Florida International University
FIU Digital Commons

LACC Occasional papers series. Dialogues (1980 - 1994)

LACC Publications Network

3-1-1988

Debtor States and the World Market: Explaining Mexican and Brazilian Foreign Economic Policy (Dialogue #97)

Dennis John Gayle
Florida International University, Department of Marketing and Environment

Follow this and additional works at: http://digitalcommons.fiu.edu/laccopsd

Recommended Citation
Gayle, Dennis John, "Debtor States and the World Market: Explaining Mexican and Brazilian Foreign Economic Policy (Dialogue #97)" (1988). *LACC Occasional papers series. Dialogues (1980 - 1994).* Paper 7.
http://digitalcommons.fiu.edu/laccopsd/7

This work is brought to you for free and open access by the LACC Publications Network at FIU Digital Commons. It has been accepted for inclusion in LACC Occasional papers series. Dialogues (1980 - 1994) by an authorized administrator of FIU Digital Commons. For more information, please contact dcc@fiu.edu.

DEBTOR STATES AND THE WORLD MARKET: EXPLAINING MEXICAN AND BRAZILIAN FOREIGN ECONOMIC POLICY

Dennis John Gayle
Department of Marketing and Environment
Florida International University

Dialogue #97
March 1988

Published by the Latin American and Caribbean Center
Florida International University
Miami, Florida 33199

Editor: Richard Tardanico
Editorial Assistant: Sofia A. Lopez

PREFACE

Dennis J. Gayle is a political scientist and associate professor of marketing and environment at Florida International University. A specialist in political economy, his recent publications include *The Small Developing State: Comparing Political Economies in Costa Rica, Singapore, and Jamaica* (Gower, 1986).

Richard Tardanico
Editor
Occasional Papers Series Dialogues

Introduction

Newly Industrializing countries (NICs) such as Singapore and South Korea may possess sufficiently strong sociopolitical structures to provide some economic flexibility, allowing adjustment to external change (Gayle, 1986: 164-170). Very large developing nations such as China and India may well be able to opt for substantial self-sufficiency. But most middle-income countries possess far fewer degrees of policy freedom. Within such countries, economic growth typically assumes the form of dependent development. This implies the persistence of relatively undifferentiated domestic economies, with rather narrow ranges of potential exports, continuing reliance upon external capital flows, and limited flexibility in adapting production to changing market conditions (Evans, 1979).

Among such states, Brazil and Mexico provide particularly interesting cases. These two countries contain the largest populations and domestic markets in Latin America, and generate the most substantial gross domestic products. Sophisticated bureaucratic-authoritarian governments have presided over successive phases of dependent development in both relatively resource-rich states (O'Donnell, 1975; Kaufman, 1979). In Brazil as well as Mexico, agricultural modernization has been associated with an increasingly impoverished peasantry, while the industrial working class has constituted an effectively coopted labor aristocracy. Both societies possess youthful demographic

profiles, with some 50% of their populations under age twenty. Average annual population growth is 2.9% in Mexico and 2.3% in Brazil. Public sector expenditure now accounts for approximately 53% of GNP in Mexico, and more than 33% in Brazil {1}

Together, they share the highest levels of external public debt in the Third World, with Mexico owing $100.3 billion and Brazil $109 billion, at the beginning of 1987. In recent years, both have devoted more than 4% of GNP to debt service payments. Between 1950-1982, their economies experienced industrial growth rates of 8.1% and 7.5% respectively. In Brazil, the agricultural sector's contribution to GDP declined from 25 percent to 10 percent, while the industrial sector's share rose from 26% to 37%. Meanwhile, in Mexico, agriculture provided less than 10% of domestic product by the early 1980s (22.5% in 1950), whereas the industrial sector generated 38% (1950: 30%).

These significant structural transformations were accompanied by increasingly regressive income distribution patterns {2}. Economic growth has been propelled by broadly similar import substitution and manufactured export promotion strategies {3}. International trade accounted for approximately 22% of Mexican GNP in 1984, and 18% of Brazilian gross national product. Unlike Brazil, Mexico repeatedly refused to become a GATT contracting party until 1985. However, both countries have negotiated multiple standby and extended arrangements with the International Monetary Fund since the 1950s {4}.

Comparable patterns can be clearly discerned in their trade

and payments flows. Figures 1 and 2 provide line charts of current account balances, export and import values and trade balances, as well as annual foreign direct investment, portfolio investment and reserve aggregates during 1979-1985. Notable trade surpluses were achieved and maintained after 1982, more as a result of import compression than export expansion. International reserve levels seesawed by substantial amounts between negative and positive values. Portfolio and foreign direct investment either stagnated or declined.

Please Place Figures 1 And 2 About Here

At the same time,Mexico and Brazil display both substantial sociopolitical differences and similarities. In what ways do world market instabilities impact such indebted developing state-societies? How are their differential policy responses and the observed results best explained? These are the central issues addressed by this paper.

Instability is incontestably evident within the interactive international trade and finance regimes, which together define the world market. For instance, global trade stagnated from 1976 until 1984, when volume expanded at an annual rate of 8.7%, before declining to a growth rate of only 2.9 in 1985. Meanwhile, protectionism increased within most trading sectors (5). Only 4-6% of global capital flows, estimated at $30 trillion to $50 trillion, are now linked to goods and services transactions, valued at some $2 trillion. Volatile currency

flows have come to dominate both cross-exchange rates and trade balances {6}.

By late 1984, when up to four-fifths of all international trade was conducted at floating exchange rates, currency value shifts of 3% in one day had become common, and changes of 5% were not unknown (WSJ, 1984: 14; Goldstein, 1984: 3). Such oscillations sometimes approached 10% within a single week. During 1983-1985, debt rescheduling agreements averaged $54 billion annually. However, by the end of 1985, developing debtor states had arranged to reschedule a record $119 billion of external debt (Economist, 1986b: 98).

At that point, the outstanding external debt of such countries totalled $888.3 billion, with aggregate annual debt service payments amounting to $131.4 billion (IMF, 1986b: 242). In partial consequence, total developing country import values fell by 6.5% in 1985, accompanied by a decline of 5.5% in merchandise export values (GATT, 1986: 14). Since 1985, the IMF has declared five countries ineligible for further loans under Article V, section 5 of its Charter: Vietnam, Guyana, Liberia, Sudan and Peru {7}. Meanwhile, extreme trade imbalances among the advanced industrial countries expanded {8}. Additionally, an extensive range of international currency arrangements encouraged cross-exchange rate oscillation, absent effective macroeconomic policy coordination within the OECD {9}. The sections which follow successively explore world market structure, and explain Mexican as well as Brazilian foreign economic policy choice

during the 1980's.

Exploring World Market Structure

GATT is both a legal instrument and a focus for international bargaining, functioning within a highly charged political context. Within GATT, where the MFN principle extended benefits to all contracting parties, the reciprocity principle was premised upon both mutual and equivalent concession, as well as the right of direct retaliation. By the early 1980's, substantive international trade regime norms had undergone significant change since institution of the General Agreement of Tariffs and Trade in 1947, involving only twenty-three contracting parties. It became increasingly clear that prevailing US perspectives as to the nature of an ideal trading system were sharply at variance with the attitudes of many national decision-makers, particularly within the developing countries (Vernon, 1985: 277).

Major economic norms presently include protectionism, countertrade, multinational corporate arrangements and intra-corporate transfers, cross-exchange rate oscillation, increasing international indebtedness and IMF conditionality. Protectionism has become a pivotal norm, expressed in terms of national trade restrictions which have cumulatively limited international trade (10). Meanwhile, national reserve limitations and exchange rate fluctuations increasingly encouraged

sophisticated country-to-country barter. Conservatively measured, international countertrade accounted for at least 5% of total trade value in 1983 ($80 billion), excluding some $130 billion in CMEA internal trade and exchanges conducted under special clearing arrangements (OECD, 1985a: 11-12). By 1986, 7-10% of international commerce consisted of countertrade, which was systematically practiced by more than sixty states (GATT, 1986: 138).

Additionally, up to thirty percent of international trade is now conducted between closely related corporations, that typically operate on the basis of global production, marketing and financial strategies (11). National trade accounts continue to ignore the implications of multinational corporate activity. Conventional models of international trade remain rooted in the principle of comparative advantage, with national economies as the units of analysis. However, in global industries such as aircraft and automobiles, a firm's competitive posture in one country is significantly influenced by its position in other nations. Within such industries, enterprises seek to develop the single most advantageous transnational corporate structure, in such a way as to optimize comparative advantage in specific activities rather than particular locations (Porter, 1986: 9-40).

Meanwhile, corporate money managers, with responsibility for an aggregate foreign exchange pool of over $188 billion, continually seek maximal real international interest rates and cross-exchange rate profits, irrespective of the instabilities

generated for specific state-societies. Especially in financial management, the world is increasingly treated as a set of integrated profit centers. Central decisions as to the disposition of local earnings and cash flows are executed in near real time, with obvious implications for exchange and interest rates.

From a multinational corporate perspective, foreign direct investment (FDI) is equivalent to 'internalized trade' (Vaitsos, 1980: 31). Where one-third of global FDI was directed towards developing states in 1965, the comparable ratio was only one-quarter by the end of the 1970s. At that point, more than 80% of world trade, as well as 66% of global output was generated within the OECD (GATT, 1982: 7). Both foreign direct investment and commercial loan activity remain intensely concentrated. Between 1981-1985, foreign direct investment in the developing countries declined by 50%, and commercial bank lending by 75% (12).

