POLITICAL COMMENTARY

TRI-DIMENSIONAL POLITICAL BOTTLENECKS AHEAD

Alexandre Barros*

Economic recovery is much better than expected one year ago. How come? The government left its state of paralysis yet, at the same time, the President’s approval rating is low, the landless movement is more active, the truck drivers demand benefits the rest of the country does not have (such as exemption from road tolls), and the President starts to show real concern about a breakdown of democratic order?

What is the catch? Or better, what are the catches?

First of all a truism: it is not when things are down that dissatisfaction and demands increase. It is when things are moving uphill. When things are really bad, people are worried about basic survival. And the sense of psychological deprivation is not so intense.

In Brazil, people seem to have gone from extreme uncertainties (in the Eighties and early Nineties), to a lot of consumption (at the beginning of the Real Plan), again to a lot of uncertainty (upon the Asian, Russian and Real crises), and precisely when things were getting better, it was time for frustration to become more intense. So, on this front, the increased militancy is to be expected.

The Three Revolutions

Furthermore, there is another factor, pointed out by Alvin Toffler. Brazil is going through three revolutions at the same time. Whether it is too much for the system or not only time will tell. However, the road is likely to be bumpy again, especially if the economy continues to move uphill.

(continued on page 4, column 1)


ECONOMIC COMMENTARY

INDUSTRIAL ACTIVITY EXPANDS IN FIRST QUARTER**

Brazil’s industrial activity remained broadly positive in February as economic indicators confirmed the trend that has been evident since the middle of last year. Both IBGE’s industrial production indicator and CNI’s real sales indicator for the month continued their pattern of expansion, registering a 3.1% increase after allowing for seasonal factors. However, one should note that the strong February results were influenced by the fact that there were more working days in the month because this is a leap year, and that Carnaval this year fell in March. Compared to last year, both industrial production (16.3%) and real sales (18.4%) rose strongly in February as well as in the first two months combined, with both indicators posting double-digit gains. Also worth noting is the broad character of this growth, which touched most of the industrial goods tracked by IBGE and almost all of the variables that comprise CNI’s Industrial Indicators.

A Sectoral View: Generalized Growth

IBGE’s seasonally-adjusted indicators show increases in production in February over January in all classes of industrial goods, but especially in durable goods (12.3%) and in capital goods (7.5%). Those indicators show increases as well in 16 of the 20 industrial items tracked. Among these, transportation equipment (9.6%), clothing and footwear (7.9%), and goods for the electrical and the communication industries (5.44%) posted very high growth rates, while plastic goods (-3.96%), paper and cardboard (-0.16%), and tobacco products (-9.99) declined in relation to January.

(continued on page 6, column 1)

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RECENT BRAZILIAN ECONOMIC DEVELOPMENTS

James Ferrer, Jr.*

The Brazilian economy continued its expansion through April. Preliminary data from both IBGE and the CNI indicate that the economy was growing at a fairly rapid rate. The one major disappointment was the failure of employment to increase significantly. In fact, after having risen appreciably in February, it apparently declined somewhat in March. Still, the general economic atmosphere, and especially in government and business circles, is full of promise and optimism.

The foreign trade sector is finally contributing to the economic expansion. Both imports and exports are up measurably. During January to April, exports totaled $16.2 billion, an increase of 18% over the same period in 1999. The surge in exports produced a merchandise trade surplus of $183 million for the four months. This result encouraged government officials to reaffirm their projections of a $4 billion trade surplus for this year.

Brazil has enjoyed also a steady, large stream of direct foreign investment (FDI). Whereas portfolio investment has dwindled to insignificant levels, FDI maintains the heavy inflows that marked 1999. During January - March this year, FDI totaled some $7 billion. Perhaps encouraged by this development, Brazil repaid most of the emergency loans it received in 1998 from a consortium of countries led by the IMF. These heavy repayments, combined with other transactions, lowered international revenues from $39.2 billion at the end of March to $28.7 billion at the end of April.

The federal administration has been carefully tracking its revenues and expenditures to ensure that it complies with its IMF agreement. The national government’s primary surplus for January - March was $8.3 billion. With the May 4 promulgation of the Fiscal Responsibility Law, which is designed to curb excessive spending at all governmental levels, the administration apparently feels confident it will achieve the surplus target for the year. Given trends in the inflation rate, the market seems to agree. The IGPM index, measuring a combination of retail and wholesale prices, rose only 0.23% in April. The Consumer Price Index for greater São Paulo (FIPE) climbed only 0.09% -- the smallest increase for the month since 1947. For the year to date, the FIPE index has risen only 0.66%.

