Will Ibero-America's economies survive Bush's Gulf war?

by Dennis Small

Will the nations of Ibero-America use their energy and food resources for their own survival in the coming months, or will they continue to export them to satisfy the requirements of Bush's war drive in the Middle East?

Will they alter their economic and monetary strategies to protect their domestic economies from the international storm, or will they maintain the liberal, free market policies that their creditors have dictated, and continue to pay their foreign debt no matter what the cost?

These are the two central issues which are facing—and politically dividing—every nation of Ibero-America today, as the realization sets in that the world is in for a long war, and that it is a war whose purpose is to assure that no Third World nation achieves sovereign economic development.

"External shock," "crisis," "hoarding," "emergency measures," "extremely negative consequences"—these are the catch-words now heard constantly from Ibero-American government officials, opposition politicians, and the media, in response to the impact that the Gulf war is having on the area's economies.

Who gets the oil?

There is nothing more important to Venezuela than supplying oil to the United States, Venezuelan Energy Minister Celestino Armas told visiting U.S. Commerce Secretary Robert Mosbacher, in Caracas on Jan. 15. Armas confirmed that his government intends to launch "an ambitious project to expand its oil industry" in order to increase its oil exports to the U.S. by about a million barrels per day (bpd) over the next year. Mosbacher was in Caracas—on the day President Bush launched his war against Iraq—to offer Ibero-American nations $15 billion in loans if they subject their economies to the demands of the U.S. war drive, especially on the energy front. A week later, Adm. James Watkins, the U.S. Secretary of Energy, traveled to Mexico with the same goal: ensuring "hemispheric energy security."

"Not a single Ibero-American soldier, not a drop of Ibero-American oil for the imperialist war against the Arab people," countered a leaflet issued in mid-January by different nationalist groupings across the continent, and which is circulating in the hundreds of thousands of copies. The leaflet, which was quoted extensively in Panama's only opposition daily, *El Periodico*, under the headline "Bush's war is against the Third World," called for using the continent's resources for its own survival and development.

But today's reality is that most of Ibero-America's oil production does *not* go to meet its own requirements. As **Table 1** indicates, Ibero-America as a whole gets only 25% of its oil imports from Ibero-American producers—the remaining 75%, or 880,000 bpd, comes from other areas of the world, especially the Persian Gulf. Brazil, the area's largest importer by far, is in relatively the worst shape: Imports make up about half of its national consumption of about 1.2 million bpd, and only 5% of these come from within the continent. (All of the figures used in this report are *pre-Gulf war* estimates, based on CEPAL and national statistics. In many cases, the Middle East war has already brought about significant changes in these numbers.)

TABLE 1
Ibero-America's oil imports
(thousands bpd)

Country	Total	From Ibero-America	From rest of world	From Ibero-America (% of total)
Brazil	600	30	570	5.0%
Chile	150	70	80	46.7%
Central America	130	100	30	76.9%
Others	300	100	200	33.3%
Total	**1,180**	**300**	**880**	**25.4%**

Sources: United Nations Economic Commission for Latin America and the Caribbean; *EIR* estimates.

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Table 2 shows that there is no reason at all for this skewed pattern, other than the convenience and profitability of the oil multinationals in maintaining Ibero-America's dependence and vulnerability. Ibero-America as a whole exports over 3.7 million bpd of oil, only 8% of which is shipped to other Ibero-American countries. The remaining 92%, or about 3.4 million bpd, is sold elsewhere. Thus, Ibero-America as a whole exports more than three times as much oil as it imports—meaning it could easily cover the *entire* 1.18 million bpd import requirement with less than one-third of its exports, as **Figure 1** shows. The 880,000 bpd which Ibero-America now buys elsewhere, could be provided by the area's own exporters, by redirecting only one-quarter of what they now sell outside the region.

Why doesn't this occur? Why does Ibero-America tolerate such terrible vulnerability of its main economies? For two reasons. First, governments of the main oil-exporting nations, Mexico and Venezuela, have placed top priority on using their oil, not for development, but to earn foreign exchange with which to pay their foreign debt. And second, because the Bush administration has demanded that Ibero-America's oil exports must go preferentially to the U.S. strategic reserve—i.e., to the war machine—and the governments of Mexico and Venezuela have agreed.

Figure 2 shows the way in which Brazil's dependence on non-Ibero-American oil outweighs that of all other Ibero-American countries combined. Of the 880,000 bpd of the continent's non-Ibero-American imports, Brazil accounts for about 65%.

