EIR Economics

Brazil and Mexico forge a special relationship

by Mark Sonnenblick in New York and Josefina Menéndez in Cancún

The developing world's two biggest debtors have forged a political bond of solidarity which gives them immense power to influence the future shape of the world economy. That is what the creditors of Brazil and Mexico feared would happen when their presidents met in Cancún, Mexico, on April 26-29.

Mexican president Miguel de la Madrid laid the groundwork for the building of a "special relationship" in his welcoming remarks. He evoked Latin America as "our common fatherland" and later told his guest, Brazilian President João Figueiredo, "from the recent conflict in the South Atlantic blossomed an atmosphere of Latin American unity which must not be lost in times of peace." He declared, "The vitality of our peoples makes me certain that we. . . can come together in mutual benefit and to together serve the great causes of Latin America."

De la Madrid sought to raise the Brazilians from mere commercial pragmatism by explaining, "The greatness of Brazil does not lie primordially in its vast geographical spread nor in your enormous development potential, but rather in the great source of wealth which is your people." For three days, the presidents and the top officials of their governments worked to make sure that their populations would not be destroyed by economic policies foisted on them by their creditors and that the population of Central America would not be destroyed by what de la Madrid termed "strategies of extermination."

Mexico and Brazil have turned to barter as a "safety net" against their being drowned in the financial maelstrom. "The most important thing is that the two governments have shown that they have the political will to establish commercial relations of this kind," observed Mexican trade minister Hector Hernández.

Having secured their vital trade needs, Mexico and Brazil will be able to resist creditors' blackmail and use their foreign debts of almost $200 billion as a weapon to force the negotiation of a new growth-oriented international economic system.

Mexico and Brazil are already feeling the effects of the storm. Each has subjected itself to the harsh depressionary conditionalities imposed by the International Monetary Fund (IMF) as a condition for keeping foreign bank doors open. As pointed out by Brazilian president Figueiredo:

> The developing countries cannot carry the greatest weight of the present economic crisis, because they are not the primary responsible for it and because they lack structures and means to overcome it. To subject us to greater sacrifices imposed by the international dislocation brings grave risks, even for those who delude themselves in believing that they are the beneficiaries of existing structures. Equilibrium and austerity may not be obtained to the detriment of economic growth nor with the asphixiation of the productive aparatus, on which the welfare and social happiness of our populations depends.

Moreover, despite all the riot-inducing austerity, foreign banks' doors have slammed in their faces; they are no longer able to obtain financing for their imports nor for their exports to equally debt-ridden trade partners. The barter deals mandated in the final communiqué will permit Brazil to obtain the oil it needs and Mexico to obtain the food and machinery it needs, despite the inconvertibility of their currencies, loss of credit ratings, and their present lack of access to dollar credits.

In 1981 bilateral trade between them totalled $1.4 billion. In 1982 it dropped to $1.1 billion. The leaders agreed to raise 1983 trade back to the 1981 levels, to aim for $2 billion in 1984, and to achieve $10 billion in bilateral trade by the end of the decade. The barter trade—illegal under the rules of the IMF and the General Agreement on Trade and Tariffs (GATT)—will be disguised by a reciprocal credit covenant.

The debt question

On the eve of the summit, Brazil's planning minister Delfim Netto and his crew were still reassuring Washington that the trade scheme is merely a "pragmatic" way of "saving dollars to pay debt" by not having to pay cash for oil imports. However, each such deal diverts more and more goods out of dollar-earning exports into channels which are immune from the hands of the debt collectors.

There was no declaration of a debtors' cartel—in fact both presidents explicitly stated they had no such intentions—yet the continent is beginning to back its way simultaneously into both a debtors' cartel and a common market. Such state-to-state trade deals are proliferating. The new Mexico-Brazil relationship was an "example" for all of Latin America, the Brazilian president declared.

