international policy
UPDATE
No.3, 1997

Tel: 011-339-2021 THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS Fax: 011-339-2154

BRAZIL - SOUTH AFRICA: TWO OF A KIND?
Policy Challenges and Opportunities

Claudia Mutschler is the Anglo American and De Beers Chairman's Fund Latin America Fellow at the South African Institute of International Affairs. She writes in her personal capacity.

Introduction

After years of euro-centricity and international isolation had obscured Brazil from South African international priorities, President Fernando Henrique Cardoso's visit in late November 1996 placed this Atlantic neighbour squarely on South Africans' conceptual map. Recent exchanges highlighted that potential synergies between the two countries, and their regions in general, must be tapped in an international landscape characterised by the forces and consequences of globalisation and regionalisation.

Translating these synergies into sound policy necessitates a clear understanding of the economic and political dimensions of Brazilian-South African relations. To this end this *Update* seeks to illuminate the emerging trade and investment environments in Brazil and South Africa, as well as political considerations.

Emerging Brazil

Brazil, the fifth largest country in the world, with 160-million people, taking up half the land area of the South American continent, has long been described as the nation which promised much only to disappoint. Following successive non-starters to curb stratospheric hyper-inflation and adjacent socio-economic ills, analysts coined the expression 'Brazil, always the country of the future and not of the present'.

Three years ago, with inflation running over 7000% a year, a closed economy that was both inefficient and uncompetitive, an overblown civil service and a highly volatile currency, Brazil was in grave trouble. Confidence in the country's future needed to be restored, and fast. The runaway inflation rate had to be brought under control, the economy made more competitive, a stable currency introduced and employment opportunities created within the private sector. President Cardoso, then Finance Minister, launched Brazil's now famous '*Real Plan*'. The plan has included cuts in government expenditure and the familiar 'package' of Latin American economic reforms - liberalisation, deregulation and privatisation.

Two-and-a-half years later the plan seems to have achieved many of its objectives to cure the country's economic ills and balance the public books. Tight policies have been pursued, both in the realm of money supply and the field of credit. This has made the growth rate in domestic consumption compatible with price stability and a satisfactory balance of payments. Monthly inflation was cut from 50% in June 1994 to around 1% per month today, and the Brazilian *real* (which is roughly on par with the US dollar) brought needed stability.

Macroeconomic equilibrium, however, is not seen as an objective in itself but, rather, a necessary step to redefine society and introduce permanent solutions to the structural problems of the country. Brazil, like South Africa, is regularly quoted as having one of the most unequal distributions of income in the world. *Favelas* (shantytowns) and street-children bear testimony to these disparities. One feature of Brazilian inequalities, familiar to South Africans, is the racial component to the division between rich and poor. Households headed by non-whites are twice as likely to be poor and three times more likely to experience indigence than those headed by whites.[1] Thus, stressing that Brazil is not only a developing country, but an unjust country, President Cardoso's plan for economic stabilisation and growth is closely coupled with social justice programmes. These include greater social spending in the fields of public health, education, sanitation and housing.

But synchronising economic revitalisation and social transformation with the exigencies of globalisation is a complex and contradictory process.[2] Global financial, investment and capital markets are not geared towards, or even sensitive to, national macro-economic projects aimed at addressing economic deprivation and social dislocation. At times they may stimulate development, but more often than not, they create expenditures and interests that may hinder or limit such attempts. Since the transformations of the global economic space do not allow states to seek the alternative of self-sufficiency instead, a strategy of managed, measured global integration, sensitive to national interests, is required. Careful consideration has to be given to the depth and breadth of integration, and its pace and sequencing.

Brazil's march toward integration in the global economy is predicated on a sound national development plan in the first place, and robust multilateral diplomacy at regional level in the second.[3] Its domestic and foreign economic policies are rdinated to facilitate the expansion of domestic and regional markets.

Profound restructuring of industry to cut factors that make Brazil uncompetitive internationally - the so-called 'Brazil cost' - has been a major component of President Cardoso's plan. The main thrust behind the reforms has been the elimination of inefficiencies, cost reductions, and stronger partnerships with suppliers and clients. Brazil has made impressive strides to this end. Durable goods manufacturers - particularly automotive, household appliances and electronics industries - have shown a remarkable improvement.

Another means to address the 'Brazil cost' is by cutting public expenditures through privatisation. The first state-owned industry to be privatised was the steel industry. While there was a reduction in the industry's labour force, there was a significant increase in productivity and profitability. The current administration is proceeding with the privatisation of the national railway system and the liberalisation (mainly through concessions) of its telecommunication industry. Furthermore, the privatisation of *Companhia Vale do Rio Doce (CVRD)* is drawing keen interest from various mining houses, notably South Africa's Anglo American and Gencor. Brazil is also looking to privatise its power sector and shipping ports.

