Brazil in Africa: partnership or dependence?

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Periodically, the ups and downs of Brazil's countertrade arrangements with African countries, above all Nigeria, make the headlines in the international press. Despite a decline in recent years, Brazilian trade with Africa has grown substantially in the last decade. Brazil has also joined the ranks of foreign investors in Africa and increasingly participates in development projects on the continent. More recently, Brazil is also emerging as a major arms supplier to Africa. A report by *Hans Mathieu*.

BEFORE 1970, Brazilian trade and diplomatic relations with black Africa were virtually non-existent. Industrialising through import-substitution, Brazil had commercial and diplomatic links mainly with South Africa and supported Portugal's colonial policy in Africa.

An attempt by Presidents Quadros and Goulart in 1961–4 to conduct a foreign policy independent of the US led to a [illegible]umber of advances towards black Africa [illegible]ut did not bring about substantial changes. For one thing, foreign policy remained [illegible] prerogative of the military and the h[illegible] professionalised foreign ministry [illegible]raty, both of them clinging to es[illegible]d policy; for another, neither Quadros nor Goulart was willing to or capable of committing real resources as a means of improving relations with black Africa. Nor, for that matter, was there any enthusiasm by Brazilian business to trade with or invest in Africa. Brazil's raw materials competed with those of Africa, while Brazilian industry was inward-looking and relied on protection rather than being competitive on world markets.

The 1964 military coup cut short Goulart's 'independent foreign policy'. Brazilian policy towards Africa returned to its old mould, or so it seemed, when the new military government broke off relations with Cuba (later to be re-established in 1986 after 20 years of military rule). Brazil's recognition of Agostinho Neto's MPLA government in Angola in 1975 came as a surprise amid strong domestic and US opposition. However, the change in policy had been in the making for some time.

Itamaraty, under President Costa e Silva, set the ball rolling in 1967 when Brazil began to cautiously re-evaluate its African policy. The commercial potential of independent Africa for Brazil's incipient export promotion policies for manufactures, the imminent breakdown of the Portuguese colonial empire, the increasing strength and unity of Third World countries in multilateral institutions and, above all, the UN, all contributed to the conviction that a new way forward made sense. The breakdown of the Bretton Woods international monetary system, US-Soviet detente, the emergence of China on the world scene, and the disaster of US involvement in Vietnam provided welcome openings for a more assertive policy, vis-a-vis the US. The threat of Arab oil boycotts against Brazil because of its policies towards Africa, and the collapse of authoritarian Portugal finally made it imperative for Brazil to avoid isolation in Africa. Carefully prepared diplomatically, and with the support of Nigeria, which had for some time worked on pulling Brazil away from South Africa, Brazil capitalised on its recognition of Angola as a springboard for rapidly improving relations with the continent. In retrospect, the Brazilian decision amounts to not much more than the acceptance of irreversible facts, only somewhat earlier than other Western nations did.

Trade and investment

At the outset of Brazil's new policy towards Africa, Brazilian commercial and financial interests in the latter did not occupy centre stage. The main objectives were to avoid any oil boycott by the Arabs in response to Brazilian policies in Africa, and to strengthen Brazil's position and manoeuvring space within multilateral negotiations by aligning it strongly with African countries through increased bilateral cooperation. Brazil became one of the driving forces behind the Group of 77. At the group's inaugural conference in Mexico City in 1976, it sought support for its claim to a 200-mile sovereign maritime zone along its coasts, and in return supported the Third World's demand for a new international economic order. Thereafter, Itamaraty intensified bilateral trade with black African countries, using it as an important strategy for managing multilateral relationships. After all, several black African countries could serve to diversify Brazil's suppliers of oil. They could also supply minerals that were either not available or not yet sufficiently developed in Brazil.

From 1967 onwards, successive military governments had sought to promote Brazilian manufacturing exports without giving up the basic import substitution policy. The aim was to diversify Brazilian exports away from mineral and agricultural raw materials in order to escape the balance of payments strangulation that generally comes with vigorous import substitution. Ridiculed at first even in Brazil, these policies — substantial devaluations and some export incentives, exchange rate indexing through mini-devaluations from 1969 — soon paid off, rapidly increasing Brazilian manufacturing exports. In 1972, substantial incentives were offered for the creation and operation of trading companies in Brazil, in an attempt to emulate the Japanese and to offer small Brazilian companies an outlet on international markets. Such trading companies, jointly with Interbras, the trading subsidiary of Petrobras founded in 1976, are now estimated to manage more than $6bn of Brazil's annual exports. Cotia Trading, the largest private Brazilian trading company, for instance, is heavily involved in Africa as the manager of Brazil's exports under the countertrade agreement with Nigeria.