And where does Brazil get its imported oil from? Or, rather, where did it get it before the outbreak of Bush's war? **Figure 3** shows that 72% of its 600,000 bpd of imports came from Iraq, Kuwait, Saudi Arabia, and Iran—all Persian Gulf countries now caught up in the maelstrom of war. It is true that, over the past few months, Brazil has taken steps to cover for the suspension of Iraqi and Kuwaiti shipments: Purchases from Iran have risen from 100,000 to 150,000 bpd; new suppliers have been contacted; and domestic consumption is being reduced by rationing. But what will Brazil do if the entire Persian Gulf goes up in smoke over the weeks and months ahead, as it very well might? Can Brazil survive without those 430,000 bpd in imports? Or, even if some of that oil continues to arrive, can the economy withstand a $50, $75, or $100 per barrel oil price?

So cataclysmic are these prospects, that even the slow-witted administration of Brazil's President Fernando Collor de Mello is beginning to wake up to the gravity of the crisis. For example, Antonio Barboza, Brazil's ambassador to ALADI, an Ibero-American regional economic organization, has called for an emergency meeting of that body, because "the Gulf crisis leaves the region and its economies in suspense, and could provoke extremely negative effects on their trade balance, on internal prices, on public finances, and on the negotiations on the foreign debt." Ambassador Barboza went on to discuss Brazil's oil problem: "It's hard to believe," he confessed, "that Latin America, with at least two big producers, with 13% of reserves and 12% of world production, buys only 20% of its imports in the region." He went on to request an emergency ALADI meeting to take up the issue of regional self-sufficiency.

The irony of this neo-colonial trade pattern is that there is near perfect complementarity of the Ibero-American economies. The big oil exporters (Venezuela and Mexico) need to import food, while the biggest oil importer (Brazil) is in a position, along with Argentina, to be a major food exporter.

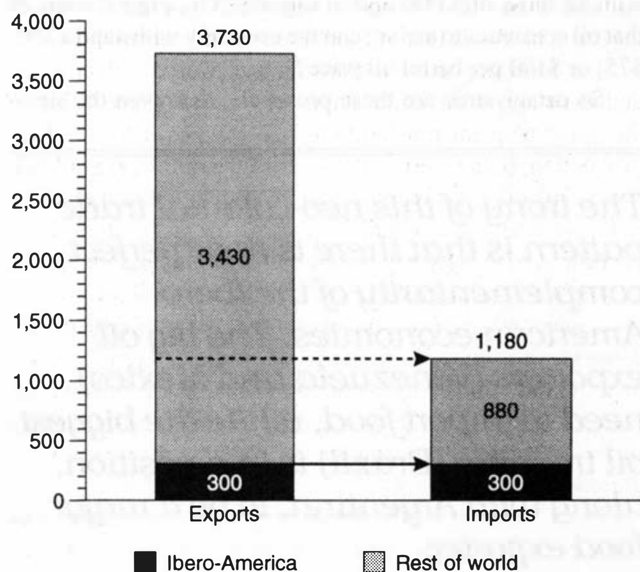
In Mexico, there is also a growing awareness that oil and its uses are central to the Gulf war—although there are sharp disagreements over whether to use it for domestic development or to feed the U.S. strategic reserve. Reflecting a "safe consensus," all of that country's political parties—from the ruling PRI, to the opposition PRD, PAN, PARM, PPS, and others—issued a joint "manifesto" Jan. 22 calling for a national demonstration to "confirm the national consensus to maintain our country apart from the war confrontation and what lies behind it: the strategic dispute for world control over oil. Mexican export oil must be used to mitigate the effects of the conflict in the poor countries, not only for the powerful countries, and never for war purposes."

TABLE 2
Ibero-America's oil exports
(thousands bpd)

Country	Total	To Ibero-America	To rest of world	To Ibero-America (% of total)
Venezuela	1,800	160	1,640	8.9%
Mexico	1,400	80	1,320	5.7%
Colombia	250	20	230	8.0%
Ecuador	180	25	155	13.9%
Others	100	15	85	15.0%
Total	**3,730**	**300**	**3,430**	**8.0%**

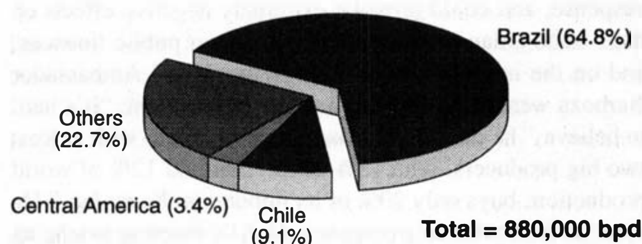
Sources: United Nations Economic Commission for Latin America and the Caribbean; *EIR* estimates.

