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.

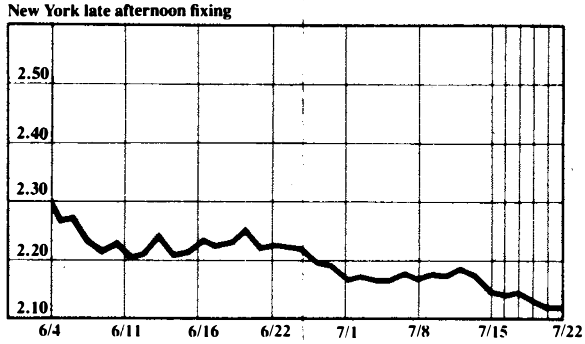
"We want to convince business that we will persist in the policy of economic expansion, so that they will start to invest," says Argentina's undersecretary of political economy, José Luis Machinea.

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.

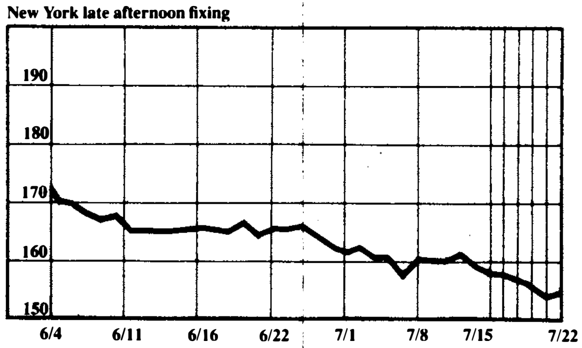
Oscar Camilión, Argentina's former ambassador to Brazil and former foreign minister, also warns that any immediate and total tariff unity would result in an "explosion," which would place a good part of Argentina's market under the domination of Brazilian goods.

Currency Rates

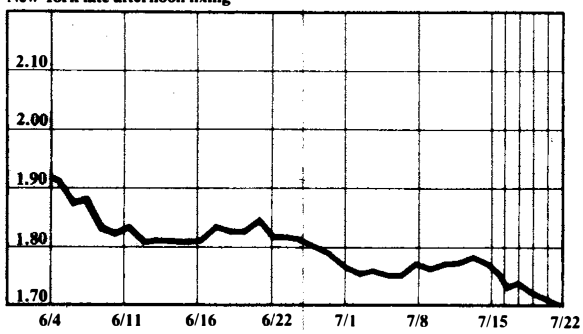
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing