IMF 'integrates' Argentina, Brazil

by Cynthia Rush

On July 27-30, Argentine President Raul Alfonsín, Brazilian President João Sarney, and Uruguay President Julio María Sanguinetti, will meet in Buenos Aires to sign protocols for the integration of Ibero-America's Southern Cone. The meetings are described as a decision to end to decades of geopolitical rivalries, and unite Argentina and Brazil's substantial economic capabilities to stimulate growth. Thus, say the media, this is the first step in the creation of an "Ibero-American common market." "Together, to grow," is the slogan characterizing the deal.

It's a hoax. The protocols to be signed in Buenos Aires have very little to do with the creation of a real common market, or with the monetary and credit reform required to solve the continent's economic and debt crises. These have been outlined by *EIR* founder Lyndon H. LaRouche in his 1982 document, *Operation Juárez,* and will be available in elaborated form in a book to be published in August by the Schiller Institute.

An IMF scheme

The Argentine-Brazilian integration arrangement was cooked up by the International Monetary Fund (IMF), and the architects of Argentina's monetarist *Austral* plan, and Brazil's *Cruzado* plan, to channel anti-IMF sentiment into a bogus program whose sole purpose is to guarantee payment of the foreign debt.

Among other things, the plan is directed against Peruvian President Alan García, who has proven the feasibility of an anti-IMF economic model, and who is an outspoken advocate of the type of continent-wide programmatic unity discussed by LaRouche. In fact, representatives of the international financial community are scrambling right now to put together any number of "integration" schemes to stave off the continental debt crisis, and the nationalist sentiment associated with it.

Argentina's creditors are worried. The "anti-inflationary" Austral plan, introduced in June, 1985, has succeeded in gouging workers' wages by 30-40%, eliminating credit for productive investment through usuriously high interest rates. Now industry is demanding to know what happened to "phase II" of the Austral plan, which was to have brought about an economic recovery, while the labor movement under the leadership of the Peronist-run CGT federation, is mobilized against what it correctly identifies as "international usury."

Rather than let this discontent link up with Alan García's initiatives, the banking community has opted for "integrating" the Austral and Cruzado plans. While the details have yet to be disclosed, the plan almost certainly means finishing the destruction of Argentina's heavy industry begun by Finance Minister Martínez de Hoz, (1976-81) by maintaining the current monetarist credit and wage-gouging policies, encouraging the development of only those industries whose exports can generate income for debt payment. Immediate emphasis is being given to the sale of 2 million tons of Argentine grains to Brazil, the expansion of Argentina's auto-parts industry for export to Brazil, and the creation of binational companies, especially in such "post-industrial" industries as information theory, and in weapons production and biotechnology.

Division of labor?

Argentine Finance Minister Juan V. Sourrouille first met with his Brazilian counterpart, Dílson Funaro, last March to discuss the proposal. But many of the subsequent planning sessions have been shrouded in secrecy.

The protocols that will be signed at the end of this month by Sarney and Alfonsín, will only be a general statement of intent. It will then be left to individual business sectors and government officials to work out the details on tariff reduction—the plan proposes establishing a "unity of tariffs" to facilitate trade—and use of technology for the various sectors mentioned.

But the program's conceptual framework has been provided by Rudiger Dornbusch, the resident economist at the Massachusetts Institute of Technology, who is also one of the key ideologues behind the Austral and Cruzado plans. Dornbusch visited Argentina in late June to analyze the results of the Austral plan. He told the Buenos Aires daily, *Ambito Financiero,* that even with the "success" of the Austral plan, Argentina "is sinking slowly, but it is sinking, and although the water is only at the chest, we can predict what the final outcome will be."

Lamenting the extraordin [illegible] of disinvestment in Argentina over recent years, Dornbusch commented that the only solution is "integration with Brazil." Raúl Alfonsín and João Sarney must use their enormous political prestige to promote this option, he argued. The program could be based on a real division of labor: "Argentina could develop industries that require highly skilled labor. Here your engineers come cheaply, and they're unemployed. In Brazil, there is an advantage in jobs which demand unskilled labor, which is very cheap there. The advantage to integration resides in a better allocation of available resources."

