

Infrastructure Centers Brazil's New Diplomacy

by Lorenzo Carrasco

Today in Brazil, the impact of the U.S. Iraq war and its preemptive war doctrine has triggered new diplomatic initiatives toward economic integration of Ibero-America.

In mid-April, during a visit to the Brazilian National Congress, the author met with Federal Deputy Miguel de Souza, from the western Amazon state of Rondônia; de Souza had just issued a statement on the visit to Brazil of Peruvian President Alejandro Toledo, and on a series of historic agreements for physical economic integration that will soon make possible one of the most important bi-oceanic corridors in South America. Nearly 13 years ago, in September 1990, I had first met Miguel de Souza during a seminar entitled "Brazil's Outlet to the Pacific," organized by the Rondônia Industrial Federation, which de Souza then headed. At that time, he had commented on the open opposition of then-President George H.W. Bush to the construction of Highway BR 364, designed to unite Brazil with Peru. Said de Souza, "President Bush's opposition shows us the importance of this new highway, and the urgency of building it."

Months after that 1990 seminar, the first Portuguese-language edition of EIR's book *Ibero-American Integration: 100 Million New Jobs by the Year 2000* was published. It detailed the combination of infrastructure projects for physical integration of the continent, that had been outlined by Lyndon LaRouche in his August 1982 *Operation Juárez*. LaRouche's famous proposal for the reformulation of the world financial system had been presented to then-Mexican President José López Portillo just weeks before Mexico's decision to declare a debt moratorium and bank nationalization.

The 1990 publication of the *Integration* book in both Portuguese and Spanish served as the basis for multiple discussions around the question of physical integration, discussions which have not ceased despite the intervening decade of neoliberal "free trade" dominating the entire region's economic policies. It wasn't until the South American heads of state summit of September 2000, that many of those projects were concretized—with new technical details—in the Initiative for Regional Infrastructure Integration of South America (IIRSA), where seven distinct axes of regional integration and development were identified. After September 2001, Brazil created, by Presidential decree, an Interministerial Commission to implement IIRSA, made up of the ministries of Foreign Relations, Transport, Mines and Energy, and Communications.

Brazilian Drive for Regional Infrastructure

With the arrival of the new government of President Luiz Inácio Lula da Silva at the beginning of 2003, South American unity has become Brazil's number-one foreign policy priority, and the basis for an unprecedented diplomatic offensive to solidify agreements with every country in the region, for the specific purpose of implementing the IIRSA projects. To achieve this, the credit-generating capacity of the National Bank of Economic and Social Development (BNDES) will be drawn on.

BNDES was originally conceived by the mid-20th-Century government of President Getulio Vargas, as a national bank in the tradition of America's first Treasury Secretary, Alexander Hamilton. Some have proposed that, along with the Andean Development Corporation (CAF), BNDES could become the nucleus of a regional credit system for development, independent of the International Monetary Fund (IMF). This would be an excellent step to protect the region from the worst effects of the ongoing disintegration of the world financial system.

But, such a regional credit system can only work if there is a "Chinese wall" separating it from the global speculative bubble built around the dollar, either by establishing a new currency which is *inconvertible* with the dollar, or some similar protectionist measure.

The fact that Brazil has assumed leadership of this integration project has transformed Brasília, over the past four months, into a beehive of diplomatic activity. The war against Iraq has definitively convinced Brazilian diplomacy that the only path left is that of regional cooperation—such that Foreign Minister Celso Amorim has decided to create a special sub-ministry for regional affairs.

Argentine President Eduardo Duhalde was the first—only days after President Lula took office—to strike a strategic alliance between these two key South American countries, an alliance which will only be preserved if Argentine Presidential candidate Néstor Kirchner wins the second electoral round against former President Carlos Menem, who is considered the greatest threat today to the South American integration process. That is why the Lula government has already offered its Argentine counterpart a credit line, to promote Argentine exports and to help alleviate the economic crisis there in some way, while receiving Kirchner in Brasília even before the second electoral round takes place on May 18.

Colombian President Alvaro Uribe visited Brazil in early March. Brazil shares more than 2,000 kilometers of border with Colombia, in the highly vulnerable Amazon region. It is here that infrastructure projects of the so-called Northern Arc, as contemplated by IIRSA, are urgently needed, and in fact figured in the joint declaration issued by Lula and Uribe.