Despite these various positive developments, the government has pursued relatively conservative policies. It has maintained the inter-bank rate (Selic) at 18.5%, noting the uncertainties about U.S. interest rates and about international petroleum prices. In addition, the Central bank has allowed the real to depreciate to slightly more than R$1.8 to the dollar. Business interests are, of course, pressing for further declines in interest rates and for continued gradual depreciation of the real.

Much of the country’s attention during the past month centered on the wide-ranging discussion of the minimum wage. The administration had initially proposed to increase the minimum wage from R$130 to R$145 per month. Responding to strong political pressure, it raised the figure to R$151 and implemented it through a Provisional Decree (Medida Provisoria). Congressional

Brazilian Trade Balance (US$ millions)

<table>
<thead>
<tr>
<th>Month</th>
<th>Accumulated by Year</th>
<th>Monthly Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-94</td>
<td>43,545 33,079 10,466</td>
<td>-809</td>
</tr>
<tr>
<td>Dec-95</td>
<td>46,506 49,663 -3,157</td>
<td>-51</td>
</tr>
<tr>
<td>Mar-96</td>
<td>10,286 10,751 -465</td>
<td>-469</td>
</tr>
<tr>
<td>Jun-96</td>
<td>22,903 23,229 -326</td>
<td>-627</td>
</tr>
<tr>
<td>Sep-96</td>
<td>35,858 37,464 -1,606</td>
<td>-655</td>
</tr>
<tr>
<td>Dec-96</td>
<td>47,747 53,301 -5,554</td>
<td>-1,787</td>
</tr>
<tr>
<td>Mar-97</td>
<td>10,656 13,129 -2,473</td>
<td>-876</td>
</tr>
<tr>
<td>Jun-97</td>
<td>24,786 28,538 -3,752</td>
<td>-345</td>
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<tr>
<td>Sep-97</td>
<td>39,685 45,469 -5,784</td>
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</tr>
<tr>
<td>Dec-97</td>
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<td>25,967 27,808 -1,841</td>
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<tr>
<td>Sep-98</td>
<td>39,459 43,079 -3,620</td>
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<tr>
<td>Dec-98</td>
<td>51,119 57,702 -6,583</td>
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</tr>
<tr>
<td>Mar-99</td>
<td>10,042 10,862 -820</td>
<td>-223</td>
</tr>
<tr>
<td>Apr-99</td>
<td>13,747 14,531 -784</td>
<td>36</td>
</tr>
<tr>
<td>May-99</td>
<td>18,133 18,607 -474</td>
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<tr>
<td>Jun-99</td>
<td>22,446 23,064 -618</td>
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<td>Jul-99</td>
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<tr>
<td>Aug-99</td>
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<td>Sep-99</td>
<td>35,027 35,800 -773</td>
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<tr>
<td>Oct-99</td>
<td>39,331 40,258 -927</td>
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</tr>
<tr>
<td>Nov-99</td>
<td>43,338 44,785 -1,447</td>
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<td>Dec-99</td>
<td>48,011 49,209 -1,198</td>
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<tr>
<td>Jan-00</td>
<td>3,453 3,547 -94</td>
<td>-94</td>
</tr>
<tr>
<td>Feb-00</td>
<td>7,576 7,592</td>
<td>-16 78</td>
</tr>
<tr>
<td>Mar-00</td>
<td>12,049 12,023 26</td>
<td>42</td>
</tr>
<tr>
<td>Apr-00</td>
<td>16,230 16,021 209</td>
<td>183</td>
</tr>
</tbody>
</table>

*Dr. Ferrer is the Director of the Institute of Brazilian Issues.*
elements, led by part of the PLF party and by the opposition parties, continued to press for a larger amount. A compromise seems to have been reached. On May 10 Congress on will approve the R$151 monthly rate, a vague understanding exists that the rate will be increased early next year, and state governments are able to set regional minimum wage rates that exceed R$151.

The country was shaken last week by an unexpectedly strong show of force by the Movement of the Landless (MST). After just experiencing an unsatisfactory commemoration of its 500th anniversary, Brazil was not prepared for the MST action. The Movement occupied public buildings in twelve state capitals and had several encounters with the police. The worst confrontation occurred in Paraná, where one person was killed and eighty people were injured. After several days of discussion and maneuvering, the MST left the buildings it had occupied. It has, however, threatened again to occupy buildings and farms throughout the country if the government does not begin to deal with its policy complaints.

