ECONOMICS

Globalisation Essay – Brazil

Latin America – the second largest emerging region after East Asia, has struggled to meet the challenges of globalisation. Within Latin America, is the single most important economy, Brazil which has a significant influence over the success of the region. With globalisation emerging in the post WW2 period and affecting trade, interdependence and economic activity, the Brazilian government had responded to globalisation through protectionist policies to promote self-dependency and therefore being less reliant on the global economy.

However this strategy dawned on the government as a failure and it wasn't until the mid 1990's that Brazil had finally opened up to trade and globalisation through deregulation, signing of various treaties allowing for growth and development, hence opening up Brazil's economy to the world allowing greater international competiveness and growth.

Characterized by the large and developed agricultural, mining, manufacturing and service sectors with a large population of 201 million, Brazil's economy outweighs that of all South American countries and is currently expanding its presence in world markets. Brazil had achieved remarkable economic growth rates averaging 6% per year in the 1960's and 9% in the 1970's. However, the 1980's saw a decline in the growth rate at an average of 1.5% as Brazil mostly relied on substitute imports to minimise the threat of a global economy up until 1993.

Growth had started improving in 1994 with growth rate of 3.5% due to the adaptation of the openness policy to trade and investment. 1997 Asian Financial Crisis (AFC) was a serious blow to economy with -4%, a loss of $50 billion in foreign reserves and causing uncertainty within the economy. Following the AFC, Brazil's economic performance improved significantly to a stable 4.3% in 2000, and 2007 promised growth rate of 5.4% mainly due to its ever increasing export market. Later still, the Global Financial Crisis hit Brazil in 2008 with a recession for 2 quarters (-3.3%), however recovered early with economic growth stabilising at 2.74% early 2010, and is expected to rise up to 4% by June 2011.

Since the mid 80's, Brazil had swapped to Foreign Direct Investment, allowing its economy to expand with increased economic development. It increased to 3% of GDP in 1990 to 21% of GDP by 2009. The Brazilian Government improved incomes and promoted education in order to increase productivity hence this improved the overall Human Development Index (HDI) from 0.68 in 1980 to 0.807 in 2007/08.

Since 1999, the government has invested 7% of GDP into education systems. Contributing to the improvement in literacy levels have enhanced education inequality and increased significantly from 73% in 1990 to 88.6% in 2009. This has seen the effect of unemployment improving from 18% in the 1990's to 7.3% in 2010. Under a successful health reform in 1996 the, Brazil established a health system based on decentralized universal access, with free health care to each individual in need. This has contributed to the improvement in life expectancy which has increased from 67 in 1990 to 73 by 2009.

Brazil has suffered from high income inequality in the past decades despite the large growth and development taken place. The richest 10% earn half of Brazil's national income and the lower 50% earn 10% of national income. However, compared to an average GINI index of 62 in years 1980-2000 and an average Gini index of 56.7 in the years 2000-2009, indicating a great improvement. Globalisation overall has also increased the demand for higher skilled and paid jobs – thereby decreasing inequality and improving the HDI as globalisation also encourages for higher education and hence higher incomes.

Brazil has been slower in adapting Trade flows than financial flows. Due to the threat of globalisation threatening domestic industries, Brazil remained a limited export market, from the 1960's to 80's often resulting in trade deficits (for instance a trade deficit of $5 billion in 1977). As the import industrialisation strategy failed to improve Brazil's economy, it shifted towards the liberalisation of trade in the mid 1990's with reductions in protection such as tariffs and restrictions, leading to increased efficiency in the remaining manufacturing sector after the economy had structured towards manufacturing services.

Following this, Brazil signed up for treaties such as the WTO, APEC, Mercosur and the G20 developing nations which has provided peace for trade and investment within nations, providing increased international competitiveness for Brazil. The global resources boom of the 2000's led to the huge growth in Brazil's commodity market achieving a trade surplus of $40 billion by year 2007. Brazil has increased its integration with the global market with export growth of US$ 137 billion in 2006.

Brazil had taken advantage for much of the 20th century globalisation by trying to fund industrialisation through foreign borrowing, in order to decrease reliance on the global economy. However this had led to an enormous overseas external debt of almost $244 billion in 1999, which was worsened after the US interest rates increase making Brazil more vulnerable to a debt trap.