On April 11, Peruvian President Toledo arrived in Brazil, accompanied by several ministers. He, too, signed a "strategic alliance" with Brazil. According to President Lula, the joint initiative revealed Brazil's determination to pull the other

Major Projects of Ibero-American Integration



This map of the IIRSA project of the South American heads of state shows the major projects of infrastructure to integrate the region's economies, on which Brazil has undertaken a diplomatic offensive. Priorities are the bi-oceanic transport and development corridors (gray lines) and the integration of the largest rivers into one navigation system (black lines).

11 nations of South America into his government's "high-priority and strategic project to place the continent on the world stage."

The most substantial aspect of the agreement is the refer-

ence to implementing IIRSA within the Amazon corridor—and its northern and central branches—and along the Bolivia-Brazil-Peru axis. These development corridors are conceived as having three components: multi-modal transportation, energy, and communications. "The central goal is to make the flow of trade between the Pacific and Atlantic a reality, generating opportunities for wealth and sustainable development for populations along the identified axes and surrounding areas of influence."

Concretely, it was decided to build a bridge over the Acre River, near the cities of Assis in Brazil and Iñapari in Peru. This would only be a departure point for a highway connection between Brazil and Peru, which would also include a highway from Acre to Cuzco in southern Peru, and another from the river port of Yurimaguas, on an Amazon tributary, to the city of Tarapoto, in northern Peru.

At the same time, authorities from both countries will seek to establish air routes between the principal Brazilian cities in the Amazon, and the Peruvian cities of Iquitos, Tarapoto, Pucallpa, Puerto Maldonado, Arequipa, Cuzco, and Tacna. Peru would simultaneously have access to the services of Brazil's Amazon Oversight System (SIVAN), an advanced radar system that could be very helpful in defending the region's nations against the narco-terrorist apparatus operating in the area.

There is a great irony in President Toledo coming to Brazil to ratify the agreements that came out of the Presidential Summit of 2000, where Peru's then-President Alberto Fujimori made his famous call for the formation of a United States of South America. That



The Brazilian government of Luis Inácio Lula da Silva is conducting high-level meetings across South America to discuss funding economic integration projects as recovery measures. To succeed, a credit facility independent of the IMF will have to be created.

call triggered the United States move to launch a coup d'état that deposed Fujimori and brought Toledo into the Presidency.

On April 14-15, Chilean Foreign Minister Soledad Alvear undertook an official visit to Brazil, for similar purposes.

The Chávez Problem

The most frequent, and problematic, visitor to Brazil has been Venezuelan President Hugo Chávez, who has traveled there four times so far this year. The Venezuela problem is seen by Brazilian diplomacy as the most critical, because the lunatic personality of its President constitutes a primary factor of institutional instability in the region. Nonetheless, the most recent Chávez visit, to Recife on April 25, led to the signing of important agreements for economic cooperation. Among the 25 pacts signed between the two Presidents, the most important created a BNDES credit line for \$1 billion to finance export of goods and equipment, including complete agro-industries, over the next two years. Venezuela put up its oil as a guarantee. Negotiations between the two countries' state oil companies, Petrobras and PDVSA, were also re-

newed, and could well begin with PDVSA's participation in the construction of a new refinery that Brazil's Petrobras hopes to build, with a daily processing capacity of 150,000 barrels of heavy oil.

In recent years, Brazil and Venezuela have drawn up an important list of projects. These include a 690 kilometer electricity transmission line that would link the generating complex Guri-Macáguas II in Venezuela, with the Brazilian city of Boa Vista, in Roraima; a highway-railway bridge over the Orinoco River; the BR-174 highway that links Manaus to the Venezuelan capital, Caracas; and the first leg of Line 4 of the Caracas Metro. These projects represent investments of more than \$1 billion.

On April 28, Bolivian President Gonzalo Sánchez de Lozada visited Brasília, along with nine of his ministers of state, in order to sign a number of similar integration pacts, including the construction of a bridge between the Bolivian city of Cobija, and Brasileia in the Brazilian state of Acre. Also, priority was given to finishing various highway projects, especially between the cities of Corumbá and Santa Cruz de la Sierra, which are to be jointly financed by BNDES and CAF. In addition, a \$600 million credit line was extended by BNDES for infrastructure works inside Bolivia, which are to contribute to these integration projects. Also emphasized was the importance of the Paraná-Paraguay waterway in developing the vast regions within that area of influence, in particular for land-locked Bolivia, as it represents a much-coveted outlet to the Atlantic Ocean.

