

# ECONOMICS

## BRAZIL

### Introduction

This case study will explore Brazil's economy and the implications faced and how they were overcome to reach the state Brazil's economy is currently in. The strategies and trade agreements Brazil is involved in are examined, a number of Brazil's economic aspects such as their links with other nations and Brazil's increasingly integrated economy has allowed it to respond to globalisation.

### Outline

Brazil has a population of 207.7 million (2016) according to OECD, making it the fifth largest economy in terms of population. Brazil is the fifth largest country and occupies most of South America. Brazil is also the ninth largest country by nominal GDP and eight largest by purchasing power parity.

Value of GDP (last 5-10 years)	1.796 trillion USD (2016)
Economic Growth (last 10 years trend)	<p>The growth rate of Brazils economy has been fluctuating over the past decade, the growth rate hasn't remained stable for a long period of time, towards the end of 2008 it experienced a dramatic fall in growth due to the global financial crisis which was recovered from by the end of 2009. Constant fluctuations have occurred in the last few years falls, and recoveries being made continuously.</p> <p>The graph displays the annual GDP growth rate for Brazil from 2008 to 2016. The vertical axis represents the growth rate percentage, ranging from -6 to 4. The horizontal axis shows the years from 2008 to 2016. The data points are approximately: 2008: 1.5%; 2009: -5.0%; 2010: 2.0%; 2011: 1.5%; 2012: 0.5%; 2013: 1.5%; 2014: 0.5%; 2015: -1.5%; 2016: 0.5%.</p>
Type of economy	Brazil is an emerging economy.
Achievement of Millennium goals	Brazil's millennium goals include eradicating hunger and poverty. For a long time, Brazil has also experienced high levels of inequality in terms of income although they have made sufficient progress. Brazils other Millennium goal include achieving universal education, promote gender equality and empower women and to decrease morality rates in Brazil.

Change in structure of economy	Brazil is a mixed economy
Environmental impact on economy	Managing the environment has proven to be a challenge for Brazil. Brazil suffers from a high level of water and environmental pollution. Only 30% of waste water is treated, 50% of garbage and solid wastes aren't collected. Majority of public health problems is caused by poor sanitation with only 47% of people living in housing which benefits from sewage collection. Brazil has made some important environmental achievements including the development of sustainable biofuels innovating technology used in the ethanol industry. Although overall Brazil has a poor status in terms of environmental protection because of the rapid destruction of the Amazon rainforest. Brazil's forest coverage has declined from 72% to 61% between 1990 and 2011. Considering the increased carbon dioxide emissions, climate change has been an issue, Brazil is now the world's third-largest contributor to greenhouse gas emissions due to the large-scale deforestation. The Amazon rainforest's importance to regional and global ecosystems and being the largest body of freshwater for Brazil, Brazil has committed to reduce pollution and deforestation by 80% by 2020. Brazil has reduced deforestation rates by 70% since 2005.
Financial performance	Brazil has very high levels of income inequality, the nation has few wealthy people and a majority of poor people, the wage gap between the social levels is high. Lower inflation levels has given poor people more purchasing power, the top 10 per cent of people in Brazil make up 47.75 per cent of the total income in 1999 while the bottom 50 per cent represented only 12.55 per cent of the total income received in 1999. Brazil is still struggling with equal distribution of income, although over the last two decades it has made notable progress, the Gini Index measures income inequality, it shows income inequality fell from 60 in 2000 to 55 in 2013. OECD shows that over half the reduction in income inequality is a result of economic growth while the other half came from government policies on redistributing income. President da Silva prioritised policies which would aim to redistribute wealth by raising the minimum wage and giving cash payments to poor families. These policies were some of the effective anti-poverty policies ever introduced which influenced other nations to adopt similar policies. The percentage of Brazilians living on \$2 per day fell from 23 per cent to 5.9 per cent. Brazil is still struggling with the issue of income inequality although is working on improving the situation for its citizens due to the dreadful conditions Brazilians are living in.

**a. What policy changes were made regarding protective barriers.**

Relative to other nations, Brazil has been slow in liberalising trade flows. Brazil's economic development strategy for several decades has been concentrated on substituting imports for domestically produced goods, this strategy has been implemented with the assistance of tariffs and subsidies. The strategy allowed a reduction in imports although is also made Brazil's industries less internationally competitive and as a result less successful in developing export markets. Despite Brazil remaining a relatively closed economy between 1990 and 2010, the average levels of tariffs decreased from 32.2 to 7.6 per cent and import quotas were abolished in order to promote foreign investment, these reforms were followed

by significant increases in foreign trade from 10 per cent of GDP in 1995 to 26 percent by 2014 after which the GDP began to decline. The reforms correspondingly improved Brazils rate of exports along with annual growth rate in exports rising from 5.9 percent in 1990's to 16 percent in the 2000's. Brazil declared a reduction tax for over 40 manufacturing sectors. Brazil is experiencing pressure to further reduce protection, they have suspended further action to ease trade barriers without corresponding benefits from other countries, this strategy allows Brazil to amplify its bargaining power in trade negotiations.

