SAO PAULO, BRAZIL

Brazil, the fourth largest country in the world, a population of 150 million people, and an economy ranked 9th globally, continues to be a country of great proportions and potential; yet, its equally profound contradictions (largely systemic/structural in nature) give rise to divergent and contentious views of its future. The territory covered by this Mission, covering the states of Sao Paulo, Rio de Janeiro, Parana, Santa Catarina, Rio Grande do Sul, Mato Grosso and Mato Grosso do Sul, represents 60% of the country's population and its industrial output accounts for 75% of Brazil's total GDP.

When the Collor administration took power (March 90), Brazil was suffering from serious structural problems, hyperinflation, imbalances, inefficiencies staggering foreign debt, a dangerous dependence upon indexation, and a debilitating depression. It has been daunting to stymie this momentum and move Brazil from 1950's statism to 21st century liberalism. The attempts being made are marked by successive failures. Despite a second stabilization programme, Collor Plan 2 (end January 91) and a new economic team (May 91), the Government's rigid commitment to high interest rates and tight monetary policy has damaged some segments of the productive economy and has failed to bring Brazil's expectation driven inflation to its knees.

While stated as a government priority, the privatization process has been slow to begin and fraught with difficulties. Notwithstanding the liberalization of trade, less than 10% of the Brazilian economy is involved in international trade. While exports from 1978 to 1984 exploded at an average annual rate of 13%, from 1984 onwards this plunged to 2.5% (failing to keep up with dollar inflation let alone competition driven by the "Asian Tigers"). Yet, Brazil still manages to enjoy the world's third largest trade surplus (USD 6.2 billion for January-June 91 compared USD 4.6 billion for 1990 and USD 6.9 billion in 1989). While the annual cost of fully servicing Brazil's current foreign debt was less than 3% of Brazil's GDP and roughly equal to its trade surplus, Brazil has failed to come to an agreement with the IMF. This has forced commercial banks and ECA's (including EDC) to virtually suspend financing.

The dismantling of market reserve, import control systems, and select lowering of tariffs has exposed production inefficiencies and high prices to international competition. To survive internationally, Brazilian business is in critical need of increasing attention to quality, productivity enhancement, and competitiveness. This will require access to higher technologies and manufacturing processes as well as rationalizing domestic production. The profile of exports is becoming more diversified to include consumer items and higher value-added items. Both the number of solid inquiries as well as Canadian business visitors and participants increased opportunities for joint ventures and technology transfer arrangements upon which to build commercial sales. There is also greater interest in Canada as a destination for tourism and investment.