These visits are to be followed during the month of May by a visit from Uruguayan President Jorge Battle and by Ecuador's President Lucio Gutiérrez. Still to be set are the visits of Chilean President Ricardo Lagos, and of Paraguayan President-elect Nicanor Duarte, who is especially favorable to expanding Mercosur (the Common Market of the South trade alliance) and integration with the Andean community.

A South American Development Fund

Perhaps the most significant aspect of this new round of South American diplomacy is the prominent role that Brazil wants to give to the BNDES, together with the CAF, as the generator of credit outside the strictures of the international financial institutions. President Lula himself defined it as such, in inaugurating a seminar on trade relations between Brazil and China, at the BNDES headquarters. "Brazil needs to learn that we are a great country, that we have the vocation to grow and do not need to ask anyone's permission for our political, diplomatic and trade relations." Lula emphasized that his government would be characterized by an aggressive foreign policy, not only favoring integration of South America, but for relations with China, India, the rest of the Asian continent, and the Middle East as well. He also declared, "It is Brazil's political, moral, and historic obligation to build increasingly closer ties with the African continent."

LaRouche Reform of Credit System in the Americas

On April 12, Lyndon LaRouche spoke by phone with simultaneous youth movement gatherings in Mexico City and Lima (see EIR, April 16). Excerpted here is his answer to a question from Mexico.

Q: What is the alternative to replace the International Monetary Fund/World Bank system, and what would be the mechanism for financing it?

LaRouche: What has to happen now is that the leading nations of the world, or a group of them, must put the banking systems of their respective countries in bankruptcy reorganization, with the possible exception of China, and must together put the entire IMF system into bankruptcy reorganization. This means that the governments are putting entire financial systems, both international and national, into receivership. This means that, immediately, we are eliminating, in fact, the system of independent central banking systems, because . . . the financial systems which are members of these banking systems, are bankrupt. Therefore, you can not continue the obligations of these financial interests on the books, because they are not honorable. Therefore, some agency—that of government—must intervene to reorganize these debts, and say which will be paid and which will not be paid. . . .

When a government puts a banking system into bankruptcy reorganization, the government under the general welfare principle, and under the principle of sovereignty, must make sure that essential functions performed by banks and similar institutions, are continued. That is, the savings of families, the flow of credit to farms, businesses, manufacturing, and so forth, must continue. The general welfare must continue; public payments, public services must continue. Therefore, the government will order the banker, even though he's sitting in a bankrupt bank, to deliver these financial services as before, in a normal way, especially in these priority areas.

Government in turn must mobilize the credit needed to be conduited through these banks, to make sure of the continuity of the functioning of these elements in society. This means that all creation of money and national debt is in the hands of governments, not the banks. This also means on an international level, that there's an agreement

among governments on control of finances, [that they] will create a new international monetary-financial system, much like the 1946-1958 phase of the old Bretton Woods system—a gold-reserve system of fixed exchange rates. . . .

For example, under such an arrangement, as [EIR Ibero-America Director] Dennis Small and others have done this work, you take the debt of the Americas that is illegitimate—that is, the amount of the accumulation of debt to the international monetary system, which was imposed immorally, and by fraud upon these nations since 1971, using fluctuations in the monetary-financial system as a pretext for forcing governments to devalue their currency, and then to compensate for devaluation by accepting a new, artificial debt, which they had not actually incurred, on their books. This has been sucking the blood of Central and South America since that time.

So, that kind of credit will be wiped from the books, as illegitimate, as immoral from inception. Honorable credit, honorable debt will be honored as much as possible, with certain priorities. . . .

Now, in addition to that, we have other forms of credit . . . [via] respectively sovereign nation-states, who would enter into partnership for the purposes of long-term cooperation with countries in Eurasia. . . . [T]reaty agreements would create credit among states, because they promise payments. The promise of one government to pay another, or the people of another government, is also a form of monetary creation. This monetary fund, based on this kind of credit, can be used to promote increases of employment. . . . Therefore, these long-term agreements, which increase employment and increase investment, are solid things.