### Selected Brazilian Economic Indicators

| Mar-94 | 0.3163 | 0.3321 | 45.70 | 41.94 | 14.9 | 95.1 | 98.3 | 46.42 | 50.69 | 32.295 |
| Jun-94 | 0.9800 | 0.9500 | 50.75 | 41.94 | 14.9 | 100.0 | 100.0 | 50.60 | 26.04 | 40.131 |
| Sep-94 | 0.8900 | 0.8510 | 0.8 | 41.41 | 14.1 | 117.5 | 96.3 | 3.83 | 3.84 | 40.873 |
| Dec-94 | 0.8800 | 0.8440 | 1.25 | 12.6 | 103.9 | 109.1 | 3.80 | 3.56 | 36.471 |
| Mar-95 | 0.9000 | 0.8940 | 1.12 | 13.2 | 113.2 | 108.8 | 4.26 | 4.98 | 31.530 |
| Jun-95 | 0.9250 | 0.9200 | 2.46 | 13.2 | 112.3 | 108.7 | 4.04 | 3.95 | 31.492 |
| Sep-95 | 0.9550 | 0.9520 | -0.71 | 13.3 | 102.4 | 98.1 | 3.32 | 2.87 | 46.164 |
| Dec-95 | 1.0000 | 0.9710 | 0.71 | 13.2 | 89.1 | 106.3 | 3.76 | 3.56 | 50.449 |
| Mar-96 | 0.9940 | 0.9870 | 0.40 | 15.0 | 107.0 | 102.7 | 4.26 | 4.98 | 54.331 |
| Jun-96 | 1.0330 | 1.0030 | 1.12 | 16.0 | 121.9 | 109.1 | 4.04 | 3.95 | 58.639 |
| Sep-96 | 1.0270 | 1.0210 | 0.40 | 15.0 | 112.0 | 109.1 | 3.32 | 2.87 | 46.164 |
| Dec-96 | 1.0900 | 1.0840 | 0.40 | 15.0 | 121.0 | 109.1 | 3.32 | 2.87 | 54.331 |

**Sources:** BACEN, DIEESE, FIESP, IBRE/FGV.

*Prices in real. End of month: parallel sell rate and commercial buy rate. Values prior to July 4, 1994, obtained by dividing the amounts by CR$2,750.00.

*Source: DIEESE; **Source: FIESP; ◆ Base: June 1994 = 100; ***Source: BACEN.

▲ As of Dec. 1997, figures given in terms of international liquidity.
At one point Brazil was going through the first revolution. The agrarian revolution—people moving from subsistence economy to organized agriculture. At that stage, having land was essential. After all, the first revolution was to obtain the sole source of power and wealth: land.

Most societies could cope with that revolution one way or another (each one paying a different price, of course).

More recently, around the thirties, Brazil started to go through the second revolution: namely, the industrial revolution. At that stage, ownership and control of capital goods was in dispute: those were the days of militant unionism.

The problem was that the industrial revolution in Brazil started to take place while the agrarian revolution was still at a relatively early stage. So, the combination of the two put increasing pressure on the system.

Two revolutions are not easy to deal with but, somehow, it is feasible to cope with both at the same time.

Now, parallel to land questions and industrial modernization issues, the third wave of revolution—the digital one—is going on. Now it is all three at the same time.

David Easton would call it a bottleneck of demands. However, the complicating factor is that it is not a two-dimensional bottleneck as you have when too many cars are trying to merge into a two lane road.

It is more complicated because it is a tri-dimensional bottleneck, almost as if you had horse-drawn carriages, automobiles and airplanes all trying to get into a tunnel.

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**The Early Warning Scenarios for the 2002 Brazilian Presidential Elections**

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2033 K Street N.W., Suite 230; Washington, DC 20052
Minister of Mines and Energy Rodolpho Tourinho has recently stated that assets belonging to Furnas, Chesf and Eletronorte (Tucuruí hydro plant) would finally be privatized in 2000. In 1999 the federal government intended to privatize a number of assets belonging to these companies, but the process was slowed down due to legal, political and financial factors.

There has been substantial opposition to the sale of the Tucuruí plant from local politicians who were concerned, among other things, about the adequacy of service to the states in the Amazon region, should the hydro plant be transferred to private owners. The federal government is responding to these concerns by promoting the construction of natural gas generation plants and with assurances that the federal government will step in and build pipelines to supply the plants if private companies are not interested in doing so.

With Chesf, the federal government faced disputes concerning the many uses of the São Francisco River. Some parties are concerned that private owners would be less sensitive to the non-electrical needs of the peoples living by the river banks (See discussion in Brazil File Vol. 8 No. 7 at page 9). In order to respond to these concerns, the federal government will reportedly retain ownership of Chesf’s hydro plants of Sobradinho and Itaparica.

Among the legal problems faced by the government with the privatization of Furnas is the separation of the nuclear assets held by the company (the Brazilian Constitution requires that nuclear generation be owned by the federal government). The administration is now reportedly considering selling Furnas’ assets separately, with the hydro plant being the last asset to be sold. The government has yet to decide whether it will pay for Furnas’ large debt with its workers’ pension fund prior to the privatization.