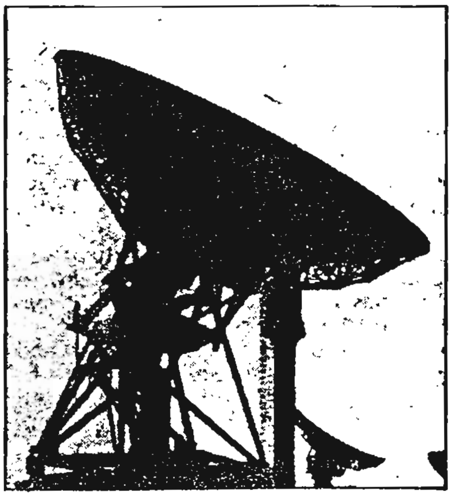
Also in 1972, Brazil started the BEFIEX scheme, a carrot and stick policy initially intended to involve multinationals operating in Brazil in the export drive. BEFIEX offers generous tax incentives and a 15–25 per cent cash subsidy — the latter was phased out in 1988 due to US pressure and GATT rules — for exports, but at the same time makes domestic market access conditional on exports via the linkage of capital goods import allowances to export performance. With the establishment of shipping and air transport links with Africa, and the creation of Brazilian trade credit lines for African countries, all initiated by Itamaraty, the multinationals were the first to respond, not without some hints from Itamaraty. Already by 1977 VW of Brazil began to export cars to Nigeria and Angola, and later took the initiative to establish assembly plants in both countries, which it continues to supply with CKD vehicles and parts. Other multinationals followed suit by exporting agricultural and construction equipment, commercial vehicles and capital goods, while Brazilian companies at first played a role only in food exports to Africa.

Although exact data are not available, it is clear that nationally-owned Brazilian manufacturing, engineering and construction companies have increased their share of Brazilian exports to Africa. Even more important is their role in investment and services. Petrobras lifts all African oil exports to Brazil with its tankers, and even the Nigerian partner in the shipping line owned by the two countries uses Brazilian ships. Petrobras has also become involved in oil exploration and production in Angola, lends technical assistance to Nigeria's NNPC in refining and petrochemicals and refines some 40,000 barrels per day of crude for Nigeria in Brazil, using its excess capacity. Investment figures, if available, would understate Brazilian direct investment in Africa. Brazilian companies, given their lack of capital, and Brazil's balance of payments position, prefer joint ventures and non-equity forms of investment, using trade credit lines, management contracts and built-operate-transfer (BOT) arrangements. Pao de Azucar, Brazil's largest supermarket chain, runs Luanda's supermarkets. The Odebrecht construction company has become involved in road construction and hotel rehabilitation.

More recently, Andrade Gutierrez has clinched a BOT contract for the construction and management of a gold mine in Zaire, financed by the African Development Bank (of which Brazil is the only developing country subscriber) and trade credits from CACEX, Brazil's trade licensing agency. Brazilian public companies and private engineering companies are equally involved in technical assistance and technology transfer. An across-the-board technology transfer, contrary to common multinational practices, is one element of Brazilian competitiveness vis-a-vis established suppliers from the major industrialised countries; the fact that Brazilian products, and technology, while not high-tech, are reliable and adaptable to tropical conditions, is another.

From 1979–1981, trade between Africa and Brazil seemed to take off, mostly between Brazil and Nigeria, as previous efforts paid off, oil prices increased and trade flows came roughly into balance (see the accompanying table). The 1982 debt crisis hit the Third World's largest debtor as hard as the more import-dependent African economies, and threatened to stop trade between them. Although used before, the systematic adoption of countertrade, notably between Brazil and Nigeria, provided the solution to maintain trade until the mid 1980s. With the decline of oil prices in recent years, even countertrade was not of much help. Brazil, while interested in diversifying its sources of oil, now finds larger and more liquid customers for its manufactures in the Middle East, particularly Iraq and Iran. Moreover, after initial enthusiasm, countertrade proved a tricky business, and the shrewd, if not cold-blooded, practices of Brazilian countertrade partners contributed to a more sober view of countertrade on the African side (see box).