Let's take the Americas. . . . As we discussed this with circles around José López Portillo at the time he was President—on the question of the 1982 crisis, as I presented this in my *Operation Juárez* proposal—this means we would create a facility of cooperation among consenting states of Central and South America, a credit facility, a monetary facility for agreement among themselves.

This facility would then be used to negotiate long-term credit agreements with other parts of the world, such as the U.S., Canada, and so forth. . . . This means that not only would we reorganize the International Monetary Fund accordingly, with a group of treaty blocs, reconstruction blocs, but we would also have created, in effect, a new kind of world political arrangement, which is based on the idea that the world must be a community of sovereign nation-states, each perfectly sovereign, but joined together by sharing certain common principles. And that's what the reform means.

Lula stated that the expansion of trade with China would also strengthen the integration of South America, in that it will stimulate construction of the Atlantic-Pacific bi-oceanic corridors.

To get some idea of BNDES's capacity as a bank for industrial development, one need only look at the amount of credit it issued last year—\$12.5 billion, more than double the \$5.5 billion of the Inter-American Development Bank, which finances operations all across Ibero-America. Now, BNDES will serve as the foundation for the unification of South America. According to reports published by the newspaper *Folha de São Paulo*, BNDES would have a 20% holding in the CAF. Until now, CAF has been the leading credit agency for infrastructure in the region. To accomplish this, BNDES will inject some \$400 million into CAF. There is also a plan in the works to merge the CAF with the Rio de la Plata Investment Fund (Fonplata).

The objective is to plant the seed of what could grow into a South American Development Fund, whose goal would be the financing of IIRSA's 123 projects, with a budget of more than \$40 billion.

The unification of regional credit agencies is being proposed, in parallel to negotiations between Brazil and Argentina for the creation of a common currency in the context of the consolidation of Mercosur. The matter was raised anew by authorities from both countries, during an early May visit to Brasilia of Argentine Deputy Foreign Minister Martín Redrado. What has already been decided concretely is the creation of a Monetary Institute within Mercosur, which would be charged with studying the various means of achieving monetary unity.

The problem here is clearly that both Brazil and Argentina are conceiving of this monetary unity within the context of the brutal austerity policies enforced by the IMF; this is the Achilles' heel of the entire economic integration effort. Specifically, if that monetary unity is conceived of as a simple combination of the international reserves of the two countries, to try jointly to defend themselves from international speculative attacks against their currencies, the proposal will be a smashing failure. It will only work if that unity is designed to strengthen them in order to impose the necessary monetary inconvertibility.

South American Defense and Security

In parallel to the efforts for the physical economic integration of South America, Brazil is also diplomatically pursuing a security and defense agreement for South America, while keeping TIAR (the 1947 Rio Treaty) alive and functioning. For the first time ever, South America's defense ministers met on April 23, during the Latin American Defense Fair. One of the most important proposals they discussed, would standardize military and security equipment: according to Brazilian Defense Minister José Viegas Filho, a kind of "joint venture among the industries of the

region, to enjoy an economy of scale."

Minister Viegas wrote an article in the May 2 *O Globo*, which stressed that this unprecedented meeting "reflected the fact that our region has already reached sufficient maturity to achieve its own political and strategic identity. Today, we have the clear perspective that the problems we face do not separate us, but unite us. The peoples of this region, from the common citizen to the leading figures, can work peacefully, knowing that wars among our countries are a thing of the past. Common problems, against which we are united, are the fight for economic and social development, and for the protection of our territories and our institutions against the activities of multinational organized crime."

"This new perspective of unity," Viegas continued, "allows us to think of our Armed Forces as sister organizations in solidarity. It allows us to think of common tasks, of common goals, and of a progressive broadening of our common efforts and shared activities. Today there exists, among the ministers of defense and among the armed forces of South America, an atmosphere of flourishing friendship and growing confidence."

FDR Sought Brazil's Industrialization

by Cynthia R. Rush

In his accompanying article, *EIR*'s Lorenzo Carrasco reports that Brazilian President Luiz Inácio Lula da Silva's efforts to make the National Economic and Social Development Bank (BNDES) function as a real development bank, has a precedent in Brazilian history. In 1952, during his second term in office, nationalist President Getulio Vargas set up the precursor to BNDES, the National Economic Development Bank (BNDE), for the purpose of financing Brazil's industrial and agricultural development.