The federal government is taking steps also to accelerate the privatization of state utilities. Eletrobrás is acquiring shares of Copel (of Paraná), Celg (of Goiás), and Ceam (of Amazonas) in order to privatize them. Market analysts believe, however, that Copel will not be sold in 2000 and that Cemig (of Minas Gerais) will be privatized only after the end of governor Itamar Franco’s term in 2002.

The federal privatization program has been instrumental in providing much needed resources that help reduce government expenditures in accordance with the government’s commitments to lending institutions. If the companies are not sold in 2000, or if their prices are reduced as a consequence of the exclusion of certain assets, it is unclear how the federal government will be able to reach these goals. Further, the federal government has announced that it will now select among bidders of privatized electric utilities based, among other things, on the lowest consumer rate offered. This is a departure from the method utilized until recently in which the criterion was essentially the higher price offered by bidders for the utility. This change reflects the federal government’s concern that recent increases in electric utility rates have been excessive. It is unclear what effect this change, coupled with other proposed changes to the ratemaking methodology announced by the federal government, would have on the privatization of electric utilities in 2000.

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Industry in general presented a clear pattern of growth when compared to February of last year, with increases occurring in all classes of goods and for practically all industrial items covered. One must note, however, that those results were strongly influenced by a depressed base of comparison as production at the beginning of last year was low because of the devaluation. The strongest performers were in the metalworking and machinery group of industries, with transportation equipment (35.56%), machinery (24.14%), goods for the electrical industry (28.02%), and metallurgy (19.09%) registering the largest gains. In terms of totals for the first two months of this year, the reversal in the sign associated with durable consumer goods was noteworthy; that sector, which last year was the worst performer, now is among the strongest (28.7%), thanks to good performances by the automobile industry (39.4%) and by household appliances (27.2%).

Regional indexes of industrial production likewise showed markedly positive results, although the larger number of workdays this February and the depressed base influenced those figures as well. Compared to February 1999, there was a generalized increase among the states surveyed by IBGE, especially in Ceará (27.9%) and São Paulo (21.1%), the latter posting production gains for the fifth month in a row. Minas Gerais (19.4%) and Rio Grande do Sul (19.1%) likewise experienced high growth, whereas Bahia registered a decline because of less activity in the chemicals sector. Comparing the first two months to the same period last year, Rio Grande do Sul enjoyed the highest gains (17.2%), reflecting the performance of the chemicals sector, which grew 34.8%. Minas Gerais and São Paulo, both of which had significant increases, followed suit. In Minas Gerais, positive results predominated, but food items and metallurgy had the greatest impact on the global rate.

**Transportation Equipment Shows Significant Gains**

According to IBGE data, the transportation equipment industry has been showing signs of recovery since the beginning of the year. The sector expanded by 9.66% relative to January, the second monthly increase in a row. That sector’s performance compares favorably as well with last year, showing double-digit gains both in relation to February (36.56%) and for the first two months of the year (24.69%). February data from ANFAVEA point in the same direction, indicating a recovery of the auto sector in the beginning of the year.

ANFAVEA indicators indeed showed solid growth over January, with double-digit growth rates for vehicle output (33.8%), for domestic sales (24.08%) and for exports (62.8%). Results for the sector were equally positive when compared to last year, although in this case the depressed base influenced the results. This more favorable picture is confirmed by ANFAVEA’s data for March, which show continued improvement vis-à-vis February, especially in exports, which grew 19.9% that month. On the other hand, there was a significant shift in domestic sales compared to March last year, declining 15.63% after six consecutive months of growth. That result did not, however, undermine the overall results of the first quarter, as sales rose 23.23% compared to the same period last year while the other key indicators for the sector grew as well – production by 30.64% and exports by 83.27%.

**Electrical/Electronics Industry in Recovery**

The electrical/electronic goods sector also performed well in February. According to IBGE, the electrical and communication equipment industry registered growth of 5.44% percent in relation to January, the third such increase in a row. Production for the first two months consequently was 15.33% higher than in the like period last year. Classified by use, durable goods posted the highest gains in February in all respects. Export data from ABINEE confirm the industry’s more favorable results in February, registering a significant gain over the same month last year (74.0%) and for the first two months (69.2%). This performance was the result mainly of a strong rise in foreign sales of telecommunications equipment (595.0%) stemming from the higher exports of cellular devices.

**Prospects Are for Continued Growth**

Forecasts of the industrial sector are favorable. Growth is expected to continue over the coming months, helping to reverse the trend of recent years. There is a clear improvement in the country’s macroeconomic environment. The recent turbulence in the American economy will not likely interrupt this expansive cycle. The normalization of the economy, the improved terms of financing, the increase in exports, and the decline in interest rates (especially in the near future, after last week’s pause related to problems abroad) favor expansion. Nevertheless, low real family incomes will temper somewhat the intensity of the growth in domestic demand.◆
Brazil-U.S. relations have always been especially intense. However, as seldom seen in the past, both countries today share very relevant principles and basic objectives, a factor which opens promising cooperation opportunities. Brasília and Washington have very close perceptions on some essential issues of the international agenda, such as democracy, human rights, environment, non-proliferation of weapons of mass destruction, and economic liberalization and integration.