Cross-national corporate arrangements proliferate. AT&T purchases Olivetti shares. IBM concludes cross-licensing arrangements with Sony, Siemens, ICI and Philips. General Motors teams up with Toyota. Chrysler and Mitsubishi Motor Corporation make mutual commitments. Boeing forges links with Fuji, Kawasaki and Mitsubishi Heavy Industries. Ford joint ventures with Mazda. Such tactical and strategic alliances represent corporate responses to rapid technological change, intense competition, particularized protectionist pressures and the emergence of a complex global market. These arrangements assist in controlling

competition, achieving market access, and maintaining market shares, by increasingly combining product differentiation with intra-industry trade, particularly in research and development-intensive items. Such arrangements are of prime implicit if not explicit policy importance for both developed and developing decision-makers.

Returning to related financial regime norms, since establishment of the IMF in 1944, finance regime norms have been created by successive layers of multilateral monetary agreements, and by the major multinational banks (Aronson, 1977). Meanwhile, the International Monetary Fund has become deeply involved in detailed debtor country surveillance (13). Ever since 1958, Fund country programs have been typically premised upon domestic demand restraints, currency devaluation, market deregulation and export promotion. These steps are intended to create a framework for potentially effective medium-term debt management capabilities. The policies of the Fund rest upon four explicit propositions. First, a sound adjustment strategy is an essential prerequisite for growth. Second, such a strategy must include incentives to save and fiscal prudence, as well as a realistic exchange rate policy.

Third, price rigidities must be reduced if not removed entirely. Fourth, inefficient public sector enterprises and taxation systems are often major economic growth constraints. Thus the alternative to politically painful adjustment is not growth, but unsustainable levels of inflation and unemployment.

Three operating if infrequently realized premises also merit attention. Creditor countries are required to maintain high real growth rates, and to liberalize imports. In implementing economic liberalization programs, sequence is important: debtor states should first control fiscal deficits, before deregulating their current accounts, reforming domestic financial markets, and relaxing capital controls (Edwards, 1987: 26-29). Finally, the health of the international economy remains paramount: whether the structural problems to be addressed are predominantly internal to specific debtor states or external in origin is immaterial.

The dangers of implementing standard Fund programs have included declines in effective demand as well as imports, regressive income redistribution, and even dilated domestic inflation. Within democratic political systems, leaders may postpone unpopular adjustment policies in the face of mobilized opposition (Skidmore, 1977; Kaufman, 1985). Continued economic crisis may encourage social instability and political repression. External investment tends to become increasingly concentrated within subsectors which are thought likely to yield net profits rapidly. Disinvestment ensues elsewhere. One result may well be a rather perverse decrease in overall investment volume. In such circumstances, additional repression may become a lagged response to growing instability. Indeed, among the developing debtor countries, past program successes have been most strongly associated with rather authoritarian governments. Examples

include India, Uganda, Haiti and Zaire at different periods during 1981-1986 (14).

On the other hand, democratic governments may be able to encourage sufficient short-term sacrifice to effect economic adjustment, given widely accepted legitimacy. An ability to do so depends upon abrupt policy implementation, elite cohesiveness and an inclusive policy formulation process. Other relevant factors include relative administrative maturity, the comparative power of domestic distributional coalitions, access to non-conditional financial resources and the perceived success of earlier governments in adjusting the domestic economy (Nelson, 1984; Haggard, 1985; Remmer, 1986).

The short-term causes of debt expansion have universally included oil price fluctuations from $2.54/barrel in 1973 to a zenith of $33/barrel in 1983, to a nadir of some $10/barrel in 1985. These changes have been coupled with rising real interest rates between 1981-1985, declining commodity prices since 1984, and spreading international protectionism. However, for some 'northern' analysts, part of the problem has been a Third World penchant to live beyond its means and adopt ineffectual political postures, while unaccountably enlarging public sector size, contrary to economic if not political rationality.

For instance, in 1983, a Reagan Administration official declared that most Mexican and Brazilian debt had been incurred by Petroleos Mexicanos (PEMEX) and Petrobras respectively, and that as a solution, these national oil corporations should be

sold off to interested foreign investors (Eul-Soo Pang, 1984). Similarly, a former Citibank chairman commented that the February 20, 1987 Brazilian moratorium on servicing $68.0 billion in debt was merely a counterproductive domestic political posture, the sooner abandoned the better for all concerned (Scherer, 1987: 7).

Explaining the Mexican and Brazilian Cases

In summation, differential Mexican and Brazilian responses to world market instabilities are best explained by the interaction of critical domestic coalitions, within a policy environment where the most important features include geohistorical factors, sociopolitical development, and relative participation in transnational corporate activity. Although revolutionary myths have generated substantial state legitimacy for Mexico, the imperatives of coalition stability within the PRI have made strategic policy choice and implementation increasingly impractical. Ironically, particularly since the period of the Echeverria administration, economic nationalism has effectively paved the way for growing trade dependence upon the neighboring United States (15). By comparison, Brazil's economic vitality has been augmented by active involvement in a relatively wide range of global industries.

Yet in Brazil, the recurrent pursuit of enhanced state legitimacy sowed the seeds of both hyperinflation and reduced political stability. Military rule was both justified by a widely accepted need for orderly progress, and undermined by domestic socioeconomic crisis, which was strongly correlated with international regime instability. Both governments have continued to play leading roles as regulators and producers, as well as service providers, a perceived political imperative. Where Mexico's recent responses link economic growth and sociopolitical stagnation, Brazil has combined economic immobilism and sociopolitical volatility. Even so, neither state-society fits comfortably within the confines of the pure dependent development model.

By 1984, Brazilian and Mexican GDP, at $187.1 billion and $171.3 billion respectively, were each greater than those of ten OECD countries, including Switzerland, Austria and the Scandinavian states (IBRD, 1986: 185). In 1985, Mexico's Pemex was the sixth largest non-US corporation in assets, and the twenty-fifth in sales. Meanwhile, Brazil's Petrobras and Telebras were 27th and 59th largest, respectively, in asset size (Ward, 1985). However, Mexican and Brazilian GNP per capita, at $2,040 and $1,720 respectively (1984), were substantially less that those of any advanced industrial nations. Figure 3 compares the Brazilian and Mexican policy environments, summarizing the major similarities and dissimilarities which are evident.

Please Place Figure 3 About Here

Where events may be matters of empirical record, the 'working knowledge' of local decision-makers represents far less accessible independent variables (Kennedy, 1983: 193-212). It is this array of beliefs, assumptions, interests and experiences that will be explored here, as they interact to influence policy choice. This section therefore examines industrialization strategy and the evolution of foreign economic policy, in each case, through the prisms provided by state-society structure, political change and nationalist ideology.

At least since the Vargas era, Brazil has been continuously governed in a bureaucratic-authoritarian manner by corporatist coalitions. These have always included the predominantly middle-class officer corps, as 'rulers' during the decade to 1984, and 'moderators' otherwise. Yet Brazil's formal political institutions have remained relatively weak. For instance, in January 1985, Tancredo Neves overcame the electoral college's evident lack of legitimacy by cultivating public support, and by molding an alliance of nearly all the political opposition to the Figueredo administration, under the PMDB umbrella. Powerful socioeconomic coalitions persistently applied such indirect or informal pressures to state organs, in order to secure their goals. At the same time, patron-client interactions (<u>coronelismo</u>) remained central to the political process. Consequently, intra-class conflict became more important than

classical social cleavages (Jaguaribe, 1968; Schneider, 1971; Schmitter, 1971).

Success in the Brazilian army has been closely related to academic achievement since the institution of the Higher War College in 1949, with a curriculum strongly rooted in the social sciences, as well as in more traditional military courses. A central doctrine disseminated at the College was that internal security was intimately related to the effective promotion of economic growth and nationalist modernization by the state (Nordlinger, 1977: 51). In turn, effective state policy could only be assured by the military. Indeed, after the narrow electoral victory of Kubitschek and Goulart in October 1954, the influential political journalist Carlos Lacerda underlined the pivotal role of the armed forces, publicly arguing that the new government had been born and could continue only with the agreement of those officers who had been responsible for the removal and death of Vargas (Tribuna da Imprensa, 1955).

As in the case of Brazil, the major value orientations of Mexico's state-society are best understood in terms of an idiosyncratic historical evolution, within the extended policy environment. First, Mexico's political institutions were put in place by a coalition of middle-class nationalists and constitutionalists, who immediately emphasized import-substitution industrialization, as a means of reducing Mexican dependency. Their common search for national self-determination responded to a long history of foreign invasion and occupation.

Perhaps the single clearest expression of this was the 1973 foreign investment law, under which foreigners may not own more than 49% of locally incorporated companies. Export diversification (as well as GATT membership) was long rejected, because integration into the international market appeared to increase national vulnerability, and reduce relative state autonomy (Mares, 1985: 672). On the other hand, trade and foreign exchange controls increased employment within the government, as well as political patronage possibilities, at least in the short to medium term.

Second, major state organizations have directly influenced the processes of problem formulation and goal definition, in an application of bureaucratic politics. Foremost among such public corporations is PEMEX, which has presided over the most dynamic sector of the economy since 1977, accounting for up to 15% of gross national product (Millor, 1982: 151). Third, each new presidential administration has developed a unique approach towards foreign economic policy choice and implementation. For example, where the Lopez Mateos administration applied state resources to renewed import substitution, the succeeding <u>sexenio</u> of Díaz Ordaz (1964-1970) emphasized export promotion (Bennett and Sharpe, 1984: 197-198). Finally, the 'dominant party system' provided both a unifying revolutionary myth and regular leadership change, together with assured regime continuity (Whitehead, 1980: 843-864).

Mexican and Brazilian political development diverged rather

sharply, with the installation of the military government of Castello Branco in 1964. The modal political orientations of the Brazilian officer corps were best summarized as follows:

> The political system, relying on popular election for congressional representation, proves incapable of digesting the often harsh restrictive measures needed to curb inflation, and to extract fiscal resources for development... Latin American states are known to want capitalism without profit, socialism without discipline, and foreign investment without the foreign investor (16).

