How Brazil has coped with deteriorating terms of trade

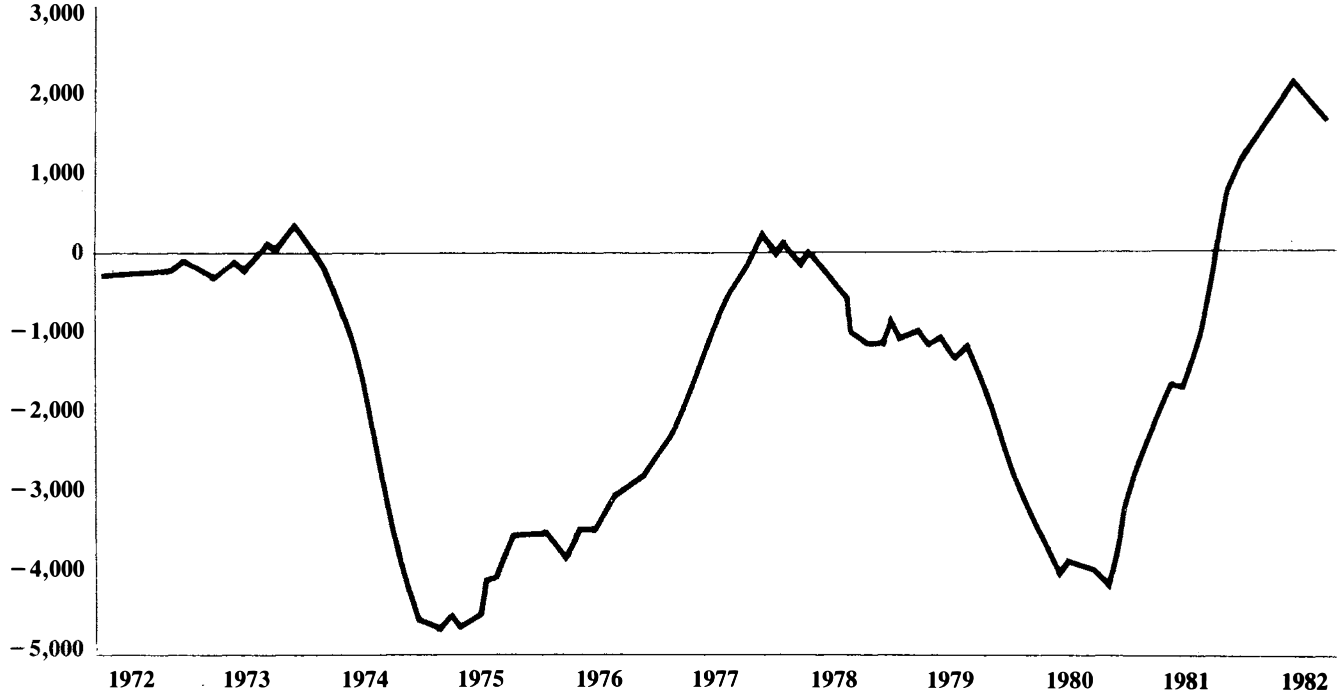
by Uwe Parpart, Contributing Editor

"The more we export, the less we earn from it," said a Brazilian Planning Ministry official, pointing to a chart showing the steady geometric rise of Brazilian exports in physical terms, against the wild fluctuations of the country's cash earnings. "Sometimes it's like playing soccer with a referee who's been bought by the other side."

Under any economic circumstances in which Brazil might obtain production costs plus a reasonable profit for its exports, which have more than doubled in physical terms since 1976, the economy would enjoy a permanent economic boom. If Brazil could make back more than its production costs on exports—as Brazilian planners emphasize—even the country's $80 billion external debt would represent only a drag, not an insurmountable burden, in its external finances.