Nor does Dornbusch hide the fact that this is explicitly a program to guarantee payment of Argentina's foreign debt. He enthusiastically explains to *Ambito Financiero* that if Argentina announces a plan of integration with Brazil, and simultaneously adopts a policy of paying its debt service at the rate set for U.S. Treasury bills (4 points below LIBOR plus spreads), then Argentina's debt would be quoted at above the 63% parity at which it is currently quoted in New York. "The price would go up (although less interest would be paid), because the probability of collecting would increase. This type of program would bring capital back into the country and *would allow the country definitely to recover its ability to repay* [emphasis added]."

Industry panicking

One of the pilot projects is in the area of capital goods. The Brazilians would have preferred to buy Argentine food products, especially since the Cruzado plan has produced dramatic shortages of products such as meat and milk. But on paper, Brazil has committed itself to purchasing $600 million worth of Argentine capital goods in 1987, while Argentina will purchase $400 million of Brazilian capital goods.

Israel Mahler, a leader of the Argentine Association of Machine-Tool Producers, has warned: "In negotiations with Brazil, for integration of capital-goods sectors, we should proceed with great caution, so as not to damage the legitimate interests of our national industry. We cannot integrate with Brazil immediately," especially "under conditions of open competition."

Nor are Brazilian capital-goods producers thrilled at the idea of purchasing Argentine capital goods. According to *Istoé* magazine, Brazilian Finance Minister Funaro ordered the negotiations in this area to be carried out in strict secrecy, to reach a "great political understanding," and come up with arguments needed to placate Brazilian producers. "We must have a strong Argentine economy, so that cooperation will produce results, in the long term," Funaro says.

"We want to convince business that we will persist in the policy of economic expansion, so that they will start to invest," says Argentina's undersecretary of political economy, José Luis Machinea.

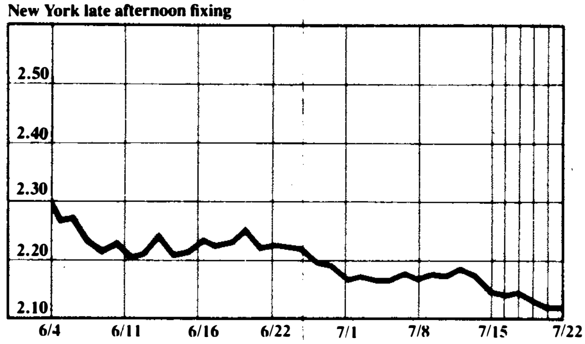
The fear among Argentine business sectors is that under the "unity of tariffs" envisioned by the program, Argentina will be flooded with cheaper Brazilian goods which will destroy national industry. This has already begun to occur in the area of durable goods, where Brazilian appliances sell in Argentina for prices well below those of domestically produced items. If this occurs on a larger scale, "it would mean devastation for us," according to one Argentine durable goods producer.

Oscar Camilión, Argentina's former ambassador to Brazil and former foreign minister, also warns that any immediate and total tariff unity would result in an "explosion," which would place a good part of Argentina's market under the domination of Brazilian goods.

Currency Rates

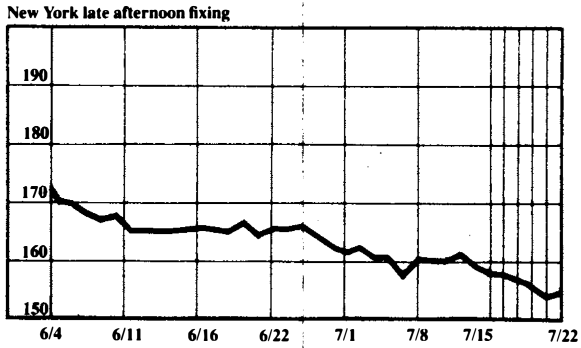
The dollar in deutschemarks

New York late afternoon fixing



The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

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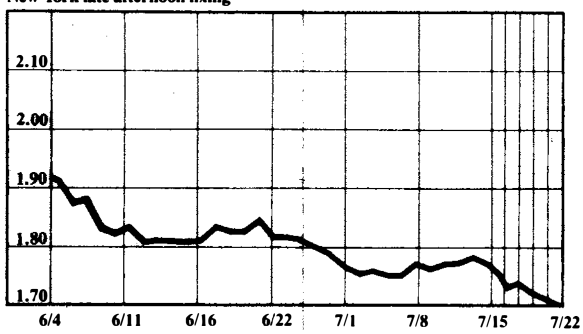

The British pound in dollars

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