Report from Rio by Lorenzo Carrasco

'Diplomatic' debt negotiating

The current phase of debt talks is a game of mirrors pulled together on Oct. 21, two days after the Wall Street market crash.

When this column appears in print, the Brazilian government may already have deposited its $500 million in the Swiss accounts of the Bank for International Settlements, the first phase of the "symbolic payment" which could mark the end of the debt moratorium decreed by the Brazilian government last February. That money will go into the same black hole as Brazil's other debt payments, without contributing one iota to an agreement that could resolve the Brazilian debt situation.

It has become clear that the current phase of debt negotiations is pure fantasy, a game of mirrors rapidly pulled together on Wednesday, Oct. 21, when the screams from Black Monday were still sounding. On that day, Federal Reserve chief Alan Greenspan called upon Brazil's debt negotiator Fernão Bracher and Brazilian ambassador to the United States Marcilio Marques Moreira, to reach a "symbolic" agreement with the banks, which might have a positive psychological effect on the convulsed financial markets. The Brazilian negotiators agreed to the scheme.

The scenario was described by a Washington banker, in statements to a Brazilian daily: "In truth, they are only seeking a 'diplomatic agreement'. . . . The American government is very apprehensive about the stock market. A crisis unleashed by the reclassification of Brazil['s foreign debt] at this moment, would be terrible, with repercussions throughout the market. Note that this isn't a matter of the market. We are talking about a tremor in the banking industry. With this, the market could crash again."

With the "diplomatic renegotiation" of the foreign debt resolved, there only remained the task of convincing the party in power, the PMDB. For this purpose, Finance Minister Bresser Pereira—displaced as figurehead of the negotiating process by Fernão Bracher—gathered a group of PMDB economists to announce that the "symbolic payment" of $500 million would be made to the banks, just as soon as a certain deal with the banks was reached. He then tried to minimize the significance of that, saying that, in the end, the Brazilian moratorium only applied to payments to private banks, approximately one-third of the total debt.

But the greatest pressure to neutralize the PMDB came directly from certain sectors of Itamaraty, the foreign ministry. According to a report in the newspaper *Gazeta Mercantil,* on Oct. 29, diplomatic sources at Itamaraty "are concerned about the PMDB's position," and are posing the question: "If Brazil breaks with the Establishment, to which system will it belong? Without a deal with the financial community, the country will be isolated and will have to go with some other bloc, which is not the West. Which one? . . .If Brazil breaks and bankrupts some international banks, Japan and the United States will go against Brazil, and other debtors are going to profit from that situation."

Using the same tone, the finance ministry's man in charge of international affairs, Ruben Barbosa, told a continental gathering of economists that "not paying the debt would mean a break with the international financial system. And today there is neither political will nor the political conditions for taking such a step."

Political circles linked to the PMDB are privately saying that the argument of Itamaraty—that maintaining the moratorium raises questions about Brazil's loyalty to the West—is nothing but "cheap blackmail" and "a joke." It was this same approach that the U.S. State Department used to destabilize former Finance Minister Dilson Funaro, architect of the Brazilian debt moratorium, while in the midst of negotiations in Washington. And it is, perhaps, this same line of thinking which was behind the strange and still unexplained meeting held last July 27 in Washington between National Security Adviser Frank Carlucci, and Minister Bresser.

Of course, in the teeter-totter politics currently reigning in Brazil, it is possible that the PMDB—with military backing—might put its foot down regarding such a blackmail scheme. In fact, it is already being mooted in media and political circles inside Brazil that Finance Minister Bresser is on his way out, a fact which could—if true—shatter the carefully planned debt agreement described by one Washington insider as "worse than a jerry-built house."

The possibility of Bresser being forced out was nervously reported in the Nov. 4 issue of The *Wall Street Journal,* which added that closeness between the Brazilian finance minister and his personal appointee Bracher could mean that the chief debt negotiator's job "could be on the line if Mr. Bresser steps down."