The history of Brazil–U.S. relations has shown great convergence, but also some discrepancies on a number of issues. Unlike the situation prevailing in the past, however, the bilateral agenda is no longer contaminated by occasional disagreements or disputes. Structural affinity and strategic interest prevail these days. President Fernando Henrique Cardoso’s State visit to the U.S. in April 1995 is, in many ways, a symbol of the present phase of our relations.

The transformation process that has been taking place in Brazil in the last few years has allowed for a reversal of the situation in which the bilateral dialogue was hampered by persistent difficulties. On the one hand, these were due to a somewhat negative perception of Brazil by the United States, which has now been essentially overcome, and on the other to the persistence of disputes on several trade issues.

In their most critical moments, these disputes were not only responsible for the build-up of a difficult atmosphere between Brazil and the U.S., but also for slowing bilateral cooperation in other areas. These two elements created a vicious circle: the disputes affected the overall state of Brazil - U.S. relations, while the aforementioned perception of the Brazilian reality tended to obstruct a more serene and balanced handling of the bilateral feuds.

Consolidation of democracy in Brazil, its economic stabilization and trade liberalization, the country’s commitment to the protection of human rights and to the preservation of the environment, its adherence to the most important multilateral mechanisms of non-proliferation, are all major credentials for Brazil in the international community.

The U.S. perception of Brazil’s intrinsic relevance, however, has been the most important factor contributing to the enhancement of relations between the two countries. The opening of Brazil’s economy to foreign trade and the expansion of U.S. investments in the country have contributed to an unprecedented interest in Brazilian economic stability. Washington played an important supportive role in the wake of Brazil’s 1999 financial crisis, and has praised the actions undertaken by the Brazilian Government which have led to a quicker-than-expected recovery of the country’s economic fundamentals.

The role of Brazilian foreign policy in the international scene, particularly in South America, has also been perceived by Washington as increasingly important. The U.S. and Brazil have shared perceptions and positions on recent regional crises, and the Brazilian role as an element of moderation and equilibrium in the continent has been recognized. As guarantor countries of the Rio Protocol, the two countries, together with Argentina and Chile, were instrumental in the negotiations for the permanent solution of the border dispute between Peru and Ecuador.

The atmosphere of friendship and harmony that prevailed during President Bill Clinton’s visit to Brazil in October 1997 was a confirmation of the greater maturity achieved in our bilateral relations. On that occasion, a number of key agreements were signed and the Presidents’ agenda gave special emphasis to issues related to education and hemispheric integration, particularly the FTAA. The Brazilian Government seized that opportunity to reaffirm its belief that the FTAA should benefit all countries involved on equal terms, and contribute to the reduction of the development imbalances in the hemisphere.

As far as trade is concerned, the relationship between Brazil and the U.S. still suffers from significant asymmetry. One of the reasons for Brazil’s deficit on the bilateral trade balance in the last five years has been the permanence of U.S. imposed barriers to Brazilian export goods. The reduction of this deficit in 1999 (US$3.7 billion in 1998 to US$1 billion last year) was due to a decrease in Brazilian imports, rather than to an increase in our exports to the U.S. In 1999, Brazil remained the 11th largest export market for the U.S. and was its

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most important source of supply (13th largest U.S. trading partner globally). The U.S. had its 7th highest bilateral trade surplus with Brazil. Total trade was US$22.6 billion (Brazilian exports: US$10.8 billion; Brazilian imports: US$11.8 billion).

It should also be noted that U.S. direct investment in Brazil increased from US$18.9 billion in 1994 to US$38 billion in 1998. This figure is equivalent to more than half of the American investment in South America. Brazil is the fifth largest recipient of U.S. direct investment globally, after Germany and ahead of Japan. According to U.S. Department of Commerce Statistics, the increase in U.S. direct investment in Brazil during 1996/97 amounted to twice its average global increase (11%), and exceeded by 50% the increase in the rest of South America (16%).

Despite the high quality of our bilateral dialogue, problems have not yet been totally eliminated, which is understandable in the light of the deep and rich bilateral relationship such as the one shared by Brazil and the U.S. Disputes in some areas persist, and both countries still have diverging points of view on a few issues. Yet, the present favorable environment has not only increased the potential for the existing cooperation, but it also allowed for the expansion of cooperation to new areas.