Yet the combination of doubled oil prices and collapsed commodity prices, plus doubled interest rates, since 1979 have thrown the Brazilian economy into the first deep recession in two decades, and made it impossible for Brazil to meet its external debt service requirements, at least under the borrowing schedule mutually agreed to between Brazil and its creditors in the middle of this year. Rather than borrowing $4 billion in the last four months of this year, the country will

Figure 1
Brazil's balance of trade over past 12 months
(millions of U.S. dollars)



Source: Planning Ministry of Brazil

have to obtain about $6 billion to balance its books, according to internal Brazilian estimates; the country's short-term borrowing has risen by $8 billion in the last two years in violation of the longstanding Brazilian policy to accumulate nothing of shorter maturity than eight years. Whether Brazil's bankers, who have already penalized Brazil's heavy borrowing with a 2.25 percent spread above their own Eurodollar market cost of funds, will cough up the required sum this year is a less interesting question than what they will do, as the deterioration of Brazil's export earnings continues, in the first quarter of next year.

Figure 1 shows Brazil's trade balance since 1972; the sharp rise in the trade surplus during the beginning of 1982 has turned into bare balance since then, and a projected $3 billion trade surplus for the year will not break $1 billion.

Figure 2 shows why this is the case; although the physical volume of Brazil's exports will rise by 10 percent this year, an extraordinary accomplishment at a time when physical volume of world trade is declining, and a reflection of the success of Brazil's industry, cash earnings will fall. Figure 2 shows the terms of trade in terms of import and export prices, with 1979 as a base year. The right-hand table shows the consequent change in the country's terms of trade, which have deteriorated by a staggering 38.5 percent over three years. That is to say, Brazil must ship 38.5 percent more goods in physical terms to earn the same amount of foreign exchange compared to 1979.

The 38.5 percent deterioration of terms of trade does not, of course, reflect the additional impact of higher interest costs, which tripled between 1979 and 1982 (and have since fallen to a level roughly double the 1979 level). The impact of the higher interest rates, added to the deterioration of the country's terms of trade, brings the level of damage to Brazil's overall payments position to a 50 percent deterioration, if interest costs were treated as an implicit import cost.

Figure 3 shows Brazil's imports and exports for January to June of 1982, both in comparison to the previous year's equivalent semester. Total exports fell by 1.4 percent in quantity, but by 8.5 percent in value, the largest component of which is due to the fall in semi-manufactures. Imports fell by 14.5 percent in quantity terms; under the rigid import controls introduced in September, the fall during the second half of 1982 versus the second half of 1981 is likely to be much steeper.

Figure 4, showing the behavior of exports by region, augur's badly for Brazil's ability to continue its remarkable export success in a depressed world economy. The regions showing the steepest fall in exports, the rest of Ibero-America and the East bloc, are those who have already been through a credit squeeze. Brazil's exports to the industrial nations, however, continued to rise, despite the decline in the industrial nations' economies. As the depression in the advanced-sector nations worsens, it is unlikely that exports might maintain their existing level, let alone increase.

NSIPS/Dennis Small

EIR *Contributing Editor Uwe Parpart (c) at the Carajás iron mine with a project supervisor for CVRD, Alceu Mendes Santos (l), and the press secretary of the Brazilian Planning Ministry, Luiz Mendonça (r).*

The collapse of Brazil's terms of trade encapsulated in the above statistics is the unique source of the country's present economic decline. The Secretary-General of Brazil's Planning Ministry, Sr. José Augusto Arantes Savasini, estimated in a study released Sept. 8 that the decline in terms of trade since 1979 has cost Brazil $18.4 billion, or about 8 percent of its current Gross National Product, for each year since 1979. Since the level of imports to a large extent determines the growth rate of the country, the Planning Ministry argues, restrictions in imports resulting from inferior terms of trade pushed the Brazilian growth rate into negative numbers. Industrial production has, indeed, fallen by 8.7 percent in the past year, and by 2.8 percent in the past seven months.

