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FOR 1981



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BRASILIA		
21 January 1982		D W6 16/3

BRAZIL: ANNUAL REVIEW FOR 1981

SUMMARY

1. Brazil weathered the economic storms of 1981 better than expected. International confidence was restored. Domestic recession bore most heavily on the poorest. Agricultural production and energy-saving programmes prospered. (Paragraphs 1-6)
2. The RioCentre bomb incident in May, General Golbery's sudden resignation in August, President Figueiredo's heart attack in September and his arbitrary treatment of Congress on his return in November combined to cast a shadow over the prospects for abertura. The opposition fear massive gerrymandering in the November 1982 elections: the Government fear a collision with the Church. (Paragraphs 7-11)
3. Pragmatism in general in international relations and a policy of leaning towards the Third World while paying prior attention to her Latin American neighbours have brought Brazil dividends. Nevertheless, the Foreign Minister's official visit to London at the time of Britain's Presidency of the EEC was regarded as a great success. (Paragraphs 12-14)
4. 1982 will bring further economic stringency, compounded by political ferment. The Government will keep their grip. (Paragraphs 15-16)

014/19



BRITISH EMBASSY

BRASILIA

21 January 1982

The Rt Hon
 the Lord Carrington KCMG MC PC
 Secretary of State for Foreign
 and Commonwealth Affairs
 LONDON SW1

BRAZIL: ANNUAL REVIEW FOR 1981

My Lord,

1. At the beginning of 1981, few in Brazil or outside it would have predicted that the country's economy would weather the looming storms so successfully, to a point where recovery is considered to be no longer a question of whether but of how quickly. Conversely, not many would have foreseen the political squalls which, while not deflecting the military-based régime of President Figueiredo from its chosen course towards abertura, have given the country an anxious foretaste of the rough waters leading to next November's general elections, the first of their kind for eighteen years.

The Economy

2. The out-turn of the economy at the end of 1980 was bleak indeed: a negative trade balance of US\$ 2.8 billion; reserves precariously reduced to barely US\$ 6 billion; a domestic inflation rate of 110%; an impending world recession; unprecedentedly high interest rates; and - most dangerous of all - an unresolved crisis of confidence among the world's

/money-



money-markets in Brazil's capacity to put her affairs to rights. That she did so is largely the work of one man, Delfim Netto. The extent of the economic recovery initiated under his firm direction is illustrated by the contrasting figures at the end of the year: a positive trade balance of over US\$ 1 billion; foreign borrowings of US\$ 16 billion easily achieved, and reserves restored to a level of US\$ 7.5 billion; domestic inflation reduced to an annual rate of 95% and steadily going down; increase in the monetary base kept below 70%; and additional foreign investment of US\$ 1.5 billion.

3. It has to be admitted that Delfim himself, probably misled by his easy successes in the heady days of Brazil's economic miracle in the early 1970s, was largely responsible for the over-bold expansionist policies which came so woefully unstuck in 1980. But it is a measure both of his courage and of the support he enjoys from the President and (perhaps less whole-heartedly) from the Armed Forces that he was able to slam on the brakes to such notable effect. The result externally has been a remarkable upsurge of international confidence in Brazil's future: but internally it has produced a painful recession, which has borne hardest on the urban poor who are least able to defend themselves.

/4. Here



4. Here again, the figures speak for themselves: industrial production fell by at least 5-6% and the real fall in industrial activity (masked by drawing on stocks, now almost at rock-bottom) was probably double that figure; average unemployment in the six main industrial centres rose to 8.5% (approaching 3 million workers) and in some of them the level of unemployed and underemployed reached 25% of the economically active population. Per capita income in Brazil may be calculated by World Bank experts by a process of simple arithmetic at US\$ 2050 per man, woman and child: but it does not feel like that in the pocket of the unemployed worker in the slums of São Paulo, let alone in the favelas of Rio de Janeiro or the immense and grossly over-populated waste lands of the North East. Those who think of Brazil as a newly-industrialised country on a par with Singapore or South Korea would do well to bear that in mind.