FIGURE 1
Ibero-American oil trade, by source and destination
(thousands of bpd)



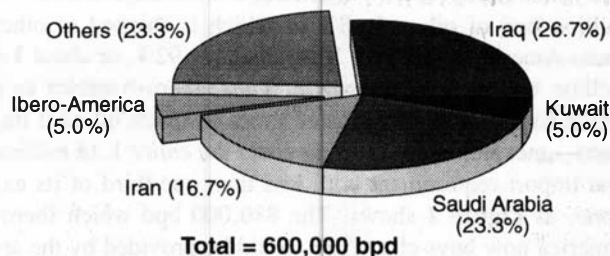
Source: United Nations Economic Commission for Latin America and the Caribbean; *EIR* estimates.

FIGURE 2
Ibero-America's oil imports from outside its area



Source: United Nations Economic Commission for Latin America and the Caribbean; *EIR* estimates.

FIGURE 3
Brazil's oil imports, by source



Source: United Nations Economic Commission for Latin America and the Caribbean; *EIR* estimates.

Debt blowout imminent

Venezuelan President Carlos Andrés Pérez has publicly recognized Brazil's plight and offered to discuss ways to increase intraregional oil trade. But he has steadfastly insisted that Venezuela, as an oil exporter, has no such problems, that it can weather the storm, and that it is in no need of altering either its own economic gameplan, or its fierce allegiance to Bush's war effort. "There is absolutely nothing to fear regarding supplies, or market paralysis in any part of the world," the Venezuelan head of state told the press.

Mexican President Carlos Salinas de Gortari is also putting up a good front, stating that his administration will proceed with the same Bush-dictated free market policies set in motion before the crisis: sharp reduction in the government budget; privatization of numerous state sector companies; overall economic liberalization and opening to foreign capital; and, above all, strict payment of the foreign debt.

Planning and Budget Secretary Ernesto Zedillo Ponce de León, speaking in direct representation of the Mexican President on Jan. 20, insisted, according to the daily *Excélsior,* that "the economic strategy of the Salinas government will not change, and due priority will be given to cleaning up government finances, to discipline in public spending, and especially to combatting inflation." Patting himself on the back, the government official stated that this was because "the economic strategy for 1991, which was drawn up prudently, anticipated the possible occurrence of particularly adverse external circumstances," and that therefore "the conditions of uncertainty that prevail in the world economy will not inhibit" Mexico.

Fortunately, not all political layers in Ibero-America are so blind. For example, the Mexican daily *El Universal* reported on Jan. 14, that "Mexico's economic recovery program is in grave danger," referring to the multiple damage which the economy will suffer as a result of inflation, the loss of export markets and tourist income, rising interest rates, and the drying up of investment capital.

A particularly insightful editorial on this subject appeared in the Colombian daily *El Espectador* on Jan. 21, which took note of the broader policy implications of the Gulf crisis: "We are dealing with a long and cruel war, even if there are those who hold to contrary illusions. . . . We think that the national government would do well to organize a working group to study the matter, and then prepare for what should be done with regard to supplying the country, beyond simply the fuel question. . . . The intervention of the state is going

TABLE 3
Losses and gains due to increases in the price of oil and interest rates
(millions $ per year)

Country	Oil ($1/barrel increase)	Interest rate (1 point increase)
Argentina	0	- 600
Brazil	–220	–1,150
Mexico	+510	–1,000
Venezuela	+655	- 350
Others	–210	–1,200
Total	**+735**	**–4,300**

Sources: United Nations Economic Commission for Latin America and the Caribbean; World Bank; *EIR* estimates.

to be more, and not less, necessary, as free markets disappear or weaken everywhere, as rationing and prohibitions appear, which will be inevitable if the conflict spreads and becomes worse. That is, when a war economy comes."

There are also those in Brazil who believe the crisis demands a total change in government policy from the current liberal, pro-Bush orientation. For example, on Jan. 11, Congressman Gastone Righi, a leader of the pro-government PTB party, predicted that the Middle East conflict could force the adoption of "other long-term alternatives that supersede the economic recession," such as those adopted in the 1940s by Brazilian President Getulio Vargas, which began the process of industrializing the country.

The fact of the matter is that the biggest economic impact of the Gulf war on the Ibero-American economies won't even come from the direct effects of the oil crisis.

Of far greater magnitude will be the indirect effects triggered by the world trade, financial, and debt crises resulting from the conflict. Global depression, trade collapse, and skyrocketing interest rates will have a devastating impact on Ibero-America.

Table 3 tells part of the story. Take the case of Brazil. Every $1 rise in the per barrel price of oil means a steep $220 million loss for Brazil, because of the additional cost of oil imports. But a mere one point rise in international interest rates means that Brazil's annual debt service rises by about $1.15 billion—five times as much as the oil effect!

An oil exporter like Mexico fares little better. It has a monetary gain of $510 million from a $1 per barrel oil price increase (although the Mexican government has made it clear that it will use such increased revenues *only* for further debt payments, and not for domestic development projects), but it would lose this amount *twice over* by a one point interest rate rise. And when you consider Ibero-America as a whole, the net oil effect, taking winners and losers combined, is a $735 million windfall for every $1 rise in oil prices, compared to over $4 billion lost to extra debt service from a one point rise in interest rates.

