

13/03/2003

Malaysia to share success secret with Brazil

Hardev Kaur

BRAZIL'S new President Luiz Inacio Lula da Silva, or Lula as he is popularly known, is keen to learn from Malaysia's experience and particularly its success in rural development and poverty alleviation.

Both Malaysia and Brazil have a similar climate and rich natural resources. But population-wise, the 170 million Brazilians outnumber the 23 million Malaysians. Brazil has a much larger land mass than Malaysia but in economic performance Malaysia outperforms its Latin American counterpart.

Unlike Malaysia, which is a model among developing countries and does better than some developed countries too, Brazil is saddled with problems.

These include high debt, poverty and unemployment. Malaysia on the other hand has successfully dealt with them. And it has the distinction of a developing country that provides employment to more than one million foreign workers.

Brazil wants to know Malaysia's formula for success.

Discussions between Lula and Prime Minister Datuk Seri Dr Mahathir Mohamad will seek to identify areas of co-operation and ways to improve the Brazilian economy and put it onto a healthy and sustainable growth path.

The situation is difficult and Lula's honeymoon appears to have ended. With the end of the annual carnival, hard work awaits the new president.

Brazil's landless peasants who last October celebrated the election of Lula and hoped for the beginning of more egalitarian land ownership have resumed illegal ownership of land in several states.

They say many settlements lack adequate infrastructure, such as water and electricity. According to The Economist, despite recent improvements in environmental standards, 10 per cent of house-holds still lack running water.

Some 18 per cent of Brazilians live below the poverty line. The situation is worsened by income distribution being among the most unequal in the world.

According to some estimates, the poorest 50 per cent account for 10 per cent of national income, just as the richest, one per cent.

In contrast Malaysia has successfully dealt with poverty. More than 93 per cent of households have piped water and some 98 per cent of the population has electricity.

Numerous government policies have lifted the majority of Malaysians into higher income levels. Malaysia has emerged from the financial crisis to register a growth of 4.2 per cent in 2002.

Over the last 22 years the economy has registered an average growth of 9.56 per cent despite the mid-1980s recession and the economic contraction due to the financial crisis of 1997-1998.

Brazil's economy grew an average 3.02 per cent a year in the 1980s, but per capita income went up only 0.7 per cent due to the debt crisis. In the 1990s the economy grew at 2.25 per cent and per capita income 0.8 per cent - half of the demo-graphic growth.

Its financial position is precarious. The Government has debts of about US\$250 billion (RM950 billion), or 56 per cent of Brazil's gross domestic product (GDP). Much of it is short-term and needs constant rolling-over.

The public debt service is US\$32 billion a year and Brazil will need nothing less than US\$1 billion a week to finance an external debt of US\$30

billion and a current account deficit of US\$20 billion.

The economy is totally subordinated to the debt. With interest rates among the highest in the world, the banks wait to collect the bulk of the debt instead of lending money for investment that will generate economic activity and employment.

The Central Bank has lifted its benchmark lending rate five times in as many months, to 26.5 per cent in February. Still, at the end of last month, the bank warned Brazilians to brace for high inflation for most of 2003, saying it would take longer than expected to put the brakes on rising consumer prices.

The market expects inflation to reach 12.33 per cent this year after last year's seven-year high of 12.5 per cent. Inflation was largely fuelled by a 35 per cent depreciation of the Brazilian currency, the real.

Interest payments to international banks is more than the spending on health and education. The debt has risen from 30 per cent of GNP in 1994 to 62 per cent last July. There is consensus that Brazil's debt must be dealt with or there could be a danger of an Argentinian-style meltdown.

Lula, a former shoe-shine boy and metal-worker, has been viewed with suspicion by the multinational institutions and Washington investors. They were reportedly worried that his lack of experience and left-leaning policies would push Latin America's largest and highly indebted economy towards debt default.

He has also been a fiery critic of globalisation. He points out, however, that Brazil will have to adjust to rapid changes that are reshaping the continental and international economy.

The country is opening up to the world - particularly to the rest of South America - a move that has gained momentum with the signing of Mercosur, an economic treaty linking Brazil, Argentina, Uruguay and Paraguay.

Lula hopes that this continental integration will avoid the trap of "downward" integration, which could lead to the kind of situation facing Mexico. "In Brazil," he said, "people's organisations are not against continental integration, but we don't just want a lot of maquiladoras, where wages and working conditions are reduced to the lowest common denominator."

These views were a matter of concern for Washington but the pre-election conditions for the largest IMF bailout in its history ensured that the new government falls in line.

In many ways austerity and fiscal targets had been determined for the new government, and its hands tied, even before it went to the polls.

The US\$30 billion lifeline given to Brazil by the IMF, the largest package by the fund topping that given out to Asian economies during the 1997-1998 crisis, has carefully structured conditions.

At his meeting with Dr Mahathir on Monday, Lula is likely to get a different perspective on development, economic and land reforms and managing an economy in crisis and under severe financial strain.