5. Many industrialists, and not a few politicians, feared that a social explosion might erupt as the monetarist squeeze gathered momentum. To their surprise and relief, it did not. The explanation must lie partly in the characteristic docility of the Brazilian worker, except when he is directly provoked, and partly in the natural safety-valve provided by Brazil's open spaces, to which many out-of-work factory hands and their families appear to have returned.

/6. This



6. This migration, albeit to a minor degree, in turn served two other main aims of Delfim's strategy: the maximisation of agricultural production and of substitution for imported oil. The former aim is directed towards the saving of food imports now and the generation of future food exports on a massive scale. Results last year were certainly promising, showing an overall growth of 10%, including record crops of grain and soya beans amounting to 54 million tons. The latter aim has been opportunely served by energy-saving resulting from reduced industrial activity. But it has also been furthered by intensified production of domestic energy both from oil and from alternative sources, including hydro-electric power generation and the production of alcohol from sugar-cane, wood and manioc. The consequent restriction of oil imports to an average level below 800,000 barrels per day, coupled with the unexpected stabilisation of world oil prices, enabled Brazil to hold down her oil import bill to a level approaching that of 1980 - a feat that seemed wildly improbable only a year ago.

The Political Scene

7. If the economy has, despite the recession and its accompanying strains, shown more bright spots than expected, the same cannot be said of the party political scene, which has taken on a darker hue. Responsibility for this must be

/laid



laid mainly at the door of the Government, though the Opposition have unquestionably overplayed their hand in reckless anticipation of an abertura which is not yet a reality.

8. In truth, the Government has not shown a sure touch in its political management of the country, particularly in regard to the delicate preparatory phase for the November 1982 general elections. President Figueiredo himself, whose term of office still has three years to run, has had a hard year. An active, outgoing man with a generous disposition but a notoriously short temper, he found it difficult to come to terms with the after-effects of a mild heart attack which removed him from the Presidency on 18 September for nearly two months. Though he appears to have made an excellent recovery, his pace has slowed; and there are inevitably doubts as to whether he can stay the course. Fortunately the prudent and resolute performance of his temporary replacement, the civilian Vice-President, Dr Aureliano Chaves, not only relieved immediate fears of a perilous hiatus at the apex of the power structure but also gave new grounds for hope among the Opposition, and not a few Government supporters as well, that a civilian President might be permitted by the Armed Forces to emerge from the elections due in October 1984.

/9. This



9. This hope was, however, rapidly eclipsed by other more immediate anxieties. Two weeks after his return to office in November President Figueiredo delivered a thunderbolt to Congress: consultations with representatives of the opposition parties, which had been in desultory progress for some months, were broken off and a package of arbitrary electoral provisions which blatantly favoured the Government Partido Democratico Social (PDS) was handed down for automatic approval. Opposition Congressmen were stunned. The press, including some sections normally favourable to the Government, raised a clamour of protest. The only riposte that the two biggest opposition parties could devise was to merge their forces once again, though the success of this manoeuvre seemed far from certain.

10. The political atmosphere at the end of the year was in consequence both tense and sour. It was not that President Figueiredo's frequently-proclaimed commitment to make Brazil a democracy under the rule of law was put in doubt; it was rather that many people began to wonder whether his notion of democracy bore much resemblance to the generally-accepted pattern. Moreover, these doubts were fed by recollections of the May Day bomb incident at a left-wing rally at the RioCentre stadium and of the subsequent resignation in August of General Golbery, the President's

/Grand



Grand Vizier, who allegedly could not stomach the Army's transparent cover-up of this bungled operation by right-wing intelligence officers. This incident further tarnished the waning prestige of the Armed Forces but may paradoxically have strengthened the hand of the President, who appears to have exacted as the price of his acquiescence in the cover-up an assurance from the Army high command that no such violent dirty tricks should be permitted in future.

11. Dirty tricks of an electoral kind are, however, all too likely to mar the run-up to the November elections. The opposition parties fear gerrymandering on a massive scale and are now convinced that the Government will stoop to any stratagem to ensure their victory at the polls. Conversely, the Government fear the hand of the Church in distributing the heady potions of liberation theology among the ordinarily apathetic masses, in both town and country. Temporary palliatives produced by the Government to safeguard squatters' rights and to legalise the status of foreigners (including priests) are unlikely to avert future friction with the Church. This could spill over into their relations with the trade unions and the left-wing political parties, and create the conditions for a confrontation which both sides would find difficult to manage.