To be sure, the medium-term failure of the 1986 cruzado plan can be partially placed in context by recalling the economic and sociopolitical results of Quadros' anti-inflation policy (17). Under Instructions 204 and 208 of March 1961, the cruzeiro was devalued by 100%. Subsidies applied to essential imports, such as wheat, petroleum and capital equipment were cut, so as to reduce the government's budgetary deficit. A credit and wage squeeze was introduced. These measures encouraged renewed confidence on the part of foreign creditors, who announced substantial new credits, and extended earlier agreements.

But they also sharply increased food and transport prices, inter alia. In consequence, industrial action became frequent, particularly among public sector unions. Quadros' replacement by João Goulart, in September 1961, did not head off a violent general strike, during the summer of 1962. In response, the government implemented a comprehensive three-year plan in 1963, which sought to tackle social and economic problems together, for the first time. A primary target was to contain inflation at the rate of about 10%, while generating economic growth of

approximately seven percent. However, opposition to the Plan's stabilization measures mounted from both left and right, opening the way for the 1964 coup, which was led by conservative military officers.

In an important sense, Mexico's oil wealth has encouraged the postponement of difficult policy choices, reducing elite incentives to promote or acquiesce in sustained sociopolitical development. When López Portillo became president in 1976, Mexican industrial production was declining and the nation was experiencing its highest inflation rate in decades. Within a year of taking office, the new president negotiated a bilateral trade treaty with the United States, which accounted for two-thirds of all Mexican trade. In the event, political controversy made ratification by the Mexican Congress impractical.

Nevertheless, since the 1910-1917 Revolution, the Mexican state has achieved greater institutionalization and legitimacy than in the case of Brazil, where political parties allied in one state fought each other in the next, and voters turned to an assortment of easily identified caudillos. By contrast, if the 1936 Law of Chambers of Commerce and Industry obliged all Mexican businesses to organize by areas of economic activity, the presidency had already attained substantial acceptance as ultimate arbiter within a nationwide Revolutionary Family (Newell and Rubio, 1984: 67-68). The controversy associated with budget minister Salinas De Gortari's receipt of the dedazo in October 1987 indicated unprecedented strains within the Family, but not

its impending dissolution.

International Economic Norms and Domestic Responses

At least initially, established Mexican state legitimacy implied neither the expansion of autonomous political participation nor explosive public sector growth. For instance, where Lazaro Cardenas mobilized organized labor in support of his presidency from 1934 to 1940, creating increasing domestic political polarization after 1937, Getulio Vargas' Estado Novo in Brazil effectively depoliticized the lower classes (Collier, 1984: 68-70). It was the Brazilian state that implemented a protectionist drive towards industrialization, underpinned by an explicitly authoritarian political system, in the name of orderly development and economic nationalism (18). If the Miguel Aleman administration in Mexico also instituted a vigorous import substitution program, the private sector was initially entrusted with the role of primary growth agent. This policy appeared justified by the economy's achievement of an average annual real growth rate of 6.5% (Reynolds, 1970: 39). In both the Mexican and Brazilian cases, the maintenance of a dominant coalition which included exporters, was necessary for sustained policy emphasis upon growth rather than distribution.

For instance, in the late 1950s, the Kubitschek administration assigned high priority to infrastructural development in Brazil. At the same time, skilled wages declined

in relation to unskilled earnings, and the real minimum wage fell in absolute terms (Olivera, 1962). But intense nationalism coexisted with increasing dependence upon foreign investment. Indeed, the government financed an Institute of Advanced Brazilian Studies, where vocal advocates of ultra-nationalist development strategy gathered. The International Monetary Fund became a prime target for such groups.

As negotiations on a new stabilization program with the International Monetary Fund proceeded, at the beginning of 1959, critics contended that the IMF sought to apply criteria to a rapidly industrializing Brazil that were derived from the experience of advanced industrial states, and inappropriate in other policy environments. Negative political assessments of implemented Fund programs have accumulated in both Brazil and Mexico during more than a quarter century now. Thus, in summer 1959, as national elections approached, Brazil dramatically broke off negotiations with the Fund.

In partial consequence of this populist posture, Kubitschek became the first (and last) civilian elected president of Brazil since 1926 to hand over power peacefully to his successor, at the end of a full term of office. This invites contrast with representative views among US commercial bankers that the IMF provides both irreplaceable finance and economic management for indebted states, an offer only refused by irresponsible politicians (Truell, 1987: 37).

In the cases of both Brazil and Mexico, economic adjustment

has proven to be more than an issue of short-term sacrifice. Democratic governments have repeatedly emerged as ineffectual in implementing prolonged programs of austerity. For example, Mexico's 1986 economic crisis strengthened the PRI's populists, who excoriated both the International Monetary Fund and foreign commercial bank creditors. At the same time, the PAN continued to score political gains, particularly within northern urban areas. On the other hand, non-oil exports soared by 37% in 1986, surpassing oil export growth for the first time since 1979. Additionally, as petroleum prices became firmer in 1987, at approximately $18/barrel, the prospects that $7.0 billion in debt service would be paid commercial creditors, without insurmountable difficulty, appeared to improve.

By contrast with Mexico, in both 1984 and 1985, Brazil's export earnings were enough to meet the nation's debt service charges. In 1985, Brazil paid $10.2 billion out of its 12.5 billion trade surplus in interest charges. Meanwhile, rising consumer demand combined with falling international interest rates and oil prices to spur the highest growth rate of any nation in the world, at 8.3%. Yet in examining the state of affairs in Brazil, the new Sarney administration perceived both a social and an economic crisis. Inflation was increasing at an annual average rate of 250%. Unemployment remained at 12% of the labor force. Moreover, at least 30 million Brazilians (almost 25% of the population) existed "in a state of absolute misery." Consequently, the government decided to devote an initial 10.5%

of GNP to 'social welfare' investments, such as school lunch programs, health, education, housing and social security (Sarney, 1986: 108-109).

By 1985, Brazilian imports from the United States amounted to $3.1 billion, compared with total bilateral trade of $11.2 billion. But the range and intensity of US-Brazilian trade disputes were expanding. For instance, in 1984 Washington imposed a countervailing tariff on ethanol, and an 800,000-ton quota upon steel from Brazil, contending that domestic subsidies had been provided in each case. Similar disputes arose with the EEC. Subsequently, the US filed formal protests regarding the use of state subsidies for Brazil's aircraft industry, and the declared persistence of product counterfeiting as well as patent infringement.

Additionally, Brazil's 1984 Informatica Law comprehensively banned imported robotics, minicomputers and microcomputers. This legislation effectively enabled local entrepreneurs to increase their share of the country's 2.7 billion computer market from 23% in 1979 to 56% in 1986. It also led to a US investigation under section 301 of the 1974 Trade Act, and threatened retaliation by mid-1987. On the other hand, US trade barriers forced a reduction of some $750 million in 1985 imports from Brazil. Furthermore, Brazilian debt service payments to US-based commercial banks of some $9.0 billion in 1986 were unfavorably compared, in Brasilia, with a bilateral trade surplus of 2.9 billion. Subsequent deletion of Brazil from the US GSP schedule

will account for a further $400 million in lost export markets during 1987.

Since the mid-1970s, Brazil has emphasized countertrade, usually organized through the Petrobras subsidiary Interbras, with the goal of a least matching import licenses and export contracts. Similarly, Mexico has encouraged barter transactions, especially since the exchange control system set up in September 1982. For instance, foreign firms in the automobile sector must balance imports with exports, and foreign investments in electronics have been subject to a 75% output repurchase or export obligation (OECD, 1985a: 32, 37).

Figures 4 and 5 compare Brazilian and Mexican export as well as import values during 1979-1985, together with major commodity export proceeds in each case. These reflect the export of neither minerals such as Brazilian iron ore and bauxite, nor steel, automobiles and other manufactures (19). However, even when only energy and agricultural exports are taken into account, these figures clearly demonstrate that whereas Mexico continued to depend heavily upon petroleum exports, Brazil successfully emphasized export diversification and expansion. This was particularly after 1983, when manufactures and semi-manufactures together represented nearly two-thirds of total export proceeds. At the same time, some 40% of Brazil's exports were generated by multinational corporations.

Please Place Figures 4 and 5 About Here

In Mexico, by contrast, maquiladoras or in-bond industries, established by US companies, had become the second largest foreign exchange source by 1985. In 1986, such industries employed 256,000 workers (11% of total industrial employment) in 891 plants, producing $1.5 billion in value added (Banamex, 1985: 534). Where largely foreign-owned subsectors, such as electrical motors, semi-conductors and television receivers accounted for 44% of total 'maquila' exports, labor-intensive products such as made-up clothing generated only 9 percent of border exports (Dillman, 1983). Such factories tended to be smaller, and to possess a relatively large proportion of Mexican capital investment. Taking the Mexican and Brazilian cases together, overall export earnings flows remain comparable, with some $21 billion and $26 billion earned, respectively, in their best recorded year of 1984. Even so, the effect of pronounced fluctuations in Mexican petroleum export proceeds remains evident.

Initial Mexican public sector growth can be more clearly linked to state structure and domestic political objectives than in the Brazilian case. It was during the second Vargas term (1951-1954) that the Brazilian estatais or state enterprise sector first rapidly expanded. Such enterprises included the National Bank for Economic Development (1952), Companhia Vale do

Rio Doce (1983) and Petrobrás (1953). These institutions were typically seen as powerful instruments of national development, which stimulated private sector activity in related areas, while promoting regional integration (Seplan, 1984: 57-67).