## Strategies

Trade liberalisation: Trade liberalisation refers to improving a countries performance by promoting trade flows between countries. Brazil's change from a closed to an open economy has allowed its economy to become more internationally integrated and help sustain growth. Trade liberalisation helped Brazils economy in the trade of raw materials, prices of raw materials have risen significantly over the past few years, producer countries take advantage of the situation either by raising export rates or exporting a certain quantity. These restrictions act as a tariff to increase revenue for international buyers and decrease domestic prices. In Brazil trade liberalisation meant decreasing tariffs, average tariffs decreased from 30.5% to 12.8%, this change was implemented more effectively in some industries in comparison to others. This is because different regions produce different types of products hence tariff reductions were different across many industries. Further liberalisation would promote more competition to ensure the sustainability of growth, lowering tariffs would facilitate domestic producers and consumers in accessing more competitive products.

Substitution imports for domestically produced goods: Brazil largely relied on foreign borrowing to fund industrialisation, rather than using these funds to increase its global integration the financial inflows were used to reduce Brazil's reliance on the global economy by substituting its imports with domestically produced products. The export of manufactured goods and continued industrial diversification is a benefit of substituting imports for domestically produced goods.

### **b. What trade agreements were made and how effective were these.**

**BRICS:** Brazil is a member of BRICS, and is the third largest after India and China. Brazil has developed a significant relationship with the global economy through its increasingly important international leadership role among other nations, this has been suggested in Brazil hosting the BRICS formal meeting in 2014, which was designed to help emerging economies during periods of economic volatility. Brazils leadership is again reflected in trade negotiations in conjunction with India in competition with other agricultural exporters. This is due to the highly subsidized agricultural exports of developed economies; Brazil's leadership roles have allowed it to become a more prominent competitor in the global economy.

**WTO:** Brazil has acted as an advocate for the rights of developing countries in order to produce cheaper machinery and capital. Brazil has attempted to test the limits of WTO trade rules which allow developing countries to overrule the licence holders on expensive pharmaceutical products which Western pharmaceutical companies hold licence of by purchasing cheaper duplicate products made by domestic producers. In 2007 Brazil signed an arrangement to allow domestic producers to make copies of an expensive HIV drug, according to WTO regulations Brazils move shows its willingness to prioritise the interest of developing countries in the global economy. The role of the World Trade Organisation is to ensure that trade flows free and it deals with the global rules of trade.

**MERCOSUR:** Mercosur is a customs union between Brazil and four other nations including Argentina, Paraguay, Uruguay and Venezuela. Trade within the Mercosur bloc is mainly tariff free with common tariffs ranging between 0 and 20 per cent, in 2011 Brazil was successful in

persuading other Mercosur members in raising external tariffs to protect their markets from imports which would potentially jeopardise growth and employment. In 2010 negotiations between Mercosur and the European Union began although progress was delayed due to the belief that producers in the EU could make losses because of the cheaper agricultural exports of Latin America.

**c. What changes in the mix of goods and services that were made and how effective were these- did it achieve the level of economic growth and long-term integration with the region and global economy.**

Brazil's transition from a closed economy into an open economy has transformed the industry structure. The domestic manufacturing sector of the economy has declined, although this sector has become smaller it has become more internationally competitive. In 1990, services made up 53%, industry, 39% and agriculture made up 8%, the 2014 statistics indicate that the services sector makes up 71%, industry takes up 23% and agriculture has decreased to 6%. Although services make up the largest sector in the economy it contributed to only 18% of the exports in 2014. Since this change in the economy structure had been implemented economic growth slowed down for the following 3 years until it rose again in 2017 by 0.50%. Exports in Brazil have also fallen from 58% to 35%, the exports of the nation itself only account for 0.8% of world exports. The mix of good and services has changed over time to become more efficient and effective for the economy itself.

The Brazilian economy has become more integrated through its open economy and involvement with other nations. Brazil's economic growth has increased in the past few years which can partially be credited to the changes in the mix of goods and services, the proportions have been readjusted to suit the requirements and needs of consumers and in order to build a better country for themselves. The major change in the production of goods and services was that services changed from making up 53% to 71%, this change indicates economic growth owing to the fact that more people would have been skilled for the services field and there would be higher employment rates in services than in any other sector and if unemployment rates are low it means more people are earning an income so more people are also spending therefore stimulating the economy and contributing to the economy. This has also given Brazil the opportunity to expand its connections with the regional and global economy, Brazil's vast resources and growing political importance has been a contributing factor to its economic growth.

**d. The level of FDI in the economy.**

Foreign Direct Investment (FDI) flows have played a significant role in the economic growth of Brazil in recent years, Brazil has increasingly become a place for FDI inflows especially in the resources sector, retail, financial services and construction. Brazil has attempted to encourage more FDI by liberalising rules concerning foreign investment. There was a dramatic increase in investments during December 2016 with an investment of \$US15.4 billion.