Food panic

One of the areas in which the combined effect of the oil and debt crises will be most severely felt—in fact, it already is hitting hard—is that of food imports and consumption.

Big food-importing nations such as Mexico, Venezuela, and Peru are in the early stages of national panic. First of all, oil-dependent transportation is a major factor in food production, both in terms of cost as well as physical availability. So the oil crisis will have an immediate multiplier effect in the food sector. Second, the Ibero-American nations have become increasingly dependent on U.S. food exports, as the decade's financial crisis decimated domestic food production, and now U.S. wartime measures are beginning to invalidate existing contracts, making U.S. military needs first priority. And third, as foreign exchange is channeled increasingly into debt service by the submissive government of Ibero-America, less and less is available for urgently required food imports.

In response to this developing situation, there was hoarding and panic buying in Venezuela in the first week after the Gulf war started, which forced Venezuelan authorities to go on television to try to reassure the population that "panic buying has caused momentary fictitious shortages," but that "there is no cause for alarm."

There has also been hoarding and panic buying in Peru, the Dominican Republic, and elsewhere.

In Mexico, there is also grave concern. According to Jan. 15 statements by Jesús González Gortazar, the head of the National Small Property Confederation, Mexico only has enough food reserves "to cover necessities for 45 days." The well-known political leader added, "At times of world tension, food reserves play a strategic role in every country in the world." Mexican Agriculture Ministry sources, according to the daily *El Financiero,* put the country's food reserves at even less: only 30 days.

Ibero-America's trading pattern with food is painfully similar to oil. The area produces enough food globally to be self-sufficient, but it exports its surplus mainly outside the region, rather than to other Ibero-American countries. Thus, if there were to be a forced cutoff of extraregional food imports, which could occur for financial reasons or for lack of suppliers, or for simple reasons of political and economic warfare against the region, Ibero-America would be in trouble. **Figure 4,** based on 1985 data, summarizes the picture in a way which is also applicable today: In that year, Ibero-America exported $21.3 billion in food, but only 9% of that, or $1.8 billion, went to other Ibero-American countries. This meant the continent's food importers had to buy an additional $5.5 billion in food outside the region. As with oil, if a mere 25% of the food exports sold outside the region ($19.5 million) were redirected to the hungry Ibero-

American market, this $5.5 billion requisite could be met easily.

The final, bitter irony of this neo-colonial trade pattern is that there is near-perfect complementarity of the Ibero-American economies. That is, the big oil exporters (Venezuela and Mexico) need to import food, while the biggest oil importer (Brazil) is in a position, along with Argentina, to be a major food exporter in return.

Ibero-American integration

The solution to the current life-and-death crisis facing Ibero-America is for the nations of the continent to establish an Ibero-American Common Market, which will give priority to such intraregional trade, in order to be self-sufficient, and which will also unite the nations of the continent into a debtors' cartel capable of imposing a debt renegotiation on their creditors which will stop the current free market looting of their economies.

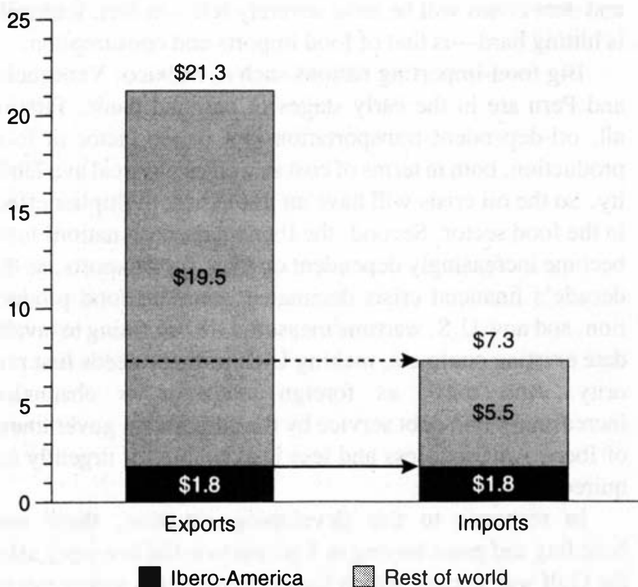
Integration in order to implement such survival measures is also the basis for then proceeding to industrialize and develop the continent with advanced technologies.

Will such steps be taken in response to the Gulf war crisis? Or will the existing governments be allowed to continue to hand over Ibero-America's oil, food, and population to Bush's war machine? That is the issue that has been placed on Ibero-America's agenda for early 1991.

FIGURE 4

Ibero-American food trade in 1985, by source and destination

(billions $)



Source: *La integración iberoamericana*, Schiller Institute, 1987

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