A further feature of Brazil's policy is the formation of *Mercosul* - the Southern Common Market - with Argentina, Paraguay and Uruguay (Chile enjoys associate status). *Mercosul* comprises a potential market of nearly 800 million consumers, with a GDP of nearly R3 200 billion, and is seen as the stepping-stone toward attaining the broader global objective. Furthermore, there is a principled commitment by Mercosul and its Andean Pact partners - Bolivia, Colombia, Ecuador, Peru and Venezuela - to create a 'South American Free Trade Area'.

Emerging Brazilian-South African Synergies

South Africa and Brazil now have similar challenges: Externally, how to catch up with the industrialised nations. Internally, how to raise the standard of living of the poorer parts of the population to that of the wealthier part.

International evidence shows that countries like South Africa and Brazil can meet these internal and external challenges if they create the right incentives for their citizens to take advantage of global learning, capital and market access. This requires that both countries: engage in free trade; maintain and expand a solid base of human expertise; implement market-friendly policies; establish and maintain political institutions that are free, open, and effective in fulfilling the basic functions of government; and, set aside sufficient resources for investment into future productive capacity.

Since South Africa and Brazil share economic histories and socio-political woes, some may argue that their similar profiles lead them to compete for investment and similar trading clients. On the other hand, it has also been argued that the common social and economic structures of Brazil and South Africa give the two countries a head start in understanding the dynamics and undercurrents in their respective economies.[4] So what is the present trade and investment relationship, and where are potential future linkages?

Present Trade and Investment Relationship

Economic stability in Brazil coincided with the re-acceptance of South Africa by the international community. Therefore, the circumstances for cementing business relations and furthering bilateral trade between the two countries are conducive.

In 1995 South African exports to Brazil totalled R1 billion, a 31% increase on the previous year, while South Africa imported some R781 million from Brazil over the same period. In fact, the relaxation of import controls in Brazil has seen the balance of trade tip in South Africa's favour in the past two years.

However, this represents less than 1% of both South Africa's and Brazil's total imports and exports, signifying that there is considerable room for improvement. This is especially so given that Brazil presents a huge potential market of 160-million people, that is growing as the end of hyper-inflation has boosted average purchasing power. Brazil is also geographically closer than any of South Africa's other major trading partners and could be a gateway to other *Mercosul* countries, providing an additional 33 million Argentine, 5 million Paraguayan and 3 million Uruguayan consumers. Two South African products that seem to have made it onto Brazilian supermarket shelves are Ceres fruit juices and some of SAB beers. Clearly there are other opportunities for South African exporters to tap this huge and growing market.

On the other hand, as Brazil's economic revival gets under way, it too is looking for markets. Amongst other things, Brazil competitively manufactures television sets, computers and other electronic equipment. As signified by the importance and representativeness of the delegation accompanying President Cardoso to South Africa, Brazil has prioritised this country and the Southern Africa region in general, as an important economic partner. Breakaway sessions during the November Brazilian/ South African Business Symposium indicated that contact can be made in numerous sectors - services, agribusiness, chemical-petrochemical, energy, engineering and construction, metal-mechanics, mining, telecommunications and transport. Opportunities abound but they have to be recognised and seized.

The importance of exchanging expertise and pooling resources, both in terms of technological innovation and more generally towards setting up joint-ventures cannot be understated in a world economy driven by globalisation. Previously, major plans to tap Brazil's vast underground wealth were constrained by official restrictions, as well as a shortage of expertise and capital. As Giovanni Toniatti, the Brazilian mines and metallurgy secretary put it 'the country is now open for business and seeking mining partners'. South Africa, through Anglo and Gencor, has long investment associations and is clearly courted by Brazil to become, what Luiz Felope Lampreira (Brazilian Minister for External Affairs) refers to as a 'mining superpower'. Such partnership in business not only applies to the exploitation of Brazilian minerals, but also the exploration of mining opportunities in South and Southern Africa. Utilising local knowledge and expertise may well prove to be a decisive 'comparative advantage'. The experiences of Anglo certainly show that partnerships of this kind were crucial to navigate the often difficult conditions which were a feature of Brazilian business in the 1980s.