Until the Presidency of Fernando Henrique Cardoso in the 1990s, who forced BNDES to oversee the International Monetary Fund (IMF)-dictated privatization of state-owned companies, BNDES largely played the role that Vargas envisioned.

It is notable that in September 1942, during Vargas' first term in office, a proposal for national banking also came out of the technical mission sent to Brazil as part of Franklin Delano Roosevelt's Good Neighbor Policy, and charged with surveying every aspect of that country's economy, labor force, and natural resources, to determine how its rapid industrialization could be most efficiently achieved. The 12-person commission, led by FDR's close friend and collaborator Morris Llewellyn Cooke, former head of the Rural Electrification



Under Franklin D. Roosevelt's Good Neighbor Policy, a commission sent to Brazil in 1942, headed by Morris Llewellyn Cooke, proposed a national banking policy to foster Brazil's industrial development.

Administration, was one of several such missions sent to a number of Ibero-American countries, reflecting the Good Neighbor Policy's intention of reviving the foreign policy thrust of the giants of the American System—John Quincy Adams, Henry Carey, and James Blaine—which had been trampled on by previous administrations.

The cornerstone of that policy was respect for the sovereignty of each nation in the hemisphere, and recognition that it was in the interest, and to the benefit of the United States, to have economically prosperous and constantly developing neighbors.

The chief of staff of Cooke's team was Corwin Edwards, former chairman of the Policy Board at the Justice Department's Anti-Trust Division, and former Assistant Chief Economist and Economic Advisor at the Federal Trade Commission. *EIR*'s Rio de Janeiro bureau reports that it was Edwards who proposed that Brazil's public sector participate in investment through the creation of a state bank, to be jointly owned by the Federal government and the states. Edwards' proposal was favorably discussed by State Department officials close to Undersecretary of State Sumner Welles, and his key politi-

cal advisor Laurence Duggan.

At the end of World War II, Edwards would go on to work in Japan, as head of the economics team under Gen. Douglas MacArthur, directed to rebuild the Japanese economy.

Always Allies

Getulio Vargas' first meeting with FDR in 1936 launched several years of close cooperation and friendship between the two. They discussed Brazil's hopes for industrial development and its contribution to Western Hemisphere defense. It was during the Roosevelt Administration that the U.S. Export-Import Bank provided funding for construction of Brazil's vast Volta Redonda steel complex, the jewel of Vargas' national industrialization plan. FDR envisioned a key postwar role for Brazil, and told Vargas that, at war's end, he wanted the Brazilian President to sit "at the peace table" with him.

Cooke, who was also an expert in the workings of the Tennessee Valley Authority (TVA), produced a lengthy two-volume report, later abridged for publication in the United States, entitled *Brazil on the March: a Study in International Cooperation*. That work, also admired inside Brazil by such American System advocates as Roberto Simonsen, stands in stunning contrast to the IMF's insane policy focus today, to ensure that "no Japans" develop "south of the border." Emphatically, that means Brazil.

Simonsen's political faction endorsed the Cooke mission's finding, that a dirigist approach to Brazilian development was needed.

With great optimism, Cooke dedicated *Brazil on the March* to "the friendly people of Brazil. May the policies and plans here discussed bear plentiful fruit to satisfy human wants. In the forthcoming industrialization, may every lovely facet of Brazilian life be protected." It was Cooke's desire that *Brazil on the March* would help the "non-technical American reader," to understand "those portions of the mission's findings which throw light on the development of present-day Brazil, a nation girding itself for a far-flung industrialization in which our people's understanding of the problem may play an important role."

The jacket of *Brazil on the March* underscored that the Good Neighbor Policy shows that "cooperation does pay off in hemispheric solidarity, rather than rivalry for empire. For Brazil is on the march to greatness, and the United States is helping to make her dream of industrialization come true."

There's no question that Cooke saw his work in Brazil as something to be replicated hemisphere-wide. Upon completion of the mission's work, he wrote a 50-page memorandum, entitled "Promotion of the Development of the Brazilian Economy as a Pattern for Hemispheric Economic Relations—the Long View." In an upcoming article, *EIR* will present an in-depth picture of FDR's Good Neighbor Policy for Ibero-America, including its ramifications internationally.