Araujo, have been given six months to come up with such a plan. Tavares is "optimistic" about the possibilities of regional trade.

It should not be forgotten that Brazil, as the eighth-largest economy in the Western world, represents awesome and untapped economic potential which could serve as a motor for the industrial development of the continent. It is precisely this potential which has the creditors and their house organs terrified.

"Both banks and governments have been working hard and effectively to keep the Brazilian virus from spreading," the *Washington Post* bragged in a March 9 editorial, which urged that Brazil "not be allowed to elude its responsibilities."

If creditors expect Brazil to shirk its responsibilities—to care for 36 million homeless children and to double the $68 per month minimum wage—they may be in for unpleasant surprises.