

Report from Rio By Silvia Palacios

Between the IMF and Lima

While straddling the fence on adopting a posture similar to García's, President Sarney is providing Peru with economic aid.

At the beginning of 1985, then President-elect of Peru Alan García made a highly fruitful tour of Brazil, meeting with important political and business leaders, including his colleague, then President-elect of Brazil Tancredo Neves, whom he convinced of the legitimacy of the measures which he was later to announce during his inaugural address in Peru.

As this correspondent was able to learn, Tancredo Neves knew ahead of time that Alan García would be imposing a limit on payments of interest on Peru's onerous foreign debt, and considered them "courageous." Tancredo declared that if, *for the moment*, Brazil did not follow suit, this did not mean that Brazil would back the economic sanctions against Peru that he anticipated would be imposed by the creditor banks. Tancredo told García that Brazil would make economic support available. Although Tancredo Neves died shortly thereafter, his successor, José Sarney, endorsed that commitment.

From that time on, Brazil's economic strategy has been to maintain a dramatic balance between striking a pact with the IMF and taking a position similar to that assumed by the Peruvian President. For now straddling the middle, Sarney has insisted on the legitimate goal of a minimum 6% growth rate annually.

The creditors and their representatives think differently. U.S. Secretary of State Shultz is pressuring Brazil to steer clear of what has already been dubbed the "Peruvian path." His

hope is that Brazil will follow Argentina, and adopt its own version of Alfonsín's "austral program." This, in fact, was the content of the lengthy discussions that U.S. Federal Reserve chief Paul Volcker held with Brazilian Finance Minister Dilson Funaro during September, a policy ratified at the annual meeting of the IMF in South Korea.

When President José Sarney gave the opening speech at the General Assembly of the United Nations, in which he stood up for development and against the recessive programs of the IMF, Shultz totally ignored his call and sent Sarney a so-called letter of "congratulations" for his speech which emphasized that "prosperity sometimes only follows a purge."

Henry Kissinger's Marshall Plan for the developing sector was the essence of what U.S. Treasury Secretary James Baker had to offer at the IMF meeting in Seoul. In his presentation, Baker made clear that new money would only be made available to those countries which adopted severe austerity measures. The Brazilian delegation to the meeting described the Baker proposal as laughable, given that Brazil has scarcely been given \$1 billion in exchange for the \$12 billion which it annually pays in interest on the debt. Brazil also described the praise by IMF chief executive J. de Larosière for Argentina's "austral plan" as an unacceptable message for Brazil.

The agreement between Tancredo Neves and Alan García, ratified by

President José Sarney, has taken on a life of its own, and there now exists a group within the Brazilian government which urges establishment of some kind of limit on debt servicing à la Peru, while simultaneously seeking Brazil's economic integration with the rest of the continent in confronting the IMF.

On his tour of Brazil, García also began key trade negotiations. The agreements made involve the import-export group of São Paulo, Cotia Trading. Consolidation of the agreement was made public on Sept. 12, and consist of the following: Based on the experience of the Cotia group with Nigeria—it currently manages 50% of Nigeria's foreign trade—an agreement for compensated trade with Peru was set up with Brazil, with the objective of turning these agreements into a model of South-South cooperation and thereby meeting the inter-regional needs of these countries.

The agreement totals \$600 million annually. The contract involves the exchange of Peruvian minerals and petroleum for Brazil capital goods, food, and spare parts. Of \$300 million worth of Peruvian imports, 90% will remain in Brazil and the rest will be shipped to third countries. The trade deal will be financially handled through a blocked account at the Banco do Brasil.

According to press reports, an authorized source from the foreign relations ministry described Brazil's agreement with Peru as "historic." The same source added that in the context of Alan García's decision to limit his country's debt payments, "The agreement [with Brazil] emerged as an important alternative for supplying Peruvian needs," in the not unlikely event of an economic blockade against Peru by creditors, with the blessings of Shultz and Henry Kissinger.