For example, the establishment of Petrobrás followed two years of intense elite debate as to how Brazil's oil requirements, which were growing at over 10% per annum, could best be met. The declared global priorities of the international oil majors then active in Brazil appeared incompatible with perceived national needs for vigorous local prospecting (Wirth, 1970: 255). Later, during the 1970's, Petrobrás' tanker expansion program stimulated the growth of shipbuilding industries. Drilling activity also encouraged engineering diversification and growth, as well as the emergence of new platform construction companies. Additionally, Brazil became approximately 50% self-sufficient in oil.

Eventually, getulismo came to represent a commitment to more widely distributed resources and opportunities (Flynn, 1978: 181). But where Mexico was able to limit populist demands for ever-expanding public expenditure, during the 1950-1964 desenvolvimentista period the Brazilian government resorted to inflationary increases in state spending, in an effort to generate greater legitimacy (Graham, 1984: 41). This paradoxically encouraged expanded political instability. In contrast, between 1929 and 1985, the National Revolutionary Party (PRI) maintained exceptional domestic political stability in

Mexico, by either incorporating or co-opting most major coalitions within the state-society. Recurrently struck political bargains elicited support for the system, because of guaranteed long-run compensation for any short-term losses incurred (Dominguez, 1982: 10-11). The unitary aspirations of the party were premised upon perceptions of a compelling need for collective harmony, in the spirit of not only Simon Bolivar, but also of Thomas Aquinas, Jean-Jacques Rousseau and Augute Comte (Dealy, 1985: 108-127).

Among other things, this has meant comprehensive subsidies for basic food items, in direct contradiction to the programmatic requirements of the International Monetary Fund. President Echeverría explained the rationale for such policies:

> Through the Revolution, we have achieved liberty, internal peace, sustained growth and self-determination for all citizens. However, there still remain serious scarcities and injustices that threaten our conquests: excessive income concentration and the marginalization of many fellow citizens endanger continued economic development. We cannot rely exclusively upon institutional equilibrium and increased wealth as solutions to our problems (<u>Excelsior</u>, 1970: 18).

However, since the composition of the governing coalition within the Party experienced at least potentially substantial shifts after the inception of each <u>sexenio</u>, succeeding governments became increasingly less able to pursue long-range socioeconomic strategies. Furthermore, in order to maintain the minimal conditions required for coalition stability, recent presidents have avoided addressing serious structural problems, whenever

possible (Newell and Rubio, 1984: 77).

By contrast, during the mid-1960s, when confronted with a consumer price index which was rising at an annual rate of 91.4%, combined with lackluster GDP growth of 2.9%, the Brazilian military regime effectively implemented a policy of fiscal and monetary restraint. The government also instituted a package of extensive export incentives. For instance, in 1965, export earnings were eliminated from taxable corporate income, and deductions were allowed for expenses associated with foreign sales promotions. In 1968, Brazil began regular cruzeiro mini-devaluations, so as too maintain export competitiveness. At that point, export earnings were only $400 million more than they had been in 1956. However, export values surged thereafter, by more than 30% in some years.

In both countries, explicit export promotion policy became increasingly important over time. Thus,in 1969 the Brazilian government introduced a 'credit-premium,' or special state subsidy, amounting to 15% of export value (20). Similarly, the Echeverría administration had introduced export subsidies in Mexico by 1971, although these were counteracted by increasing exchange rate overvaluation, and only marginally reduced protectionism. Additionally, Brazilian exporters were allowed to borrow government funds at fixed interest rates, which were substantially lower that expected consumer price index increases. After achieving real average annual GDP growth of 7% during 1945-1960, South America's 'half-a-continent' entered the years of

the economic miracle (1965-1974), recording real GDP growth of nearly 10% each year.

By the time of the first OPEC crisis in winter 1973, however, the military regime was forced to choose between continued reflation, in an effort to maintain the momentum of economic growth, or reversion to restraint, so as to offset renewed inflation and an emergent trade deficit. An intermediate strategy was adopted, primarily for political reasons. Since the military government had justified its rule largely by means of its economic management, it was feared that a recession would undermine the armed forces and antagonize civilian groups (Richards, 1986: 464). Similar considerations governed the regime's responses to the second oil shock of 1979-1980. One summary measure of Brazilian economic development under military rule is that during 1964-1984, external debt expanded over twenty-eight times, while per capita income barely doubled. However, creditor confidence has been comparatively consistent. During 1974-1982, estimated capital flight from Brazil was approximately 4.3% of gross external debt. By contrast, Mexican capital flight amounted to $32.7 billion, or 34.3% of such debt (Khan and Ul Haque, 1987: 4).

Critical Domestic Coalitions and State Policy Choice

Where the critical economic coalitions in Brazil have been alternately led by relatively conservative military technocrats

and at least partially populist civilian elites, the major political fault lines in Mexico have been those between pragmatic internationalists and economic nationalists. Mexico's first significant response to a gathering post-1980 economic crisis occurred in February 1982, when the peso was allowed to drift downward by 67%, reaching 45 pesos/US$1.00 (Anaya and Sanchez, 1963). A coalition of free market advocates, led by Finance Secretary Jesus Silva Herzog and Central Bank Director Miguel Mancera, implemented a package of continued mini-devaluations and increased interest rates. However, a 34.2% adjustment of the minimum wage on January 1, 1982, which was intended to compensate for the effects of inflation during the preceding year, was followed by an emergency wage increase of 30% three months later.

Taken together, these salary adjustments, which were greater than the inflation rate, increased both effective demand and prices. Meanwhile, a coalition of economic nationalists called for expanded state intervention and market controls. A leading member of this group, Carlos Tello, replaced Mancera as president of the central bank in mid-year, although Silva Herzog remained finance minister. Two resulting policy changes were the creation of a multiple exchange rate system, and the nationalization of Mexican-owned private banks on September 1, 1982 (21). With the installation of President Miguel de la Madrid in December, the influence of the economic nationalist coalition temporarily waned, and Mancera returned to the central bank.

The new administration offered a ten-point program which

emphasized reduced growth in public sector spending, increased public sector efficiency, foreign exchange market rationalization and fiscal reform. However, political imperatives remained central to policy choice: this platform also included pledges to protect employment and the domestic economy, and to guard the government's role as 'rector' of Mexico's mixed economy (Banamex, 1982: 593-612). Similarly, in Brazil, president-elect Tancredo Neves responded to the problems of external debt ($99.6 billion) and internal inflation (300% annual rate) in early 1985 by proposing administrative austerity, flexible price controls, and limited privatization. However, he opposed any reduction in the real incomes of salaried workers, while favoring agrarian reform and resource transfers from expensive infrastructural projects to social expenditures, such as low-cost housing, nutritional programs, and credit for small farmers (Sanders, 1985: 2).

In the short-run, Brazilian military governments have typically been more effective than their civilian counterparts in encouraging structural macroeconomic change. Meanwhile, Mexico's PRI has increasingly combined attempted inclusiveness with mobilized participation and coercion, in an effort to attain both improved economic management and sociopolitical stability. This course of action yielded both some immediate benefits and substantial longer-term costs, comparable with those encountered by Brazil during the 1960s. For instance, after granting a 25% increase in the minimum wage in January 1983, the Lopez Portillo government was able to hold mid-year salary settlements to 15.7%

in the face of a 50% demand made by the Mexican Labor Confederation (CTM). But as a result of defeat by the opposition National Action Party (PAN) in the Chihuahua municipal election, the governing PRI began to rely upon widespread electoral fraud.

At the same time, an Emergency Jobs Program provided up to 700,000 temporary jobs in public works, compared with new unemployment amounting to an estimated 1.5 million. Mexico became a model of economic recovery by generating a global trade surplus of over 14.5 billion. In 1984, the Mexican economy expanded by 3.5%, and a trade surplus of almost $14 billion was again attained. Consequently, the nation's commercial creditors agreed to a long-term debt rescheduling that included interest rate reduction, and a grace period of five years on principal payments. But in 1985, Mexico faced debt service payments of $11.8 billion, with a trade surplus of only 47.8 billion. During 1986, when external debt mounted to $97.7 billion, Mexico lost some 60% of the value of its oil exports, which in turn, constituted over 70% of all export earnings.

Both countries have also displayed partially convergent responses to their trade and payments outcomes. For example, when Brasilia's 1986 trade surplus of some $9.5 billion was more than cancelled by $12 billion in interest payments (22), then Finance Minister Funaro declared that no more than 2.5% of Brazil's gross national product (an estimated $7.0 billion) would be spent on servicing foreign debt in 1987 (Fortune, September 15, 1986: 84). Similarly, during a nationally televised speech

made on February 21, 1986, President Miguel de la Madrid argued that Mexico's debt service should be linked to the country's ability to pay.

In turn, this capacity to pay was constrained by protectionism in the markets of OECD trading partners. The levels of international interest rates were not sacrosanct, and could be altered by mutual agreement. Finally, success in implementing international economic policy required much more cooperation on the part of all states. The interest payment moratorium declared by Brazil on February 20, 1987, together with Brasilia's request for $4.0 billion in new loans and savings from debt rescheduling, can be incompletely explained as a demonstration effect of the 1986 Mexican loan agreement (23). But domestic sociopolitical and economic dynamics play a much more fundamental explanatory role, together with the 'maturation effect' of continued cycles of debtor-creditor interaction.

In both Brazil and Mexico, the critical domestic coalitions which influence policy choice include large public sector corporations such as PEMEX and Petrobras, populist politicians in the PRI and the PMDB respectively, as well as major industrialists and financiers, with transnational corporate linkages in many cases. These coalitions act as far as possible to sterilize the domestic political system, if not the economy, from the negative effects of world market instabilities, such as expanding OECD trade imbalances and cross-exchange rate changes. Thus in Mexico, the maintenance of the estado rector rather than

either maximal economic growth, income redistribution or more autonomous political participation, remains a prime PRI concern.

