VW plant outside Sao Paolo

By R. Norman Matheny, staff photographer

How Brazil bested the oil crisis

By Nigel Smith

Brazil's economy was growing by an impressive 11 percent a year in the late 1960s and early 1970s, faster than any other nation. But this spectacularly rapid development was built on cheap oil and a generous flow of low-interest loans, and these underpinnings of Brazil's "economic miracle" collapsed in 1973 when oil prices quadrupled and interest rates soared. While many economies floundered, Brazil's economy still managed to grow at around 8 percent annually. How did the Brazilians pull it off?

To tackle the new obstacles to growth, Brazil adopted a vigorous three-pronged strategy. First, exports were boosted to pay for expensive oil imports and to finance development. Second, alternative energy sources were tapped to reduce the country's onerous dependence on imported crude. Third, the government imposed conservation measures to cut petroleum use.

This rapidly implemented program has paid off. The value of Brazil's annual exports has quadrupled to $23 billion since 1973, easily outpacing inflation. Furthermore, exports have become more diversified, which means that Brazil is less vulnerable to wild price gyrations typical of commodities. Manufactured goods now account for 60 percent of the value of exports, up from 30 percent as recently as 1973.

The quality of Brazilian industrial goods has improved markedly, enabling exporting firms to increase their foothold in traditional markets and to find new outlets. General Motors, for example, will soon import Brazilian-made four-cylinder engines to the United States. Parts of Ford's world car, the Escort, are also made in Brazil. Most of Brazil's automobile exports, currently running at $2 billion annually, go to the third world.

Another measure of Brazil's successful export drive is the sales takeoff of its fledgling aircraft industry. Wisely, Brazilians have concentrated on small passenger planes and aircraft for training military pilots and for agriculture. In 1981 Brazil exported $120 million worth of planes, 60 percent of which went to the US. The 19-passenger Bandeirante has been especially well received, and 85 now serve US commuter airlines. Brazil even penetrated the US steel industry when it signed a contract in 1981 to build a laminating mill in Kentucky for the Ohio River Steel Corporation.

Impressive strides have also been made in weaning the nation away from foreign oil, which in recent years has consumed up to half of Brazil's export earnings. Even though the economy has continued to expand, oil consumption remained steady in the 1980s owing to conservation and the development of alternative energy sources. Gasoline prices were pumped up sharply, and it is forbidden to sell the fuel on holidays and weekdays.

Ethanol produced from sugar cane has played a key role in Brazil's effort to find a substitute for oil. All gasoline sold in the country is gasohol with a 20 percent mixture of ethanol.

Many service stations also offer pure ethanol to cater to the 600,000 alcohol-powered cars on the nation's roads. Although only 7 percent of Brazil's car fleet currently runs on pure ethanol, 200,000 alcohol-fueled autos are being produced a year. Some 300 distilleries are now producing ethanol for vehicles, and capacity is expanding rapidly. Brazil has pioneered much of the technology for mass-producing alcohol-powered cars, and this knowledge will pay dividends as other countries seek to trim their petroleum import bills.

Stepped-up production of domestic oil has also helped Brazil's balance-of-payments picture. National oil production has been increasing by 20 percent a year, and in 1982 oil imports accounted for 68 percent of the country's consumption, down from 85 percent in 1974.

In the 1980s, Brazil's bold strategy of rapid development encountered fresh challenges. The stubborn world recession and protectionism cut demand for Brazilian goods. Interest rates climbed even higher, making it more difficult to service the mounting foreign debt of $87 billion. Mexico's difficulties in repaying loans in 1982 made bankers nervous about extending more loans to developing countries.

Brazil's resilient economy is pulling through these latest obstacles. Loans are once again flowing to Brazil, partly because the International Monetary Fund has stepped in with $2.5 billion to tide the nation over. Both the government and opposition parties gained in the last elections, so the country remains politically stable. OPEC's disarray will mean lower oil import bills for Brazil. The end of the recession is accelerating the flow of Brazilian exports. And the country is developing its hydroelectric potential and tapping its mineral wealth in the Amazon, measures that will cut the oil import bill further and generate more foreign revenue.

Brazil still faces enormous economic and social problems. But Brazil's dynamic economy, already the world's 10th largest, and its pragmatic leadership will propel the country on course to a major role in global affairs.

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