Although figures are not available, the only category of trade that has increased in recent years, in relative as well as absolute terms, are Brazilian arms exports to Africa. Over the last decade, the Brazilian arms industry has been fostered by the Brazilian military as a means to independence from foreign, mainly US, supplies. As Brazil is traditionally one of the countries with the lowest per capita expenditure on defence and military equipment, exports play a crucial role in financing arms development. Thus, Brazil has become one of the world's leading arms exporters, after the USSR, US, France, West Germany, Italy and the UK, with annual exports in recent years estimated at $1.5–2bn. Both Iraq and Iran in their eight-year war became major customers of Brazilian arms in exchange for oil, with Iraq also buying Brazilian cars, placing railway and highway construction orders with Brazilian companies and retaining Petrobras as a major oil exploration contractor under risky contracts. The war proved the quality of Brazilian arms, which are not the most advanced but are cheap and reliable. The range include handweapons, artillery, armoured vehicles, small tanks, missiles, training aircraft and small jet fighters. With the end of the war, Brazil is trying to get a substantial slice of both countries' reconstruction investments and now seeks to take its arms sales elsewhere. Not surprisingly, Africa seems a promising market. Arms purchases often enjoy priority despite balance of payments problems, as the military either runs the government or has to be placated by civilian governments.



Telecommunications: Brazil competes effectively

South Atlantic blunders and South Africa

The change of official Brazilian African policy under Geisel initially brought about strong opposition by conservative military factions with strong ideological commitments to anti-Communism. After all, one of the justifications of military intervention in 1964 was to stop Communist subversion, a commitment that Geisel's predecessor, General Medici, turned into brutal repression in order to root out Brazilian guerilla movements. At the same time, the foreign ministry quietly prepared its diplomatic offensive in Africa by sending the foreign minister on a tour of nine African countries, and a senior diplomat to Angola for meetings with the leaders of the three independence movements. For conservative military strategists, the Cuban presence in and Soviet support for Angola raised the spectre of Soviet intrusion into the South Atlantic, thereby threatening the long Brazilian coastline on which the overwhelming majority of the population and industrial capacity is concentrated. As it happened, Itamaraty's broader-based policy prevailed over these narrow concerns.

Yet, military security concerns remained as an irritating element in Brazil's relations with black Africa for the rest of the 1970s, and the early 1980s. Repeatedly, they surfaced in the form of proposals and alleged secret agreements to form a South Atlantic Security Pact with Argentina and South Africa under US tutelage. Support among Brazilian military circles for it, and concern in Africa about it, were sufficient to induce Itamaraty, Geisel and his successor, Figuereido, to take pains to deny the proposal. At one time, an alternative South Atlantic Security Pact involving Brazil, Nigeria and Angola, was even suggested but this was as stillborn as the Brazil-Argentina-South Africa axis idea. For Brazilian foreign policy on the whole, the crucial consideration was, and still is, that Brazil would play a major role in whatever kind of South Atlantic security arrangements would come into existence.

However, Brazil's position towards South Africa remains ambivalent and constitutes another element of irritation in its relations with black Africa. Apart from the declining importance of military security considerations, South Africa remains potentially Brazil's most accessible trade partner in Africa, because of the size of its market, relatively high per capital income and degree of industrialisation. Unlike black Africa, South Africa not only offers raw materials but also has the potential of intra-industry manufacturing trade between both countries. Thus, despite its condemnation of apartheid, Brazil has been reluctant to apply any kind of sanctions. The official position remains that Brazilian private companies are free to engage in whatever kind of trade they like. In its policy towards Brazil, Nigeria recognised early on that pulling Brazil away from South Africa would only be facilitated by improved commercial prospects for Brazil elsewhere on the continent. Naturally, the Nigerian market, as the largest in black Africa and centrepiece of Ecowas, had to offer this inducement. Thus, while Brazil maintains trade relationships with South Africa, and is host to some South African foreign investments, the relative importance of such links has declined.

But the nature of Brazilian political and economic elites, and attitudes of its more conservative members, are likely to keep suspicions alive. The image of a racial democracy is shared internally and projected externally, but covers up the fact that even more than in the US, Brazil's elites are exclusively white (see box).

Prospects

What can black African countries now expect from Brazil? In part, that will depend on how and when Brazil resolves the conflict over its future development strategy. There are two alternatives: the populist idea of holding on to outlived import substitution policies, or the National Development Bank's proposal of 'competitive insertion into the world economy'. On the other hand current trends, particularly structural and balance of payments restrictions, may remain in force for some time.

The composition of trade will remain the same for the next few years, essentially following the colonial and neocolonial model: raw materials in exchange for manufactured goods. Irrespective of Brazilian development strategy, Brazil for the next five years is unlikely to open up more labour intensive traditional manufacturing industries for African imports. With the current oil glut and recent Brazilian oil discoveries, Africa's oil bargaining power will decline. Withholding oil will not be a viable strategy to open up Brazil's consumer goods market. It will best be put to use in obtaining preferential terms in Brazilian technology transfer and capital goods exports to Africa in support of African industrialisation. In this context, an additional bargaining chip will be African orders under multilateral development projects, as these, jointly with raw materials exports, make up Africa's import capacity. Brazilian engineering and construction firms are likely to be eager to participate in such projects, and the Brazilian government will be willing to offer credits on concessionary terms to facilitate their participation.