So by floating its currency, the 'real' in 1999 and moving further towards (FDI), Brazil has eventually reduced its debt, reduced its vulnerability to financial crises and attracted investment into economic development projects. Furthermore the year beginning 2000 had seen FDI flows of $5 billion, increasing to $23 billion in 2009, and is now one of the highest current FDI recipients in the world.

Due to Brazil's openness to FDI flows from the mid 1990's, Transnational Corporations (TNC's) investment within Brazil has been a major part of its economy.

With TNC involvement, approximately 41% in the year 2005, and 47% in 2009 in auto manufacturing companies, telecommunications, chemical, pharmaceutical, mechanical sector it has led to an overall decrease in unemployment and increase in exports, hence positively contributing to the wellbeing of the economy.

As economic growth is closely interrelated to the natural environment, the environmental consequences have been rather severe due to the increasing economic growth of Brazil in recent years. For instance, Globalisation and the demand for commodities overseas have fuelled the rate at which resources in Brazil are consumed (10% in 1990 to 33% in 2005) and contributing to widespread pollution and waste. As well, the extensive logging of the Amazon rainforest, (13% of forest has been destroyed) which is critical to both local and global ecosystems has taken place over these years.

Globalisation impacts upon financial markets quite sternly. Since Brazilian banks depend upon foreign capital accounts for 10-20% of funds, making share prices susceptible to external shocks. For instance, the economic crisis in 2002 had seen investor confidence decrease rapidly; so Brazil prompted the International Monetary Fund (IMF) to lend it a loan of $30 billion. The IMF intervention was successful in restoring confidence in the Brazilian economy.

The International Business cycle is subject to constant fluctuations and has been a major impact of Globalisation to Brazil due to its great reliance on FDI flows and exports. For instance during an economic downturn or recession such as in the AFC (1997) or GFC (2008) saw growth rate as -3.3% mainly due to FDI funds taken out of Brazil resulting in a depreciation of currency and higher domestic rates and lower standard of living. Meanwhile global economic upswings or booms have resulted in Brazil experiencing high economic growth rates such as in 2007 with 5.4% leading to a decrease in unemployment and higher standard of living.

The Brazilian government has pursued a number of disciplined economic policies since 2002 to effectively respond to the impact of Globalisation. The Policy of openness has included deregulating industries in 1986, abolishing state monopolies, Increasing Foreign Direct Investment flows, and hence allowing the rise in economic development whilst reducing debt growth (reduction in debt of 40% in the last decade). This reduction in protection has allowed the growth of efficient industries, increased economic integration with external economies and restructured Brazilian economy towards more efficient areas – such as the mining and commodities sector.

Under the current policy framework, the fiscal policy is being used to reduce the level of public debt caused by the need for Brazil to fund for industrialisation and growth. Therefore by sustaining fiscal surpluses, as 4.25% of GDP, Brazil had aimed to reduce the large amount of public debt that the government owed. The strategy of sustaining fiscal surplus has definitely proved effective and helped to reduce the level of public debt from 49.3% of GDP in 2004 to 36.9% of GDP in 2009.

The Brazilian Central Bank has stringently maintained an inflation targeting framework since 2002, using high real interest rates to contain any inflationary threats. Inflation target was reduced from 5.5% in 2005 to 4.5% in 2007. In 2008 however, it re-emerged as a significant policy concern with 6.34%, but by the end of 2008, monetary tightening had taken place and has continued to the present day. Inflation targeting has presented its effectiveness in maintaining its inflation rate at an average of 4.7% from 2005-09, stabilising economic growth and also decreasing its vulnerability to external shocks such as the Global Financial Crisis.

Another government initiative in the 1970's involves the Ethanol program which had increased employment, enhanced the quality of the environment and stimulated the competitiveness of automobile industry which successfully cushioned the economy against the volatile fuel market.

In January 2007, the government had unveiled the PAC (growth acceleration programme which aims to raise annual average economic growth to 5% a year and function with the planned US$250 billion in public infrastructure projects This programme has also been, in essence been significantly successful as this policy has build up Brazil's medium term productivity, decrease unemployment and increase economic growth and development in the short and long term.

Globalisation, overall has affected Brazil both positively and negatively. In an attempt for the Brazilian government to reduce the impacts of globalisation to the economy, it has taken steps to implement structural reforms by tackling long term economic and social problems which will help achieve higher economic growth, development and equality in the future.