Evidence of this fact is given by recent developments, such as the establishment of a bilateral Working Group on defense issues and the signing of an agreement on U.S. participation in satellite launching operations from the Alcântara Center in Brazil. This agreement, which is the result of extensive negotiations, will contribute to the fulfillment of the center’s extraordinary commercial potential and raises the Brazil – U.S. partnership to new and extremely promising levels.

The result is that neither the fast vehicles nor the slower ones manage to enter the traffic lane. The whole dispute takes place as all vehicles try to enter the lane.

This is one of the sources of the current scuffles that are going on in Brazil. And from now on—especially if the economic improvement continues—more intense demands from the three simultaneous waves of revolution will continue, and they will tend to intensify.

Wants are unlimited. Demands are disorganized. The system gets overloaded. And what is worse, government cannot make up its mind as to how it will organize the demands. Simply stated, it is unable to grasp, conceptually, the fact that it is dealing with this monumental tri-dimensional traffic jam.

Moreover, it must administer the mundane problems of public order that, believe it or not, are relatively hard to handle.

Congress is worried about getting votes (there is nothing wrong with populism as long as populists understand clearly what is at stake). Flashing green lights, it tries to satisfy some demands of the first and second revolutions.

The Executive, typically still in the first but especially in the second revolutionary wave, is trying to control the process, flashing red lights at the same time.

Meanwhile, the third wave of revolution runs wild and fast. Third-wavers buy and sell on the Internet; politicians and bureaucrats try to control the Internet by using the same conceptual framework they employed when they sought to control the installation of a physical manufacturing facility.

Examples. The new fiscal responsibility law forbids governments—at all levels—to offer tax breaks unless they can produce other taxes to compensate for the lost taxes. Investors will say good-bye and investment will not come.

The government privatized roads, telecommunications and energy. And one of the purposes of privatizations was to generate capital for investment and development of these sectors. Now some groups start to scream that they do not want to pay the current prices for telephones, road tolls and energy. And the government in several cases is bowing to these demands.

At Early Warning, during the last four years, client demand for risk analysis was down. The heavy demand was for opportunity analysis and management. Demand for risk analysis is already increasing.
Recovery Still On Course

With inflation still in decline and industrial output increasing by March’s close, estimates of 3-4% growth and the broad economic recovery forecasted at the close of 1999 continue on track. As Finance Minister Pedro Malan arrived in Washington D.C. for the annual IMF meetings on April 16th, he was preceded by several positive economic developments in Brazil.

On April 5th Brazil repaid US$4.386 billion and on April 12th another US$6.09 billion in short-term debt commitments to the International Monetary Fund, Bank for International Settlements and Bank of Japan, which comprised part of the US$41.5 billion dollar emergency assistance package assembled for Brazil after the global financial shock of 1998. Of that $41.5 billion, Brazil actually drew only US$20.06 billion, paying back approximately US$9.58 billion of that total in two installments over the course of 1999. The April 5th and 12th payments will be channeled back through the Bank for International Settlements to the central banks of twenty nations that pledged their support to Brazil two years ago. Although the terms of Brazil’s stand-by agreements with the multi-laterals foresee an additional disbursement of US$3.4 billion in coming months, Central Bank Director Daniel Gleizer said that “Brazil no longer needs this type of overdraft protection.” Payment of the remaining US$1.8 billion of Brazil’s long-term commitment to the IMF will come due in March 2002.

In spite of favorable domestic economic indicators such as a stabilized exchange rate, controlled inflation and increasing industrial output, the IMF, in its annual World Economic Outlook released April 12th, pointed to the threat Latin American countries could face in the event of an economic downturn in the U.S. citing the impact that a sudden contraction in the U.S. economy could have on investment flows to the region. The possibility of interest rate hikes in the U.S. as a result of a weakening dollar is seen as a threat to the flow of investment to the region, which, in the Fund’s opinion, is still overly dependent on external capital.

On April 16th Minister Malan responded to the Fund’s assertion, urging it to look beyond the regional focus of its assessment to the specific long-term trajectory of foreign investment in Brazil in recent years, pointing to the dramatic increase of direct investment in productive industries and new business, and Brazil’s lessening vulnerability to volatile, short-term capital flows.

In spite of diverging opinions over dependence on external financing, the overall tone of the IMF report was positive, crediting Brazil’s prudent fiscal and monetary reforms, as well as the continued restructuring of its state financial institutions, as contributing to its “unexpectedly shallow recession,” while increasing the transparency of public finances.