Brazil's planners may well reflect upon the ironies of the Bretton Woods system, which, by overvaluing the U.S. dol-

Figure 2

Brazil's exports and imports

(percentage change between
1981 and 1982—January to June)

	Value	Price	Quantity
Exports	− 8.5	− 7.2	− 1.4
Raw materials	− 8.7	− 6.7	− 2.1
Semi-manufactured goods	−30.0	−16.6	−16.1
Manufactured goods	− 4.8	− 5.8	+ 1.0
Imports	−13.4	− 1.0	−14.5

Source: Planning Ministry of Brazil

Figure 3
Brazil's terms of trade

Year	Price indices*		Terms of trade	
	exports	imports	annual	cumulative
1979	1.000	1.000	—	—
1980	1.078	1.322	0.8154	0.8154
1981	0.922	1.123	0.8210	0.6694
1982(**)	0.928	1.010	0.9188	0.6150

*Base: previous year
**Until first half of 1982, compared to first half of 1981.
Source: Planning Ministry of Brazil

lar, permitted the United States to live as a rentier at the rest of the world's expense. As *EIR* showed in a Sept. 16 economic survey of West Germany, Europe's most powerful industrial nation has been the principal victim of artifically low terms of trade, which prevented the West Germans from earning sufficient profit from their export industries to maintain the level of investment required to expand exports. Since 1945 the cycle of world trade has looked like this: the United States abdicated its role as capital-goods exporter, taking the British into partnership as rentier financiers; under unfavorable terms of trade West Germany and Japan exported capital goods, including large net exports to the developing sector; the developing sector produced manufactures for sale to the industrial nations. The latter replaced, at lower cost, the older industries of the United States and England and, to a certain extent, other industrial nations. In the case of the Japan-South Korea symbiosis, Japan's sponsorship of the South Korean economic miracle worked to the advantage of both. For most other industrial and developing countries this has not been the case; the accumulation of debt service, higher oil prices, and repeated currency devaluations exacted exports from the developing sector in a way that distorted, rather than advanced, the latter's industrial growth. The fact that Brazil, until 1981, was able to maintain the spectacular growth rates it registered is a testament to the ingenuity and dedication of its managers, who managed to spite the most unfavorable conditions for development.

Figure 4
Brazil's exports by area
(January to June)

	Millions U.S. dollars		Percent variation
	1981	1982	
Total exports	10,860	9,934	−8.5
U.S.A.	1,810	1,829	1.0
European community	2,609	2,736	4.9
Japan	580	649	11.9
Latin American Association for Integration and Development	2,010	1,330	−33.8
Oil-exporting countries	685	564	−17.7
U.S.S.R. and Poland	711	421	−40.8
Other	2,455	2,405	−2.0

Source: Planning Ministry of Brazil

Now Brazil is prepared to offer—at *half* the 1979 cost—an array of exports which range from basic products and consumer goods to installed steel mills, light aircraft, armed personnel carriers, and machine tools. Even at less than cost-of-production, there are insufficient takers. It is not so much that the Brazilians mind being cheated by an unfair international trading system; they have been cheated before and stayed ahead of the game. The problem, as Mexican President López Portillo told the United Nations Oct. 1, is that the developing countries "are quickly running out of playing chips."

The obverse side of Brazil's export dilemma is the American trade deficit which, at $40 billion for the year, explains why the American economy has not disintegrated after a decade of under-investment. American "invisibles," principally interest and repatriated profits, cover the trade deficit which, under normal standards, would have collapsed the dollar back to October 1979 levels. For the first time in postwar history, American imports—especially manufactured goods and capital goods—have risen throughout the course of a demand-collapsing recession. This indicates the extent to which American industry is no longer capable of producing America's internal requirements, even under conditions of collapsed demand; the rentier-nation has grown too sclerotic to produce for itself.

Whether, and how, the American decline might be reversible is another matter. For the Brazilians, it creates an infuriating impasse. Brazil has suffered from the economic decline of the United States, in a manner parallel to West Germany's long-term problems, postponing internal improvements, educational expenditures, and other prerequisites for development in order to meet its export quota. But the United States' last industrial rachet-decline of 10 percent output lost in the past year has brought commodity prices down to the point at which Brazil can no longer even make such sacrifices successfully, and the next stage of American decline will wipe out even the margin of physical increase in exports.

That is why Brazilian planners focus all their attention on the United States. With some rancor, they would continue to play the rigged game, were the United States economy to recover, and allow them to continue playing with new chips. The absence of U.S. recovery prospects leaves them with only one alternative: a fundamental reorientation of their trade towards Ibero-America, and a change in the mix of their exports towards capital goods for exports and for basic industries.