Within the PRI, 'Democratic Current' dissident leaders might demand more revolutionary nationalism; that Mexico's $7.7 billion requirements in new 1986-1987 commercial loans were oversubscribed, continues to be more important for most members of the nation's dominant coalitions. Similarly, in 1987, Brazilian finance minister Bresser Pereira opted for accelerated devaluation (8.49%) and expanded export proceeds if possible, rather than substantial economic growth. Meanwhile, the PMDB, which held 22 of the country's 23 state governorships and absolute majorities in both houses, remained deeply divided between social democrats and conservatives. Where the former group emphasizes policies such as raising Brazil's $37 minimum monthly wage, cutting the working week to 40 hours from 48, and opposition to the traditional premises of IMF country programs, relative conservatives, led by President Sarney, Justice Minister Paulo Brossard, and several state governors, tended to be more amenable to liberal economic policies and foreign creditor conciliation.

Conclusion

It has been shown that the main substantive economic norms include protectionism, intra-corporate transfers as well as transnational corporate arrangements, volatile currency flows and

expanding developing country debt. Although significant change continues to occur in regional output, trade and bank asset ratios, for most middle-income developing countries economic growth remains synonymous with dependent development. Among such nations, Brazil and Mexico were selected for examination, as prime members of a state-society set which potentially possessed at least some economic policy autonomy.

The principal objective was to explain their respective policy responses to continued world market instabilities. For the purposes of this task, the world market was analyzed as a construct which resulted from interaction between the international trade and finance regimes. These international regimes remain dynamically unstable. This is evidenced, in part, by extreme trade imbalances and exchange rate instability, as well as continued external debt expansion.

Brazil and Mexico are similar on many dimensions. These include population, demographic profiles, domestic market size relative to other Latin American states, economic structure, industrial growth rates, foreign economic policy evolution and trade as well as payments flows. On the other hand, major dissimilarities in their policy environments emerge, when their sociopolitical development patterns, geohistorical evolution, and current relative participation in transnational corporate activity are examined. One important consequence observed is that where Mexico's recent policy responses to world market instabilities link economic growth and sociopolitical stagnation

Brazil has continued to combine economic immobilism and sociopolitical volatility. These cases document the dynamics by which continued economic crisis tends to encourage either social instability or political repression, if not both, even within pluralistic democracies. They also emphasize the potential for mutual misperception between most OECD states and such indebted developing countries, across a range of trade and financial issues. In either case, state policy choices continue to be forged during negotiations among critical domestic coalitions, that respond primarily to the perceived fit between international economic norms and internal political imperatives.

Notes

(1) During the presidencies of Luis Echeverría (1970-1976) and Jose Lopez Portillo (1976-1982) in Mexico, the parastatal sector exploded from 84 organizations in 1970 to 740 in 1976 and 1,155 in 1982 (Villareal, 1978: 213-245; El Mercado de Valores, 1986: 753). Similarly, between 1974-1983, the participation of government firms in the net assets of the two hundred largest non-financial enterprises in Brazil increased from 67% to 76%, and in sales, from 35 percent to 53 percent (Visao, 1984: 49-56).

(2) In Brazil, the national income share accruing to the lower fiftieth percentile of the population declined from 17.7% (1960) to 15.6% (1970), while the share accruing to the top ten percent expanded from 39.7% in 1960 to 46.4% in 1970, to 47.7% in 1980. In Mexico, the lowest 20% of all income earners received 7.8% of the national income in 1950, but only 1.9% in 1975, while the share of the top ten percent expanded from 38.6% in 1950 to 43.5 in 1975 (Geyer and Van Der Zouwen, 1982).

(3) Both economies experienced primary product export dependence between 1880-1930, before successively embarking upon first horizontal (1930-1935) and then vertical (1955-1970) import-substitution industrialization, followed by the most recent policy phase of diversified export promotion (Evans, 1984: 120-125).

(4) Mexico's standby and extended arrangements with the Fund took place in 1954-1955, 1959, 1961-1962, 1977-1979 and 1983-1984. In turn, Brazil's standby and extended arrangements with the Fund occurred in 1958-1959, 1961-1962, 1965-1973 and 1983-1984.

(5) Between 1975-1977, the OECD states applied new restrictions to 3-5 percent of world trade flows, valued annually at $30-50 billion (Long, 1977). Where nine advanced industrial countries imposed no nontariff barriers to manufactured imports in 1974, all such states had resorted to NTBs by 1980 (Page, 1983: 17-40). Within Europe, NTB market coverage ranged from 17.9% in the case of the Benelux states to 48.8% in Switzerland. Of some 114 safeguard actions in effect between 1978-1983, only 30 were taken within GATT. The remainder, including thirty-seven voluntary export restraints or orderly marketing agreements, all ignored GATT stipulations (UN, 1983: 30-33). Restricted manufactured product groups accounted for at least 30% of total OECD consumption in 1983, compared with 20% in 1980. During the same period, the proportion of restricted OECD trade rose from 31% to 73% in steel, and from 53% to 61% in textiles and clothing (OECD, 1985b: 11-12).

(6) However, Citibank estimates suggest that cross-trades account for most capital transactions, and that daily long-term capital movements did not exceed $500 million (or the total monthly interest payment of Brazil) in 1986.

(7) The only precedents include France in 1948, when the Forth Republic introduced multiple currency rates in contravention of the fund's Charter, and Czechoslovakia in 1953, when payments data were withheld prior to Prague's withdrawal from Fund membership. By January 1986, nine countries were overdue by six months or more on loan repayments to the Fund totalling $443.7 million (<u>WSJ</u>, 1986: 34).

(8) The 1986 US trade deficit amounted to $169.78 billion, whereas Japan and West Germany amassed surpluses of some $86 billion and $51 billion respectively. In turn, the 1986 US current account deficit is estimated at $123 billion, or the same order of magnitude as in 1984 and 1985 (de Larosiere, 1986: 2).

(9) Nineteen currencies are independently floating. Five are adjusted according to a set of agreed indicators. A further five demonstrate 'limited flexibility' in terms of the US dollar. Eight EEC states are members of the European Monetary System. Nine countries engage in 'other managed floating.' Thirty-tree currencies are pegged to various currency cocktails other than the Special Drawing Rights, to which a further eleven are tied. Thirty currencies are linked to the US dollar, fourteen to the French Franc, and five others to the South African Rand, the Indian Rupee or the Australian dollar (IMF, 1986b: 20).

(10) For example, in 1982, national trade restrictions affected over 25% of all manufactures and 33% of all agricultural products traded internationally (Anjaria, 1982: 2) A 1983 study found that approximately 48% of all international commerce consisted of managed trade (Page, 1983).

(11) For instance, a mean 43% of international trade in high technology products, and some 50% of all US trade occurs within TNCs.

(12) Such investment is concentrated in <u>Brazil, Mexico</u>, Malaysia, Singapore and South Africa, which together accounted for over half the total stock. Commercial loan activity mushroomed from a total of $11 billion outstanding at the beginning of 1972 to $313.4 billion in 1986, excluding all unguaranteed debt (IMF, 1985: 262). By 1984, 150 commercial banks accounted for 85% of outstanding developing country debt (Mentre, 1984: 5-6).

(13) By September 30, 1986, 23 member countries were involved in stand-by arrangements with the Fund, for a total value of SDR 2,223.01 million. Three structural adjustment programs were in place, in Burundi, Gambia, and Mauritania. Finally, a three-year extended arrangement with Chile (SDR 750 million) was scheduled to expire on August 14, 1988 (IMF, 1986b:

21).

{14} In November 1986, the government of Zaire announced effective abandonment of an IMF structural adjustment program which had been in place since 1983. President Mobutu Sese Seko declared that Zaire would pay no more than 10% of its export earnings or 20% of government revenues (whichever was less) in debt service.

{15} By 1980, 70% of Mexico's external trade was conducted with the United States, while new American investments in Mexico had surpassed one billion dollars, compared with only $378 million in 1978 (Millor, 1982: 209). On the other hand, where PEMEX had exported all its hydrocarbon products to the US in 1976, by January 1981 Mexican oil was exported to eleven countries, including Brazil.

{16} Roberto Campos, Lancaster House speech, May 16, 1972. Reported in Peter Flynn, 1978: 330.

{17} The average annual inflation rate rose from 200% in 1983 to 235% in 1985 and 300% by early 1986. This was dramatically reduced to almost zero by the February 28, 1986 stabilization program. However, by yearend, a surge in effective consumer demand had created domestic supply bottlenecks and sharply increased imports, setting the stage for renewed inflation at annual rates of over 500%.

{18} Under Article 139 of the Constitution of the Estado Novo, strikes and lockouts were expressly forbidden. Only those trade unions recognized by the state were allowed to represent the interests of their members. Meanwhile, article 122 provided for censorship of the press, theater, cinema and radio, so as to protect "the public interest and the security of the state."

{19} Brazil remains the world's largest iron ore exporter. In 1984, such exports amounted to 88 million metric tons, worth $1.58 billion. Some 4 million metric tons of bauxite, valued at $129 million, were sold abroad during the same year. As a further indication of product diversity, Brazil also earned $1.9 billion from the export of 208,000 automobiles, and $1.7 billion from steel exports in 1985.

{20} After negotiations with GATT officials in 1982, Brazil reduced this credit-premium to 11%, and agreed to eliminate it in 1985.

{21} President López Portillo justified this bank nationalization as a means of controlling capital flight, devaluation and inflation. However, critics have argued that the banks provided a convenient scapegoat for a chief executive who was also anxious to be associated with Lazaro Cardenas as a great nationalist.

(22) Similarly, in 1981, Brazil increased exports by over $3 billion while reducing imports, achieving a trade surplus of $1.6 billion. However, the deficit on current account remained at a level of over $11.0 billion, including interest payments of $10.3 billion.