/International



International Relations

12. Paradoxically, foreign affairs is the one field in which the Government is, on the whole, spared harsh criticism from the opposition or even from the media. This is partly because the Itamaraty's relentless and ingenious pursuit of Brazil's national interest under the innocuous label of pragmatism is difficult to fault. Moreover, the policy of leaning away from the United States and towards the Third World, where Brazil hopes to find new and effective leverage for the furtherance of her commercial aims, naturally attracts the sympathy of the Left, though it correspondingly irritates some Government supporters on the Right.

13. During the year President Figueiredo continued his personal crusade to cement relations with Brazil's South American neighbours. He paid State Visits to Colombia and Peru and held three informal meetings with President Viola on the Argentine border. He also received visits from Presidents Turbay Ayala of Colombia and Herrera Campins of Venezuela. He went to Europe twice, once to pay State Visits to France and Portugal and once for a working exchange at Head of Government level with Chancellor Schmidt. Had it not been for his heart attack, he would not only have attended the Summit meeting at Cancun but would also have visited Canada and the United States. As it is, the two

/latter



latter visits have been rescheduled for the first half of 1982, while his place at Cancun was taken by Foreign Minister Guerreiro, who also carried out several visits on his own account to Europe and Africa. All this activity is purposeful rather than for show. Unlike many of their Latin American colleagues, neither the President nor his Foreign Minister approve of visits for their own sake: they expect them to have a solid content and to produce useful results.

Anglo-Brazilian Relations

14. That is one reason why the visit which Dr Guerreiro paid to you, Sir, at the end of November in return for your own visit to Brazil in July 1980 was considered here a great success. An exchange of views with the British Foreign Secretary and other senior Ministers over a wide range of international issues is regarded as a valuable exercise in itself. Moreover, a visit to London at a time when it was the seat of the Presidency of the European Community was, in Brazilian eyes, invested with a special significance. Coming on the heels of the much-trumpeted descent on London of Delfim Netto to sign with the Secretary of State for Trade the biggest loan agreement in history between Britain and any Latin American country, Dr Guerreiro's presence underlined the Brazilian Government's interest in putting more substance, political as well as commercial, into a bilateral relationship

/which



which they consider to have languished regrettably for several decades. The exchange of invitations in London for Mrs Thatcher and President Figueiredo to pay reciprocal visits gives ground for hope that this interest (which must surely be mutual, for reasons which I attempted to spell out in my despatch of 2 October), can be further pursued at an even higher level, if not in 1982, then hopefully in 1983.

The Outlook for 1982

15. Although the worst was avoided in 1981, much self-restraint and many sacrifices will be required of the Brazilian people in 1982. The domestic recession may have passed its lowest point; but it will not be over for a year or two, at best. The convergence of continued economic stringency with the November elections and their associated political ferment may give rise to serious social pressures. Assuming, as I do, that President Figueiredo will not wish either to postpone the elections or to revert to the repressive measures of a decade ago, what other options will be open to him? I think it very likely that, following on an unexpectedly generous budget, a package of cautious reflationary measures is being prepared to create employment and stimulate industrial and commercial activity at an appropriate moment. But I doubt whether either Delfim Netto
/would



would countenance a reversal of the painful but effective policies of the last twelve months or that President Figueiredo would over-rule him.

16. Whatever ructions we may have to contend with in 1982, I am confident that the Government will not lose either their nerve or their grip on the internal administration of this vast and complex country. They hold most of the trump cards: and they know how to play them. Even if they suffer a tactical reverse in the November elections, they will still have plenty of time to alter the rules governing the all-important Presidential elections scheduled - absit omen - for 1984.

