

Message Text

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PAGE 01 STATE 102108

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FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA PRIORITY

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E.O. 11652: N/A

TAGS: EAID, BR

SUBJECT: GAO 11 YEAR STUDY, STATE/AID COMMENTS FOR US PRESS

REF: (A) BRASILIA 2919; (B) STATE 100716

1. PER REF B HERewith IS FULL TEXT OF PROPOSED STATEMENT ON AID ASPECTS FOR POSSIBLE USE HERE IMMEDIATELY FOLLOWING RELEASE OF GAO STUDY. PAREN DATE OF SUCH RELEASE STILL UNCERTAIN. PAREN.

BEGIN QUOTE: STATE/AID COMMENTS ON GAO STUDY ON BRAZIL

THE GENERAL ACCOUNTING OFFICE HAS ISSUED A STUDY REVIEWING THE FULL RANGE OF UNITED STATES GOVERNMENT ACTIVITIES IN BRAZIL OVER THE PAST DECADE, INCLUDING THOSE OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT. THE GAO STUDY NOTES BRAZIL'S VIGOROUS GROWTH IN RECENT YEARS AND RECOMMENDS THAT THE U.S. PHASE OUT ITS CONCESSIONAL ASSISTANCE TO BRAZIL AND REQUEST BRAZIL TO PAY HIGHER INTEREST RATES OR ACCEPT SHORTER AMORTIZATION PERIODS ON AID LOANS TO BRAZIL MADE SINCE 1970.

AID AGREES WITH THE GAO THAT, IN RECENT YEARS, BRAZIL

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PAGE 02 STATE 102108

HAS ACHIEVED EXCELLENT ECONOMIC PROGRESS WITH A GROWTH RATE

REPORTED AT 10 PER CENT FOR THE LAST FIVE YEARS. THIS REFLECTS, IN PART, THE EFFECTIVE USE THAT BRAZIL HAS MADE OF

U.S. ECONOMIC ASSISTANCE (ABOUT DOLS 1.4 BILLION SINCE INCEPTION OF THE U.S. AID PROGRAM). THE U.S. OFFERS ECONOMIC DEVELOPMENT ASSISTANCE TO DEVELOPING COUNTRIES, LIKE BRAZIL, SO THEY CAN ACHIEVE AND MAINTAIN AN ACCEPTABLE GROWTH RATE AND DEAL WITH THEIR DEVELOPMENT PROBLEMS WITHOUT FURTHER CONCESSIONAL ASSISTANCE FROM THE U.S. THUS, GIVEN BRAZIL'S INCREASINGLY FAVORABLE ECONOMIC POSITION, AID HAD BEGUN REDUCING ITS OVERALL PROGRAM TO BRAZIL BEGINNING SIX YEARS AGO.

AS ASSISTANCE TO BRAZIL HAS DECLINED IN RECENT YEARS, CONCESSIONAL LOANS HAVE BEEN USED GENERALLY AS A VEHICLE TO CONVERT CERTAIN AID GRANT-FUNDED TECHNICAL ASSISTANCE PROGRAMS TO LOAN FINANCED ASSISTANCE IN THE FIELDS OF HEALTH, AGRICULTURE, EDUCATION AND SCIENCE AND TECHNOLOGY. NO CONCESSIONAL LOAN ASSISTANCE WAS REQUESTED FOR BRAZIL FOR FY 1974 OR FY 1975 AND NONE IS PLANNED FOR SUBSEQUENT FISCAL YEARS.

GRANT TECHNICAL ASSISTANCE ALSO HAS RAPIDLY DECLINED, AND IS NOT EXPECTED TO EXCEED DOLS 5-6 MILLION IN FY 1974. FURTHER REDUCTIONS ARE PLANNED IN FY 1975 AND BEYOND. IN ADDITION TO FINANCING LIMITED TECHNICAL ASSISTANCE AND TRAINING PROGRAMS, THESE FUNDS INCLUDE SALARY AND OTHER COSTS OF REMAINING U.S. MISSION PERSONNEL WHO ARE NEEDED TO MONITOR THE PROGRAM. FOR EXAMPLE, THE LOAN "PIPE-LINE" CURRENTLY AMOUNTS TO APPROXIMATELY DOLS 200 MILLION, THE DISBURSEMENT OF WHICH WILL REQUIRE ANOTHER 3 TO 4 YEARS. AID BELIEVES THAT AN ORDERLY APPROACH TO PHASE OUT IN BRAZIL OVER THE NEXT SEVERAL YEARS IS NECESSARY TO AVOID CAUSING A DISRUPTION OF THAT COUNTRY'S ECONOMY OR OUR BILATERAL RELATIONS.