A next step to tie all of these defensive barter deals together into a viable economic system is the creation of an Ibero-American central bank, and a regional currency to facilitate trade. Increasingly, the dollar is becoming the currency good only for despised debt servicing.

Last August, *EIR* founder Lyndon LaRouche suggested the above measures and said he hoped Washington would be jolted into positive action by Ibero-America's refusal to go down the drain along with its unpayable debts. In his April 27 speech, Brazil's Figueiredo warned of the "regression" of global negotiations for a new economic order since the Cancún world summit almost two years ago. In their April 29 "Declaration of Cancún," the two presidents made an urgent call for the resumption of serious negotiations.

Expectations for the formation of "an OPEC of the poor" or joint renegotiation of foreign debts were so great that they had to be laboriously denied in every contact between economic officials and the press.

On April 27, *The Times* of London wrote, "There is much speculation. . . . [they] will discuss a contingency plan during their two days of talks whereby their two countries would join forces into pressing the IMF and the world's banks into accepting their own, more favourable terms for repayment of their vast foreign debts." *The Times* says analysts in both countries think they could insist later this year "on lower interest payments on loans or longer grace periods for their repayment or both. This in turn would lead to huge losses for the international banks. . . ."

Brazil joins Ibero-American cause

Brazil has joined the Ibero-American cause in a way which should be sending shivers down Henry Kissinger's spine. It was a non-stop repudiation not only of the "special relationship" Kissinger signed with Brazil in 1975 but also of the disasters his successors at State are trying to reenact.

President Figueiredo told reporters April 27, "If the United States intervenes in Central America, Brazil will not support it." The anti-communist general blamed the United States for pushing Nicaragua to the Soviets. "If Nicaragua had received aid from the rich countries, especially the United States, two years ago, it would not be in the present situation," he observed. Brazil, he declared, would prevent Surinam from falling into Cuba's lap by giving it the aid withdrawn it by the United States and Holland.

The final communiqué lauded the work of the four "Contadora Group" nations (Mexico, Colombia, Venezuela, and Panama) which have been working for a negotiated solution to the Central American mess. Brazil delivered "its vote of support that it be successful," and promised to work together and possibly join the Contadora Group.

Figueiredo's enthusiastic adherence to Ibero-American solidarity is causing nightmares to many people, including Planning Minister Delfim Netto. Delfim had been assuring the back rooms of Washington and New York that Brazil's "Third Worldist" independent foreign policy was a luxury that could no longer be afforded at times the U.S. government must be used as Brazil's "lender of last resort." Likewise, George Shultz believed Delfim had sold him veto rights over Brazilian foreign relations for 30 pieces of "bridge loans," the short-term loans that kept Brazil out of default until March.

O Estado, the oligarchic São Paulo daily whose geopolitical line is pumped from London's International Institute for Strategic Studies, ran a hysterical front-page story April 29 in which it claimed that President Reagan was "quite disturbed" at Figueiredo's categoric condemnation of his Central American policy. How could Figueiredo again get on the phone to plea for a bridge loan from Reagan or Regan after having done such a foolish thing, complained *O Estado*.

From Teddy Roosevelt to Vernon Walters, London's allies in Washington have repeatedly deployed Portuguese-speaking Brazil as a gendarme for their geopolitical designs on Hispanic America. "Divide and conquer" was the game. Kissinger once induced President Jerry Ford to proclaim the dictum, "Whichever way Brazil leans, there leans Latin America." The Rio daily *O Globo* of April 27 has its reporter telling a Mexican diplomat that Brazil is walking the wall between the Latin American and the U.S. approaches on Central America. The diplomat responds, "If the Brazilians had to fall off the wall, they are now leaning toward our side."

Brazil's strategic commitment to Latin America is a necessary step towards building the level of trust and cooperation needed to bring together the region to defend itself from economic warfare. For the moment, the economic moves will be in the trade area. But, if the international monetary system continues to unravel during the coming months, it is reasonable to expect that Latin America will say goodbye to its $300 billion in debt.