

Brazil crisis wreaks havoc in Argentina

by Gerardo Terán Canal and Gonzalo Huertas

Because Argentina is Brazil's most important partner in the so-called "Common Market of the South," or Mercosur, its economy has been seriously affected by the crisis that has broken out in recent weeks in Brazil.

Ever since the agreements that founded Mercosur were signed in 1991, Argentina has had a nearly 40% increase in its annual exports, over the levels of the 1980s, thanks to Brazilian imports. But with the crisis unleashed in Southeast Asia starting in October 1997, and now with the maxi-devaluation of Brazil's currency, the Argentine export sector, the only economic sector which has grown in the past seven years, is heading into a deep recession.

The automobile sector, one of the main trading centers of Mercosur, will be especially severely affected, given that 66% of Argentine production goes to the Brazilian car market. In 1998, this Argentina sector invoiced some \$3.4 billion, of which \$1.2 billion was from exports. Of the latter, 66% went to Brazil, according to *Ambito Financiero*.

In the face of the storm clouds on the Brazilian market, some 10,000 skilled workers were laid off in automobile plants throughout Argentina. In 1999, according to Carlos Burgueño of *Ambito Financiero*, the sector had planned on a minimum of \$2.5 billion in exports to Brazil. These projections are now smashed to smithereens.

On Feb. 3, the Association of Automobile Manufacturers announced that during January of this year, automobile production fell 45.4% with respect to last year, and 31% with respect to December 1998.

Another industrial sector that will be severely affected is steel, which today exports to Brazil more than 40% of its production, a total of \$300 million worth. With the collapse of export expectations to Brazil, the heads of the Techint Group, owners of Argentina's main steel companies Siderar and Siderca, began a series of meetings with their workers, for the purpose of coming to an agreement that will allow them to reduce production costs, including suspension and layoffs of 2,700 operators, similar to what has hit the automobile sector.

The automobile sector, along with the steel sector, are the two industrial sectors which still show any growth in the economy, and which generate both direct and indirect employment in the already devastated Argentine economy.

The fuel sector will also be hit, given that 40% of the total

of Argentina's fuel exports go to Brazil, to the tune of some \$1.1 billion worth.

Agriculture seriously threatened

The agricultural sector, which was one of the sectors that benefitted from exports to Brazil, is seriously threatened by the Brazilian crisis. Through December 1998, some 70% of Argentine exports of wheat, soy, rice, and barley were exported to Brazil. In total, grain exports to Brazil represented an income of more than \$800 million for Argentina. Brazil in 1998 received 55% of Argentina's total milk production, a total of \$230 million.

Although potential losses to the agricultural sector have not yet been calculated for this year, it is already a foregone conclusion that they will be dramatic. To this can be added the unpayability of the agricultural debt. Under Argentina's "convertibility" plan, agricultural producers obtained high indices of productivity and yield per hectare. But this was achieved through a policy of "competitive" prices and usurious loans which left producers not only without profits or the ability to reinvest, but also unable to meet either their debt payments or their taxes.

On Jan. 4, René Boneto, president of the Argentine Agrarian Federation, declared to *Ambito Financiero*, that "the small and medium producers are disappearing at an ever-increasing rate, because the government's agricultural policy is decimating them. . . . There are fewer and fewer of them. The interior of the country is becoming depopulated, and the consequences can be seen in the big cities. . . . [The producers are] victims of tax discrimination."

On Jan. 12, more than 2,000 agricultural leaders from around the country met in Pergamino (Buenos Aires province), to demand that the federal government change its tax policy toward the sector, as well as to provide greater incentives for agriculture, and to oppose the privatization of the Banco de la Nación Argentina.

In this context, on Jan. 28, the governors from, primarily, the northeast region and from Mesopotamia (Santa Fé, Misiones, Entre Ríos, Río Negro, Chubut, Buenos Aires, Mendoza, Formosa, Corrientes, and Chaco), who depend heavily on exports to the Brazilian market, demanded that Economics Minister Roque Fernández adopt protectionist measures. The Argentine Industrial Union has been calling for similar measures from the government.

However, the director of the Federal Administration of Public Income, Carlos Silvani, who is also a former official of the International Monetary Fund, made the position about these appeals for protection of the federal government crystal clear, in an interview with the daily *Clarín*: "We will act with maximum severity. If they don't pay, we will embargo, and then auction off. It's as clear as that. Look, I'm not saying that the appeals aren't legitimate, or that the people shouldn't be free to express themselves, but for me, once there is the law, that's it. That's the law and it must be applied."