THE GAO RECOMMENDATION TO SEEK HIGHER INTEREST RATES AND MORE RAPID AMORTIZATION OF THE DOLS 175 MILLION OF LOANS MADE SINCE 1970 IS BASED ON A PREMISE WHICH, IN AID'S VIEW, DOES NOT CORRECTLY TAKE INTO ACCOUNT THE LIMITED OFFICIAL USE

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PAGE 03 STATE 102108

CURRENT DEVELOPMENT SITUATION IN BRAZIL. ALTHOUGH BRAZIL HAS MADE EXCELLENT PROGRESS IN RECENT YEARS AND HAS ACCUMULATED SOME DOLS 6 BILLION IN GROSS FOREIGN EXCHANGE RESERVES, IT ALSO HAS A LARGE AND GROWING DEBT OF DOLS 11 BILLION, A DEBT SERVICE RATIO OF 39 PER CENT (OFFICIAL AND PRIVATE), AN INFLATION RATE OF 15 PER CENT PER ANNUM AND A PER CAPITA INCOME OF ONLY ABOUT DOLS 500, COMPARED TO DOLS 5,350 IN THE U.S. THIS RANKS

BRAZIL TENTH IN LATIN AMERICA AND FOURTEENTH AMONG THE DEVELOPING COUNTRIES. ITS POPULATION OF 100 MILLION IS INCREASING AT A RATE OF 2.7 PER CENT PER YEAR, AND A LARGE

PROPORTION OF ITS POPULATION IS OF SCHOOL AGE.

BRAZIL IMPORTS TWO THIRDS OF ITS PETROLEUM AND ABOUT THREE FOURTHS OF ITS FOOD GRAIN NEEDS. THE RECENT EXTRA ORDINARILY HIGH INCREASES IN PRICES FOR THESE COMMODITIES WILL WEIGH VERY HEAVILY ON BRAZIL'S BALANCE OF PAYMENTS BEGINNING IN 1974. AS A RESULT OF RECENT PRICE INCREASES, FOR EXAMPLE, BRAZIL'S PETROLEUM IMPORT COSTS IN 1974 WILL BE ABOUT DOLS 3.0 BILLION, OR ROUGHTLY 50 PER CENT OF 1973 EXPORT EARNINGS COMPARED TO AN AVERAGE OF 10 PER CENT OF EXPORTS IN 1968-1972. THE CURRENT HIGH LEVEL OF GROSS FOREIGN EXCHANGE RESERVES WASLARGELY FINANCED BY A MASSIVE INFLOW OF FOREIGN LOANS AND CREDITS, AND THUS THE NET LIQUIDITY POSITION HAS NOT IMPROVED NEARLY AS DRAMATICALLY AS HAVE GROSS RESERVES.

BRAZIL HAS NOT PROGRESSED TO SUCH AN OVERALL DEGREE THAT IT SHOULD BE TREATED AS A DEVELOPED COUNTRY WHICH CAN EASILY MANAGE A HEAVIER DEBT SERVICING BURDEN.

AID BELIEVES THAT BRAZIL SHOULD BE COMMENDED FOR HAVING MADE EXCELLENT USE OF AID AND OTHER DONORS' ASSISTANCE RATHER THAN BE PENALIZED FOR IMPROVING ITS GROWTH RATE BY RETROACTIVELY CHANGING THE TERMS OF OUR ASSISTANCE. END QUOTE.

2. WOULD APPRECIATE ANY COMMENT WHICH EMBASSY MAY HAVE ON THE STATEMENT. RUSH

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