(23) Under the Mexican loan agreement negotiated in Fall 1986, commercial creditors agreed to (a) extend $6.0 billion in new 12-year loans, with $3.0 billion guaranteed by the IBRD (b) accept an annual interest rate of 13/16 percentage point above LIBOR (c) reschedule $44.0 billion of official debt over 20 years at the same rate, with only interest payments due in the first seven years (d) provide $1.2 billion in investment contingency funds related to oil price levels (3) provide a further $500 million (50% IBRD-guaranteed) if Mexico failed to achieve at least 3% economic growth in 1987.

REFERENCES

ALKER, Hayward R. Jr. (1977) "A Methodology for Design Research on Interdependence Alternatives," International Organization 31 (1): 29-63.

ANAYA PRATS, Guillermo and Hilda Sanchez Martinez (1983) 'Mexico 1982: Corolario de la Politica Financiera en el Reciente Periodo de Expansion,' Economia de America Latina, Mexico: Centro de Investigacion y Docencia Economicas.

ANJARIA, S. J., Z. Iqbal, N. Kirmani and L. L. Perez (1982) Developments in International Trade Policy (IMF Occasional Paper 16) Washington, D. C.: IFM.

ARONSON, J. (1977) Money and Power: Banks and the World Monetary System, Beverly Hills, California and London: Sage Publications.

BENNETT, D. and Kenneth Sharpe (1984) 'The State as Banker and Entrepreneur,' in Sylvia Hewlett and Richard Weinart (editors), Brazil and Mexico: Patterns in Late Development, Philadelphia: Institute for the Study of Human Issues.

CAMPOS, Roberto (1967) Reflections On Latin American Development, Austin: University of Texas Press.

DEALY, Flen (1985) 'The Pluralistic Latins,' Foreign Policy 57: 108-127.

DE LAROSIERE, J. (1984) 'Challenges Facing the World Economy and the Role of the IMF," Atlantic Community Quarterly 22, 2: 139.

DE LAROSIERE, J. (1986) 'Remarks at the Meeting of the UN Administrative Committee on Coordination,' New York: October 22, Washington, D.C.: IMF.

DE OLVERIRA, Francisco (1962) A Economia Brasileira: Critica A Razao Dualista, Sao Paulo, Brazil.

DILLMAN, C. (1983) "Assembly Industries in Mexico," Journal of InterAmerican and World Affairs 25 (1).

DOMINGUEZ, Jorge (1982) Mexico's Political Economy, Beverly Hills: Sage.

DORNBUSCH, R. (1985) 'Policy and Performance Links Between LDC Debtors and Industrial Nations.' Brookings Papers on Economic Activity 2: 303-336.

EDWARDS, Sebastian (1987), 'Sequencing Economic Liberalization in Developing Countries,' in Finance and Development 24: (March).

EVANS, Peter (1979) Dependent Development: The Alliance of Multinational State and Local Capital in Brazil, Princeton: Princeton University Press.

FARNSWORTH, Clyde (1986) 'US Banks Idea of Aid to Mexico,' New York Times (March 3).

FLYNN, Peter (1978), Brazil: A Political Analysis, London: Ernest Benn.

FRANCIS, David (1987) 'Experts Offer Two Views, Two Answers for Debtor Nations,' The Christian Science Monitor, (March 26): 19.

GAYLE, D. (1986) The Small Developing State: Comparing Political Economies in Costa Rica, Singapore and Jamaica, Aldershot, England: Gower.

GEYER, R. and J. Van der Zowden (1982) Dependence and Inequality: A Systems Approach to the Problems of Mexico and Other Developing Countries, Oxford: Pergamon Press.

GOLDSTEIN, M. (1984) 'Whither the Exchange Rate System,' Finance and Development 21: 3.

GRAHAM, Douglas (1984) 'Mexican and Brazilian Economic Development: Legacies, Patterns and Performance,' in Sylvia Ann Hewlett and Richard Weinart, Brazil and Mexico: Patterns in Late Development, Philadelphia: Institute for the Study of Human Issues.

GUENTHER, R. (1987) 'Big Banks Post Results Hurt By Latin Loans,' Wall Street Journal, April 23: 3.

HAGGARD, S. (1985) 'The Politics of Adjustment: Lessons From The IMF's Extended Fund Facility,' International Organization 39: 505-534.

HEWLETTS. and Richard Weinert (1982) Brazil and Mexico: Patterns in Late Development, Philadelphia: Institute for the Study of Human Issues.

JERVIS, Robert (1976) Perception and Misperception in International Politics, Princeton: Princeton University Press.

JAGUARIBE, Helio (1968) Economic and Political Development: A Theoretical Approach and a Brazilian Case Study, Cambridge, Massachusetts: Yale University Press.

KAUFMAN, R. (1979) "Industrial Change and Authoritarian Rule in Latin America: A Concrete Review of the Bureaucratic-Authoritarian Model," in David Collier (editor),The New Authoritarianism in Latin America, Princeton: Princeton University Press.

KAUFMAN, R. (1985) "Democratic and Authoritarian Responses to the Debt Issue: Argentina, Brazil, Mexico." In International Organization 39: 474-504.

KENNEDY, M. (1983) 'Working Knowledge,' Knowledge 5 (Summer): 193-212.

KHAN, M. and Nadeem Ul Haque (1987) 'Capital Flight From Developing Countries,' Finance and Development 24: (March).

KRASNER, S. (1983) International Regimes. Ithaca and London: Cornell University Press.

LONG, O. (1977) Address to the Zurich Economic Society, GATT Press Release 1199, November 9, 1977

MARES, David (1985) 'Explaining Choice of Development Strategies: Suggestions from Mexico, 1970-1982',International Organization 39: 667-697.

MARGOLIS, M. (1987) 'The US and Brazil: Allies Increasingly At Odds, The Christian Science Monitor (March 26).

MARLIN, Renee E. (1986) "Trade Wars and Trade Peace: A Multi-Regime Framework for Analyzing Trade Disputes." Paper presented at the March 1986 Meeting of the International Studies Association, Anaheim, California.

MENTRE, P. (1984) The Fund, Commercial Banks and member Countries, IMF Occasional Paper 26, Washington, D. C.

MILLOR, Manuel (1982) Mexico's Oil: Catalyst for a New Relationship With the United States?, Boulder, Colorado: Westview Press.

NELSON, J. (1984) "The Politics of Stabilization," in Adjustment Crisis in the Third World, edited by Richard Feinberg and Valleriana Kallab, New Brunswick: Transaction.

NEWELL, G and Luis Rubio (1984) Mexico's Dilemma: The Political Origins of Economic Crisis, Boulder, Colorado & London: Westview Press.

NORDLINGER, Eric (1977) Soldiers In Politics: Military Coups and Government, Englewood Cliffs, New Jersey: Prentice-Hall.

O'DONNELL, Guillermo (1975) 'Reflexiones sobre las Tendencias Generales de Cambio en el Estado Burocratico-Autoritario,' Documento CEDES/G. E. CLASCO/#1.

PAGE, S. (1983) 'The Management of International Trade,' Discussion Paper Number 29, London: National Institute of Economic and Social Research.

PANG, EUL-SOO (1984) 'Brazil's External Debt: The External View,' Universities Field Staff International Report 37, {ESP-1-84}.

PORTER, M. (1986) 'Changing Patterns of International Competition,' California Management Review 28, (March): 9-40.

PUTKA, G. (1986) 'GATT Knows Who the Trade Sinners Are, But It Doesn't Matter,' Wall Street Journal, January 2: 34.

RICHARDS, Gordon (1986), 'Stabilization Crises and the Breakdown of Military Authoritarianism in Latin America,' Comparative Political Studies 18: 449-486.

REMMER, K. (1986) 'The Politics of Economic Stabilization: IMF Standby Programs in Latin America 1954-1984.' Paper presented to the 1986 Annual Meeting of the American Political Science Association, 229-231. Ithaca and London: Cornell University Press.

REYNOLDS, Clark (1970) The Mexican Economy: Twentieth Century Structure and Growth, New Haven, Conn.: Yale University Press.

SANDERS, T. (1985) 'Brazil's New Republic: Tancredo to Sarney,' Universities Field Staff International Reports, {TGS-5-85}.

SARNEY, Jose (1986) 'Brazil: A President's Story,' Foreign Affairs (Fall): 101-117.

SCHERER, R. (1987) 'No Instant Solution to Debt Problems,' Christian Science Monitor, March 19: 7.

SCHMITT, R. B. (1986) 'As Big Banks Prosper in a Profit Recovery, Smaller Ones Languish,' Wall Street Journal, June 19: 1.

SCHNEIDER, Ronald (1971) The Political System of Brazil: Emergence of a Modernizing Authoritarian Regime 1964-1970, New York: Free Press.

SCHMITTER, Philippe (1971) Interest Conflict and Political Change in Brazil, Stanford: Stanford University Press.

SKIDMORE, T. (1977) 'The Politics of Economic Stabilization in Postwar Latin America,' in Authoritarianism and Corporatism in Latin America, edited by James Malloy, 149-190, Pittsburgh: University of Pittsburgh Press.