With respect to growth and inflation, the Brazilian Institute for Geography and Statistics (IBGE) released its latest industrial output figures on April 12th, which confirm broad recovery in several states and regions. In its survey of 20 key industries, the IBGE reported increased output in the south (14.7%), northeast (7.3%), and in the states of Minas Gerais (19.4%), Rio Grande do Sul (19.1%), Espírito Santo (13.9%), Paraná (9.2%), Santa Catarina (8.3%), Rio de Janeiro (7.0%) and Pernambuco (6.4%). The only contraction in output was registered in the state of Bahia (-2.5%) primarily due to a negative 5% decline in that state’s chemical sector. The northeastern state of Ceará led the national average in February, with output growing at a rate of 27.9%. IBGE also indicated that output in São Paulo grew for its 5th consecutive month, closing February at a rate of 21.1%. Among those leading this recovery nation-wide are the metallurgy, textile, electric and electronic, chemical and communications industries. Global recuperation of cellulose prices, last year’s devaluation of the Real and credit driven demand should also stimulate key industries like paper and cellulose, steel, petrochemicals, footwear and textiles. These industries’ current expansion has correlated very closely to significant volume increases in Brazilian exports in recent months, suggesting that industrial production is increasingly becoming export driven.

Experts point out that demand in 2000 will be less a function of disposable income and more a function of increasing consumer credit. In spite of the proposed minimum wage increase and its impact on real income, disposable income is not expected to increase considerably due to the continuing effects of last year’s emergency tax measures on personal incomes.

*Prepared by The Embassy of Brazil located in Washington, DC. Tel: (202)745-2828; Fax: (202)745-2818.
Increased consumption, therefore, must come from reducing unemployment from its current rate of nearly 8.2% to 1997 levels of 5.7%, a tendency not anticipated before 2001. Meanwhile the Central Bank has adopted measures to liberate credit in the market. On March 14th reserve requirements for checking accounts were lowered from 65% to 55%, the second such maneuver since September of 1999, when the rate was lowered from 75%. The maintenance of high reserve requirements dates back to the hyperinflationary period of the early 1990’s, when banks had to exercise more control over reserves and cash deposits. These latest reductions, coupled with a slight but nonetheless very important lowering of the inter bank lending rate to 18.5% from the previous 19%, have contributed to lowering the spread between lending and deposit rates, as well as increasing the availability of credit to GDP. Brazil’s credit to GDP rate of 28% is amongst the lowest in the world.

The Economic Research Institute (FIPE) revised its April inflation forecast downward from 0.40% to 0.31%. The March consumer price index IPC-FIPE rose 0.23 percentage points against an equal 0.23 percentage decline in February, leaving inflation at 0.58% at the quarter’s close. Year to date this brings the annualized rate to 6%, slightly below the original forecast of 7.5%. According to the Institute’s director, Heron do Carmo, March’s rise in the price index was primarily due to fuel increases of 6.74%, transport increases of 1.47% and certain food price increases, which comprise nearly half of the index, due to shortages caused by climatic changes. The only downward pressure on the index came from a 2.17% decline in semi-processed foods and a 0.88% fall in average clothing prices. Carmo emphasized the recent retreat of oil prices as a key factor contributing to the institute’s second forecast revision this year, which currently stands at 5.5% for 2000.

In March the Brazilian trade balance registered a small surplus of US$42 million, still below expectations for the year. Meanwhile, April’s trade balance closed negative for the second consecutive week, at US$83 million. The trade balance at the onset of the month was negative by US$31 million. According to information from the Foreign Trade Secretariat (Secex), last week’s trade balance was characterized by average daily imports 17.3% higher than the first week of the month due to the persisting effect of fuel and lubricant increases. The value of fuel imports week to week doubled from US$102 million to US$206 million.◆

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Corruption as a Disease:  
Transparency and Bigger Penalties for Business are the Cure*

Before the advance of medical science, people often believed that disease was best treated in closed rooms, shut off from fresh air and sunlight. Today we know better. Far from curing disease, a dark, closed atmosphere can often make it worse.

Corruption is not very different.

The analogy is doubly valid, because corruption is truly a disease of society. It exists everywhere, in every country and in every government, but in some it takes a stronger hold. And just like a disease of the body, it weakens and makes less productive the host in which it lives.

The question of corruption goes beyond ethics, and beyond the righteous indignation we should all feel when we hear of payoffs and graft. In a free society corruption tends to make markets less efficient and competitive, push up prices, increase social inequality, distort resource allocation and reduce economic growth.

Who knows but this hidden burden might not impact the economy just as much as the more visible components of the “Brazil cost,” for example inefficient transportation and high taxes?

And corruption is truly a disease. If not checked by an unfavorable moral habitat or strong legal medicine it tends to take over the entire body, spreading insidiously from one organ to another.

Worse still, there is no magic pill to put everything right. Eliminating corruption – or putting it better, reducing corruption from an epidemic to a sporadic affliction – will take wise medication, healthy living, and not a little time.

For the good of the country, however, things must start to change.