To some extent, the trade will benefit the subsidiaries of the same multinationals that were previously under contract in the US and Europe. Indeed, European engineering and heavy infrastructural and plant equipment manufacturers are considering the upgrading of the role of their Brazilian subsidiaries. Siemens of Germany and GIE of Italy have plans to turn their Brazilian hydroelectrical equipment subsidiaries into world factories. Sertep, a Brazilian engineering and plant manufacturing company with a 35 per cent equity participation by Britain's Davy Corporation, has already gone some way in this direction by bidding as lead contractor for a World Bank-financed gold mine project in Zaire. Mercedes Benz plans heavy investments in Brazil in order to turn its commercial vehicle and bus factories into a supplier for African and Asian markets. These European factories are losing their competitiveness to Brazil which remains potentially one of the largest markets in the world; subsidiaries in Brazil are becoming more competitive as Brazil provides cheap engineering labour and preferential financing, and bidding for foreign business keeps capacity utilisation up. With present uncertainties about future Brazilian policies, however, such plans are on hold in many companies.

Increasingly, though, Brazilian companies will join the large construction companies. Petrobras is already operating on an international scale; Brazilian manufacturers of agricultural and construction

Brazil's Trade with Africa (1977-1987)

Exports ($m)

	Total (a)	S. Africa	% of (a)	Nigeria	% of (a)
1977	516	27	5.2	115	22.2
1978	572	37	6.5	234	40.9
1979	636	53	8.3	137	21.5
1980	1119	103	9.2	272	24.3
1981	1725	132	7.6	770	44.6
1982	1218	103	8.4	244	20.0
1983	1961	138	13.0	194	18.3
1984	1706	131	7.7	654	38.3
1985	1763	53	3.0	915	51.9
1986	777	48	6.1	248	31.9
1987	796	53	6.7	223	28.0

Imports ($m)

	Total (a)	S. Africa	% of (a)	Nigeria $m	% of (a)
1977	439	122	27.7	95	21.6
1978	439	116	26.4	71	16.2
1979	420	170	40.5	34	8.1
1980	1033	227	22.0	90	8.7
1981	1711	104	6.1	756	44.2
1982	881	85	9.6	237	26.9
1983	597	25	4.2	87	14.7
1984	1374	51	3.7	1019	74.2
1985	1835	22	1.2	1422	77.5
1986	764	60	7.9	399	52.2
1987	594	71	12.0	223	37.5

Notes: (a) excludes Libya and Egypt, but includes Tunisia, Algeria and Morocco.
Source: IMF: *Direction of Trdae Statistics*, various issues

equipment, machinery, vehicle and machinery parts as well as petrochemicals are likely to compete for African projects and increase the range of choice and bargaining power of African contractors. Even in a field as dominated by multinationals as telecommunications, Brazil may become competitive in the near future. The state telecommunications monopoly, Telebras, has developed its own digital public exchange, TROPICO, and licensed production by private Brazilian firms. Its rural exchange version has reportedly beaten multinationals such as Siemens in bids for Central American orders and may be an attractive alternative for rural telecommunications projects financed by multilateral institutions in Africa. Whether the same is ture for the larger version for urban exchanges, to be marketed in Brazil this year, remains to be seen.

In non-trade policy areas, Brazil will remain an ally in calls for debt relief, but will also seek to exploit the size of its debt, and its potential for trade and investment, in order to obtain preferential rescheduling conditions vis-a-vis Africa, and thus break the alliance at crucial junctures. If the populist Brizola or the professed Socialist Lula wins the November presidential elections, a debt moratorium by Brazil may be in store, firming up an 'anti-imperialist' debt front with Africa. That may be a mixed blessing for Africa, because the ensuing ripple in world financial markets will probably not lead to a collapse due to Central Bank intervention and increased reserves by the banks. But it may lead to a general tightening of what credit there is, particularly trade credits. If the potential public backlash in the industrialised countries against finance and aid to developing countries can be overcome, such a moratorium on the other hand may lead to a new approach to the debt problem.

The more outward-oriented Brazil becomes, the larger its market for African raw materials and, potentially, for traditional manufactures. Likewise, its potential as a source for capital goods, technology and finance will increase. However, as Brazil sets out to join the ranks of the industrialised countries, the composition of trade will maintain its neo-colonial pattern, Brazilian companies will increasingly seek to protect their proprietary technology and insist on direct investment, and the focus of Brazilian trade policies will shift even faster to the industrialised countries, the Asian NICs, China and India. Either way, the relationship will remain suspended in an uneasy balance between partnership and dependence.