I am, Sir,

Yours faithfully

G W Harding

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23 FEB 1982

Foreign and Commonwealth Office
London SW1A 2AH

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23 February 1982

G W Harding Esq CMG CVO
BRASILIA

Dear Bill

BRAZIL_ ANNUAL REVIEW FOR 1981

1. Many thanks for your excellent Annual Review which is being printed as a Diplomatic Report.
2. Brazil's economic performance in 1981 was indeed impressive. Delfim rules OK: and Brazil's reputation again rides high in the international money markets. But, as you suggest, the social and, potentially, the political cost has to be taken into account; and 1982 is likely to be an even more difficult year. Your conclusion that the Government will lose neither its nerve nor its grip is no doubt right and one can only admire the skill with which the Brazilians continue to manage their daunting problems. However, whatever the practical, if cynical, reasons for the blatant manipulation of the electoral rules for next November's elections, abertura has inevitably lost some of its shine. If the 1982 elections produce a transparently engineered result, one wonders whether abertura will remain a concept credible to the public and useful to the Government?
3. 1981 was a very good year for Anglo-Brazilian relations, both political and commercial. We are grateful to you and to your staff for the skill and effort you have put into this. With further Ministerial visits planned for this year and the reciprocal invitations to Mrs Thatcher and President Figueiredo on the table for 1983, we should be able to maintain the momentum. I think it is a particular plus that our attempts to set up a genuine political dialogue on international issues have met with a positive Brazilian response.

*Yours ever
Robert*

P R Fearn

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Mr Ure

PS/Mr Luce

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BRAZIL: 1981 ANNUAL REVIEW

- A 1. I submit Mr Harding's 1981 Annual Review together with the draft of my acknowledgement. The despatch is being printed as a Diplomatic Report.
2. In 1981, Brazil upset most predictions by the degree of economic success achieved. A trade deficit of \$2.8 billion has been converted into a positive balance of \$1 billion. Inflation has fallen: foreign investment increased: and foreign borrowing requirements secured without difficulty. Delfim Netto's reputation, badly bruised in 1980, again rides high: and Brazil's creditors have regained their confidence in the Government's ability to manage its daunting problems.
3. The social and, potentially, the political cost has however been considerable. The deliberately induced reduction in the growth rate has pushed up unemployment in the main industrial centres to an unhealthy 8.5%; and the official statistic of per capita income at \$2050 is highly misleading in a country of such differing geographical and social conditions. Mr Harding rightly reminds us of the need to temper the widely-held view of Brazil as a newly industrialised country of the South Korean type with a recollection of the very harsh conditions prevailing in the favelas and in the barren lands of the north-east.
4. While Brazilians have so far taken the effects of the recession quietly, the uncharacteristically crude legislation introduced last November to ensure a victory for the Government forces in the 1982 State elections can be taken as a reflection of the Government's concern at the build-up of political pressures. The political atmosphere has in consequence been soured: and the prospects for a return to full democracy through the process of abertura now look more distant.
5. Brazil has continued to handle its foreign affairs skilfully in accordance with its policies of self-interest. Anglo-Brazilian relations, both political and commercial, have continued to move forward, with a successful visit to London by the Brazilian Foreign Minister and the signature of a Memorandum of Understanding ensuring British participation in a number of major projects. With further Ministerial visits planned for 1982 and an exchange of invitations for Mrs Thatcher and President Figueiredo to make reciprocal visits in 1983, the momentum should be maintained.

P. R. Fearn
South America Dept

8 February 1982

cc PS/PUS
Mr Day

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 Mr Luce PSE. 23/2
 Mr [unclear] these points included in further submission
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Mr Fearn, SAmD

BRAZIL: ANNUAL REVIEW

1. Mr Luce has seen your submission of 8 February and Mr Harding's useful Annual Review. He assumes that although there will be elections in November this will not affect the possibility of his visiting Brazil in September. He imagines that you are already giving serious thought to the programme for a visit and has asked whether he should, for example, visit the North East.

2. Mr Luce thinks that a dialogue with the Brazilians on issues of mutual interest (eg Falklands, Central America, Africa) would be useful. He has asked whether you could look at the possibility of setting up discussions on such matters, and whether there is, for example, a Deputy Foreign Minister who would be his obvious opposite number in such talks.

*Salma Lewis:
 but the house will
 presumably see
 in February.*

[Signature]
 23/2

[Signature]
 J M Cresswell
 PS/MR LUCE

19 February 1982

LAST
 PAPER

cc

PS/PUS
 Mr Day
 Mr Ure