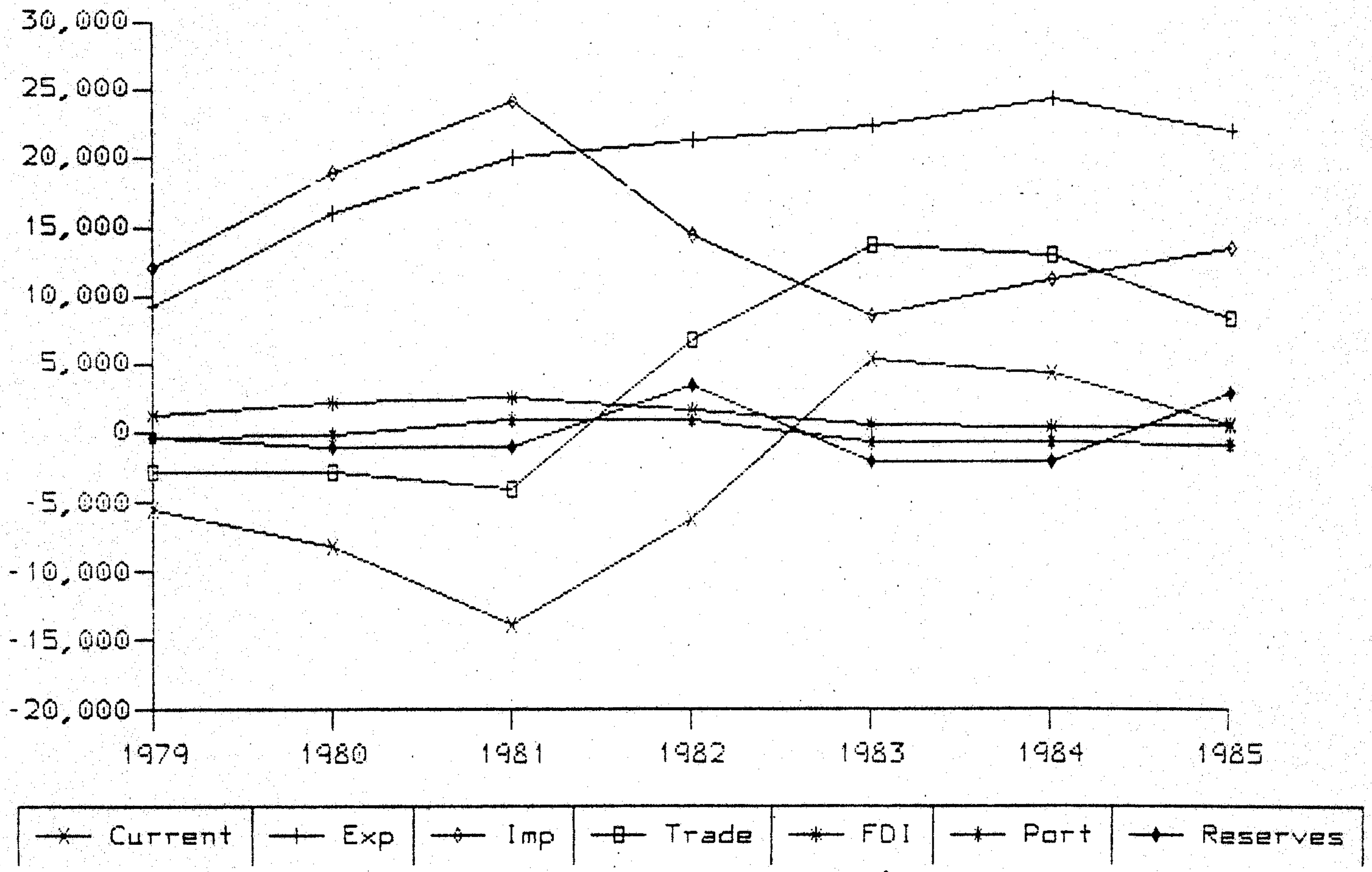
TRUELL, P. and Anthony Spaeth (1987) 'Philippines Is Said to Explore Actions Against Citibank Over Debt Talk Delay,' Wall Street Journal, (January 13): 32.

TRUELL, P. (1987a) 'Latin Debtors Plan to Seek Ways to link Area's Foreign Debt to Rise in Exports,' Wall Street Journal, (January 26): 26.
TRUELL, P. (1987b) 'Bankers Say They'll Ask Brazil To Agree To IMF Pact as Condition For Debt Help,' Wall Street Journal, (February 24): 37.
VAITSOS, C. (1980) "Corporate Integration in World Production and Trade," in Constantine Vaitsos and Dudley Seers (editors), Integration and Unequal Development: The Experience of the EEC, London: MacMillan.
VAN GINNEKEN (1980) Socio-Economic Groups and Income Distribution in Mexico. London: Croom Helm.
VERNON, R. (1985) 'Old Rules and New Players: GATT in the World Trading System,' in Global Dilemmas, edited by Samuel P. Huntington and Joseph S. Nye, Jr. Lanham, Maryland: University Press of America.
VILLAREAL, Rene and Rocio de Villareal (1978), 'Las Empresas Publicas como Instrumento de Politica Economica en Mexico,' El Trimestre Economico 45, (April-June), #178.
WHITEHEAD, Laurence (1980) 'Mexico Bust to Boom: A Political Explanation of the 1976-1979 Stabilization Program.' World Development 8: (November).
WIRTH. J. D. (1970) The Politics of Brazilian Development 1930-1954. Stanford: Stanford University Press.
WOMACK, A. (1986) 'An Analysis of the Food Security Act of 1985' Food and Agricultural Policy Research Institute, Staff Research Report #1-86.

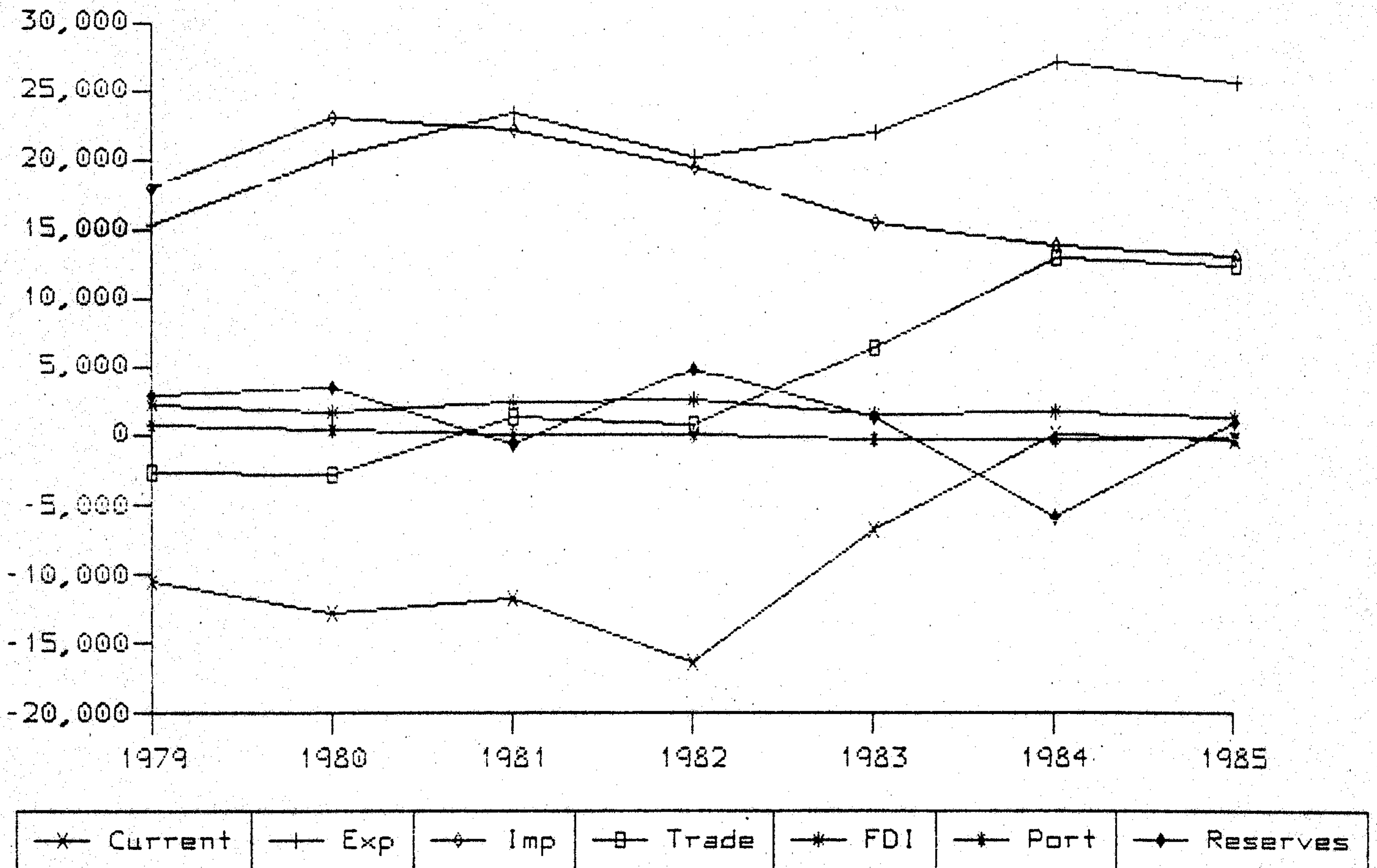
Unattributed Articles & Documents

'Discurso de Tomo de Posesion del Presidente Miguel de la Madrid,'BANAMEX (1982) Examen de la Situacion Economica de Mexico (December): 534.
Economist, July 12-18, 1986: 98.
El Mercado de Valores 'Carta de Intencion del Gobierno de Mexico al FMI,' August 4, 1986: 753.
Excelsior, December 2, 1970: 18.
GATT (1982) International Trade 1981-1982, Geneva: Gatt Secretariat.
GATT (1986) International Trade 1985-1986 Geneva: GATT Secretariat.
IBRD (1986) World Development Report 1986, New York: Oxford University Press.
IMF (1986a) International Financial Statistics 39, (November), Washington D.C.: International Monetary Fund.
IMF (1986b) Finance and Development 23 (December)
OECD (1985a) Countertrade: Developing Country Practices, Paris: Organizational for Economic Cooperation and Development.
OECD (1985b) Costs and Benefits of Protection, Paris: Organization for Economic Cooperation and Development.
SEPLAN/SEST (1984), Orcamento SEST 1984: Dispendios Globais Das Empresas Estatais, Brasilia: Seplan/Sest.
Tribuna Da Imprensa November 9, 1955.

