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Brazil, Mexico in war economy's grip

by Peter Rush

In the wake of the failure of the Jan. 9 meeting between U.S. Secretary of State James Baker and Iraqi Foreign Minister Tariq Aziz, Ibero-American politicians and public figures responded with near panic, as they suddenly woke up to the reality that war was imminent, bringing with it devastating effects for their own economies. Since Jan. 9, many nations have announced drastic emergency plans, political leaders have warned of everything from Iraqi terrorist attacks on their oil fields to a U.S. military takeover of their fields, and religious and other leaders have issued statements forecasting economic catastrophe.

Nowhere is the concern greater than in Brazil, the Ibero-American nation most heavily dependent on oil imports—they import 40% of their 1.1 million barrel per day (bpd) consumption. Awakening from a complacent slumber, the Brazilian government finally called an emergency meeting on Jan. 10 to deal with what Brazilian analysts began to call the coming "hecatomb" and "catastrophe." According to participants, as reported in the *Jornal do Commercio,* the government had underestimated the likelihood of war, and was now in a panic over domestic fuel supplies. While the country has a 90-day supply of petroleum, it only has 45 days worth of diesel fuel, on which 80% of its transportation relies, and only 5 days of natural gas. As a result of the emergency meeting, President Fernando Collor de Mello reportedly approved a plan to ration fuel at the point hostilities broke out in the Persian Gulf. Speaking on Jan. 14, Justice Minister Jarbas Passarinho announced that the government was prepared to adopt a "war economy."

In addition to shortages, Brazil will also suffer hefty oil price hikes, derailing the government anti-inflation program that was already in deep trouble. Monthly inflation has been accelerating back toward hyperinflationary levels, and oil at $50 a barrel, much less $75 or $100, could push it over the brink. The prediction is that Brazil's GNP would fall by 10-15% over the next year under the combined impact of sharply higher oil prices and the other impacts of the Gulf war. Central Bank President Ibrahim Eris said that a shooting war would "prevent Brazil from continuing debt interest payments."

In Mexico there is now great fear over what a war in the Middle East will do to the economy, despite the apparent benefit to the country from higher oil prices. The daily *El Universal* warned Jan. 14 that "the Mexican economic recovery project is in grave danger," referring to the multiple damage that will be done to the economy, including inflation, loss of export markets, loss of tourist revenues, increased interest rates, and drying up of investment capital. *La Jornada* warned a few days earlier that the government needed to prepare for new economic contingencies so as "not to be at the complete mercy of foreign vicissitudes," referring to the Middle East crisis. The anti-U.S. mood in the country was reflected by the statement of Sen. Humberto Lugo Gil from the ruling PRI party, who warned Jan. 9 that Mexico must be prepared to reject the pressures from other nations, in reference to the U.S., that are trying to increase Mexico's oil export quota. And opposition PARM party leader Gastón García Cantú was covered on the front page of the daily *Excélsior* in a warning that the U.S. will not get away with "its policy of Hitlerian destruction" of the sort visited on Vietnam.

In Venezuela, the head of Military Intelligence, Herminio Fuenmayor, warned against the possibility of terrorist attacks on the oil fields. Former congressman Juan José Monsant, writing in the daily *El Nacional* Jan. 10, concurred that there was such a danger but added that Venezuela must also "foresee the necessity of the West making its military presence known in Venezuela to safeguard its strategic [oil] reserves, and this would constitute a national trauma." Rumors of U.S. military actions toward this end were so widespread that the U.S. Embassy in Venezuela had to issue an official denial.

Other nations have also announced measures to try to protect their economies. Peru followed Brazil's lead and announced that it would ration oil if and when war broke out. Honduras started rationing even before the shooting started, and called on its people to sharply curtail their use of petroleum. In the Dominican Republic, where public sentiment is very strongly against the war, diesel fuel rationing has also begun, while the population is stocking up on canned goods and rice.

Extreme vulnerability

In all likelihood, the effects of a prolonged military conflict in the Persian Gulf will be even worse than Ibero-America's worst fears. The economies of virtually every country are already at an extreme point of instability, where even a slight push from an external crisis such as this can be the impetus to uncontrollable financial crisis, hyperinflation, and collapse of production.

As the war approached, anti-war movements sprung up from Mexico to the Dominican Republic to Brazil, with large demonstrations in several countries, and a vocal public demanding their governments break with the United States. With the outbreak of hostilities, these movements can be expected to grow rapidly and possibly threaten the political stability of those governments that stick to their current strongly pro-Bush attitudes.

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