Most people will be nodding and saying to themselves – sure, but how? Well, here are two concrete proposals.

First, let in the light and air. This means greater transparency at all levels of the public-private interface. This is not easy at the day-to-day operational level, but possibly the route lies in less blind bureaucracy and more real personal accountability for those involved. The great majority of private executives and elected and appointed public officials are decent, honest citizens who have everything to gain from closer scrutiny of their dealings. What’s more, public officials at all levels, from the rookie policeman to the senior tax inspector, should receive a fair market wage.

It’s been said many times that corruption is a two-way street, that there would be no public corruption without private-sector corrupters. This is true. But we would go further, and place greater blame on the private sector. After all, corruption between government departments is rare. But who has not heard countless stories of corruption between private companies – of under-the-table sales commissions and the like?

So, let’s have much tougher legislation to crack down on corruption emanating from within private companies. This should include more accounting transparency and more effective penalization, not just for the person who pushes the greenbacks across the table, but also for those who take the decision, make the bribe available, or in any way acquiesce in its accounting.

It might sound strange for this Chamber, a leading pro-business association, to urge greater penalties for businessmen. But the construction of a modern, efficient economy that generates a better standard of living, particularly for the poor, requires firm action and strong medicine against a disease which has no place in the Brazil of the 21st Century. ♦

*Adapted from an editorial in UPDATE, a publication of the American Chamber of Commerce in São Paulo.
Fifteen to twenty college junior and senior students will get to spend spring semester (January to June) at the University of Brasília (UnB) under a new program developed by IBI and being launched by The George Washington University (GW) in January 2001. The program will be open to students from colleges throughout the United States and Canada. Some knowledge of Portuguese, or reasonable fluency in another romance language, will be important for full participation in the program. Costs to participants will be similar to those of a normal semester at GW.

The program consists of an integrated set of language and “content” courses developed by IBI in consultation with the concerned GW academic departments to meet the needs of Latin American Studies majors in today’s rapidly evolving and increasingly dynamic environment. The four content courses will convey three GW credits each, for a total of twelve GW credits. (Each participant’s home institution will determine how many credits, if any, it will award for the language courses.) All UnB faculty who will be teaching the GW courses are experts in their fields, and all hold degrees from either U.S. or U.K. universities. The following courses comprise the GW program:

- Intensive Brazilian Portuguese
- Advanced Brazilian Portuguese
- Brazilian Politics in Comparative Perspective
- Latin American Economic Problems
- International Relations of Brazil and Latin America
- Brazilian Society and Environment

Participants will begin the program in early January 2001 at UnB with six weeks of Portuguese language immersion, delivered by UnB staff specialized in the teaching of Portuguese as a foreign language. That session will be followed by the four “content” courses and by advanced Portuguese language training that will continue throughout the program. Registration for the content courses will be open also to a limited number of Brazilian students, adding an important dimension to the GW participants’ learning experience. During the semester, participants will live with local families. They will thereby be able to enhance their understanding and appreciation of modern Brazilian culture and family life.

In addition to the normal academic activities, participants will be able to observe and to participate in political, social and cultural events in Brasília. GW’s Program staff and participating faculty at UnB will arrange special seminars, workshops, conferences, etc., as well as lectures by key officials and visits to political institutions (e.g., the Congress, the courts, the Presidency, key ministries and government agencies, and NGOs). Also, GW program staff at UnB will help interested participants to arrange brief internships with government or private entities in Brazil following the regular semester, during July and August, or to plan post-semester educational travel in Brazil or elsewhere in Latin America. (Note: Costs related to internship programs or to local travel are not covered by the GW program fee, and are to be defrayed directly by the participants concerned.)

**About UnB**

UnB has an internationally recognized faculty, and is rated by the Ministry of Education among the top rank of Brazilian universities, based on undergraduate senior-year evaluation exams. The UnB student population currently numbers 18,000, of whom 3,000 are pursuing graduate studies and 1,000 are foreign students. Most of the foreign students are from Latin America and Africa, but some come from Europe and North America. UnB’s faculty currently numbers 2,500, about a tenth of whom are non-Brazilians. The University has also some 3,000 staff. The central UnB library facility holds nearly one million volumes and has 2,500 journal subscriptions. These resources are supplemented by excellent specialized libraries, including those of the Foreign Office, of the Congress, and of the government Ministries.

**Applications**

Applications for the GW Semester in Brazil will be available at the beginning of the Fall 2000 semester from the Office for Study Abroad. Meanwhile, students interested in receiving further information may obtain a short paper about the program by contacting GW’s Center for Latin American Issues. They can do so by fax at (202) 994-5382, by e-mail at clai@www.gwu.edu, or by phone at (202) 994-5205.

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*Rafael Marin is a staff member at IBI. He is coordinating implementation of the UnB program.*