UNITED NATIONS Department of International Economic and Social Affairs (1983)
World Economic Survey 1983: Current Trends and Policies in the World Economy.
(Document E/1983/42:ST/ESA/131), New York: United Nations Secretariat.
UNITED NATIONS (1986) Proceedings of the UN Conference on Trade and Development (Volume II: Basic Documents). Sixth Session, Belgrade, June 6-July 2, 1983.
Visão ,'Quem e Quem na Economia/as 200 Maiores Empresas,' August 20, 1984: 49-56.
Wall Street Journal, December 11, 1984: 14.
Wall Street Journal, August 5, 1986: 34.
Wall Street Journal, April 30, 1987: 27
Ward's Business Directory, (Volume 3): 24, 42-47, 1985.



Data Source: IMF, International Financial Statistics, Washington D.C.: February 1987



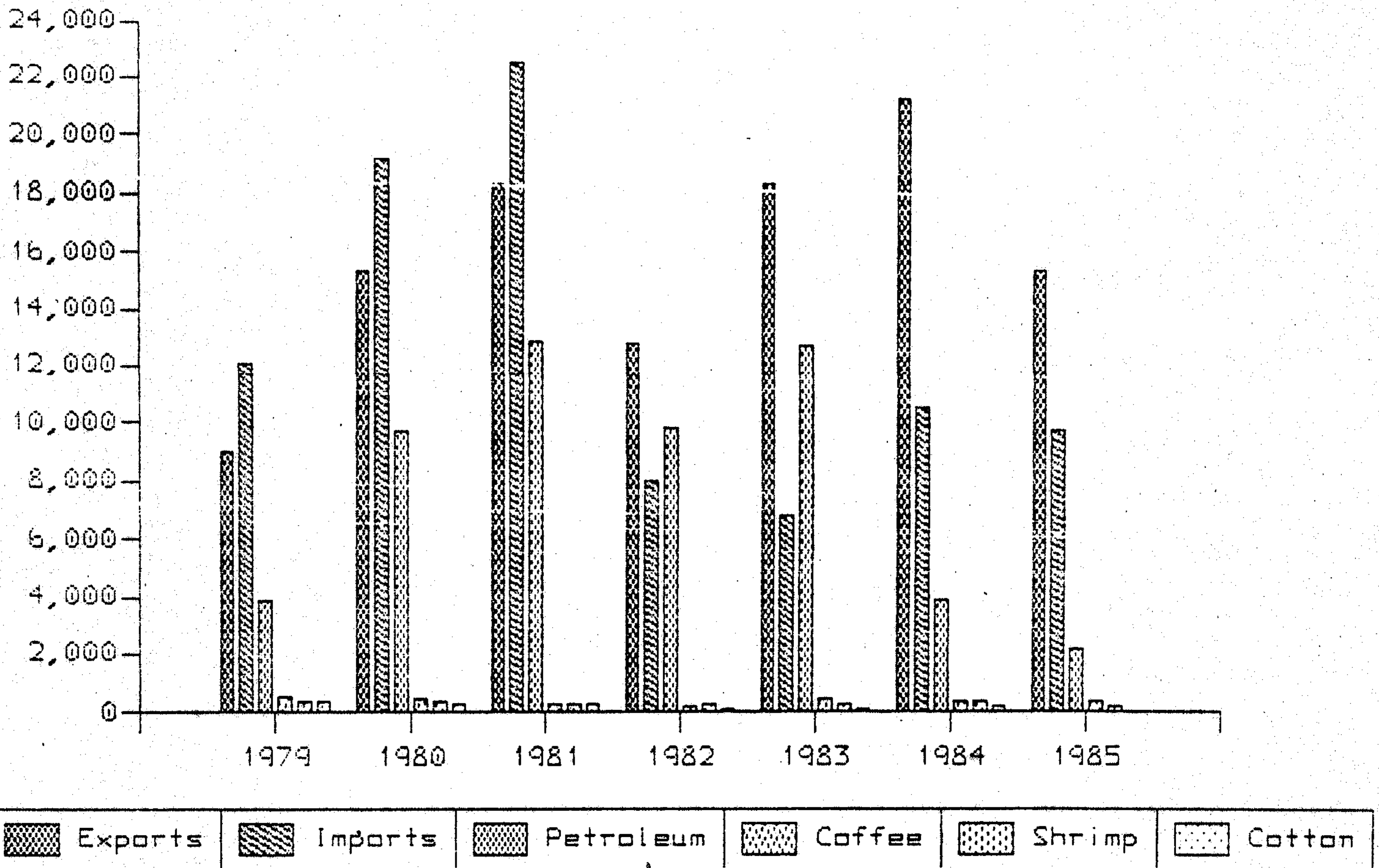
Data Source: IMF, International Financial Statistics, Washington D.C.: February 1987

FIGURE 3

COMPARING BRAZILIAN AND MEXICAN ECONOMIC POLICY ENVIRONMENTS

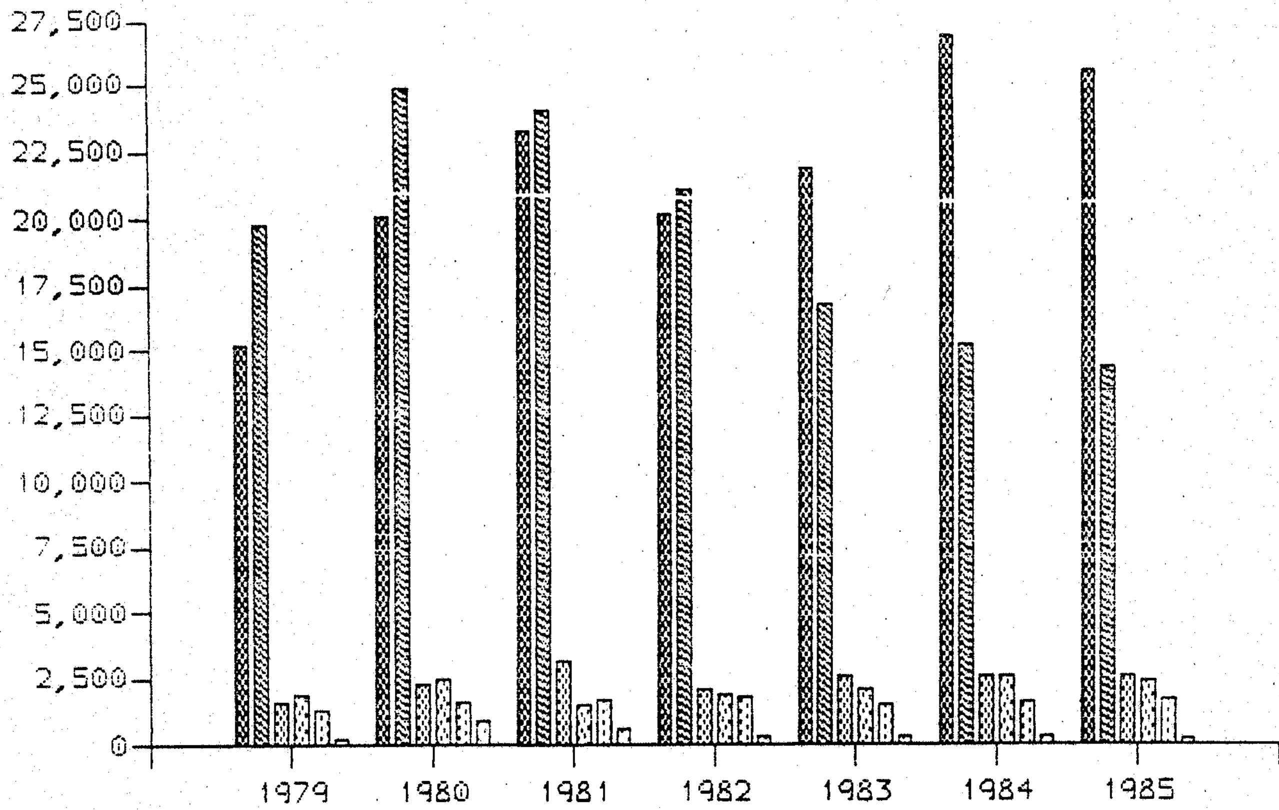
SIMILARITIES	DISSIMILARITIES
Demography	Population
Urbanization	History
Resource Endowment	[M] Proximity to USA
Gross Domestic Product	[B] Politicized Military
FDI Concentration	Relative State Legitimacy
Income Distribution	Extent Of Capital Flight
Trade Ratio	Social Pluralism
External Debt Accumulation	Language & Popular Culture
Industrialization Strategy	Export Commodity Concentration
Trade Strategy	Territorial Size
Recurrent Inflation	External Market Concentration
Repeated IMF Intervention	Average Annual Inflation Rate
Economic Structure	Public Sector Size
GNP Per Capita	Foreign Policy Orientation
GNP Growth	Political Culture
Extensive Poverty	Oil Self-Sufficiency
High Unemployment	Administrative Effectiveness
Patron-Client Interaction	Education & Health Facilities
Intense Nationalism	Domestic Investment Rate
Political Volatility	GNP Per Capita Growth
Formal Democratic Structure	Energy Consumption
Bureaucratic-Authoritarian	Debt Service Ratio
Coalitions	International Interest Rates
Life Expectancy	Import Source Concentration

FIGURE 4
Mexican Trade Values
US$ Millions



Data Source: IMF, International Financial Statistics, Washington D.C.: February 1987

FIGURE 5
Brazilian Trade Values
US$ millions



Exports	Imports	Soybeans	Coffee	Iron Ore	Sugar

Data Source: IMF, <u>International Financial Statistics,</u> Washington D.C.: February 1987