Joint opportunities are also presenting themselves in terms of Southern African infrastructural development. The Brazilian construction and engineering company *Odebrecht* has been active on the subcontinent for the past 11 years. *Odebrecht's* first project, the Carpanda Dam, is part of a giant hydro-electric scheme in Angola. Other ventures have involved mining for Kimberlite and providing the infrastructure for housing in Luanda South. In Botswana, the company is building a dam at Selebe Pikwe. In Mozambique, *Odebrecht* has almost completed its half of the corridor that will open Zimbabwean trade with the port of Beira. *Odebrecht* has also entered the South African market with the construction of a water tunnel between Midmar Dam and Pietermaritzburg. JCI and *Odebrecht* have signed a R177 million contract for the sinking and equipping of the new No 1 Shaft of a Free State gold mine. The project is due for completion by April 2001 and promises to create about 240 jobs. Other South African-Brazilian infrastructural development co-operation could include the construction of the Maputo Corridor.

A particularly interesting form of joint venture is developing between South Africa and Brazil in terms of automobile manufacturing. The zippy Opel Corsa is produced by General Motors of Brazil, exported to South Africa in knock-down form, and assembled by Delta Motors SA.

Policy Implications for South Africa

President Mandela welcomed President Cardoso by describing this visit as the 'natural meeting of partners'. Brazil and South Africa certainly share interests which ought to be exploited for mutual benefit. Steps toward harnessing these synergies were taken with the signing of various co-operation agreements during the Brazilian visit. These include an agreement for the reciprocal lifting of certain categories of visas, as well as improving air services. Both agreements will facilitate contact between the two countries. The Johannesburg Chamber of Commerce & Industry (JCCI) and the Federation of Industries of the State of Sao Paulo (FIESP) signed an agreement to facilitate commercial contact. Negotiations are also under way to conclude future agreements on technical co-operation, the protection of investments, the avoidance of double taxation and an agreement on merchant shipping. The imperative now is to build on these contact points.

It is vital to note that while this *Update* has focused on the emerging trade and investment environments, Brazilian-South African synergies do not confine themselves to economic matters, but include important political considerations too. The idea of South-South co-operation in the post-Cold war world is becoming increasingly important to middle powers such as Brazil and South Africa. The formation of an influential South bloc is of paramount importance if Brazil and South Africa are to play a role in defining future developments in world politics and world economy, and avoid the risk of marginalisation. The nature and composition of such regional South-South co-operation will require a careful assessment of the potential for mutual gain. But since the process must begin it may well be fitting for dialogue to begin between Brazil and South Africa, both of whom are regional superpowers on their respective continents.

Bridges across the Atlantic date from the beginnings of the slave trade in the 17th century. After independence many ex-slaves returned to West Africa as merchants, and trade flourished. Brazil's exports to Africa surged again in the 1970s as political solidarity concerning the question of independence translated into robust trade. In November 1975 Brazil became the first Western country to recognise the MPLA government, much to the consternation of the US. In the same month, relations were established with the FRELIMO government in Mozambique. Over the next 20 years Brazil established very close relations with lusophone Africa. Firmly supporting the independence of African states and the ideals of non-racialism, Brazil has successfully projected itself as a prominent spokesperson for the Third World since the 1970s. Accordingly, Brazil's response to South Africa's apartheid regime was disengagement. However, following the release of Nelson Mandela in 1990, and the subsequent transition, relations were quickly restored.

Some steps towards a South grouping of South American and African countries formation have already been taken in the form of the South Atlantic Peace and co-operation Zone. While the Zone was initially established to mobilise countries on the South Atlantic rim to endorse the idea of a military-free and nuclear-free ocean during the Cold War, its member states expanded the Zone's vision and adopted a policy to increase political, economic and cultural links too.

Strengthened Brazilian-South African relations could be of great benefit to this South grouping. Since South Africa's return to the international community, it has joined or been readmitted to a plethora of multilateral organisations. Brazil too is an active participant in many multilateral forums. Both are members of the United Nations and its associate organisations (and, in fact both are considered key contenders for regional seat on the Security Council should that body be expanded). Both are part of the G77, the Non-Aligned Movement (NAM), International Monetary Fund, World Bank, GATT (now the World Trade Organisation), as well as regional organisations (South Africa in the SADC and OAU, Brazil in *Mercosul* and the Organisation of American States). Membership of such organisations could prove instrumental to the fulfilment of South-South co-operation ideals.

The imperative now is to seize the opportunities.

Endnotes

1. Singer P, 'Poverty and Social Inequality: Profile and Policy Options', in Freidman S & R De Villiers, *Comparing Brazil and South Africa: Two Transitional States in Political and Economic Perspective.* Johannesburg: CPS, 1996.
2. Le Pere G, 'Brazil's Balancing Act', *Sowetan*, 5 December 1996.
3. *Ibid.*.
4. Spicer M, Malherbe S & S Sultana, 'Trade and Investment Between South Africa and Brazil: Present and Future', 1996.