The resources boom stimulated foreign investment into Brazil's economy, in the years leading up to the resources boom, Brazil appealed to an average annual investment of \$US 61 billion. Brazil has responded to globalisation by increasing the level of foreign investment by Brazilian companies. Some of this investment involves the establishment of new businesses and facilities but most FDI has been involved in mergers of other businesses. Historically developed countries invested into developing countries although a share of flows between developing countries is now no longer uncommon. Brazil's success has been a result of greater integration with the global economy which resulted in greater foreign investment, lower unemployment and higher export growth.

**e. Foreign aid which has been given and who supplied it and how effective was it in achieving economic development.**

Brazil is a receiver of foreign aid due to their poverty and economic instability. Norway committed to provide Brazil with NOK 6.5 billion over a period of 5 years, most of this aid was provided to assist with environmental measures. Norway paid this money on the basis that Brazil showed results, if Brazil had not succeeded in reducing deforestation they wouldn't have received the money. Due to this aid, deforestation of the Amazon rainforest has been reduced by 75 percent, 3 billion tonnes of carbon dioxide have been reduced in greenhouse gas emissions. This initiative has been successful in tackling the issue climate change. This has allowed economic growth to occur due to the renewable resources provides from the Amazon rainforest, it also lowers health risks by lowering the quantity of carbon dioxide emissions.

In addition, British taxpayers will provide a further \$107.7 million to Brazil in PPP, this will facilitate in deepening an understanding and help grow economic links between the two nations. This partnership is expected to expand global trade and increase opportunities for international business in Brazil, helping to secure economic growth in Brazil. The foreign aid is designed to assist with reducing poverty and in targeted areas where economic development is needed.

**f. What other areas of economic policy have implemented to further achieve economic growth.**

Confidence in Brazil's economic outlook has declined because Brazil has experienced a fall in prices for commodity exports and has achieved few policy reforms. The IMF has asserted that the failure to implement new economic reforms is because of the difficulty of passing legislation through Brazil's parliament. The Fiscal Responsibility Law ensures that fiscal policy is utilized to condense the level of public debt, the medium-term target for its primary fiscal surplus is the fiscal surplus before payments on government debt, the medium-term target was initially set at 4.25 per cent of GDP, after the global financial crisis it was reduced to promote economic growth, the current target has been changed to 3.1 per cent of GDP. The government was close to achieving this target until in 2013 it announced the federal government will be accountable to achieve 2.2 per cent primary surplus and the state government taking responsibility for the remaining 0.9 per cent.

The OECD has stated, to achieve the goals set by the Fiscal Responsibility Law while investing in poverty reduction and infrastructure, Brazil needs to maintain the growth of public sector wages and disrupt the link between pensions and minimum wages. Brazil's generous age pension system experienced significant cuts to benefits, these measures are part of a larger strategy to re-establish the primary fiscal surplus to 1.2 per cent GDP in 2015 and 2 per cent in 2016.

**g. What challenges have been identified in the future so that economic growth can be maintained.**

Brazil must lift tariffs to promote trade liberalisation in order to increase competition therefore stimulating economic growth. For this to occur Brazil must become a highly open and integrated economy, this will result in the growth of the economy and Brazil's market will become increasingly competitive. To ensure that economic growth is maintained it must continue to attract foreign investment, have prospering natural resources and a large market of over 200 million consumers like it does now. The governments policies in favour of growth and abundant spending increase interest in Brazil and its economy, for economic growth to be maintained the level of foreign investment must remain constant.

Challenges which have become prominent include Brazil's resentfulness towards becoming a more integrated and open economy, despite it benefiting the economy and strengthening Brazil's relationship with other nations and economies which would eventually allow Brazil to prosper. With globalisation playing a major role in economies, the level of globalisation will increase in the near future which will also increase the importance of integration with the global economy, It is crucial that Brazil recognises this and is willing to become a more integrated economy so that economic growth can be maintained, if Brazil fails to overcome this challenge it could mean Brazil is no longer going to be experience growth at the rate it is currently growing. These challenges will impede the progress of Brazils economy therefore they must be eradicated and the future needs to be addressed so the economy faces less issues in the future, only then can economic growth be sustained.

#### **h. What is the master plan.**

Brazil is prioritising the development in infrastructure within the economy especially due to their international reputation, Brazil will be hosting the Olympic Games which has forced it to improve infrastructure to accommodate for the influx of people around the world. São Paulo is Brazils financial centre and has a number of cultural institutions and rich architecture, it also has a number of iconic buildings range. Brazil is currently prioritising improved public and non-motorized transport in São Paulo, this master plan will guide the city's urban development for the following 20 years. This master plan is considered to be a bold move for Brazil due to their embracing of sustainable, pedestrian-friendly development. São Paulo promotes land development along metro, train and bus corridors, within certain zones buildings are hoped to be taller and mixed use of development is encouraged in doing so. It is the responsibility of Brazil's government to invest in the "Olympic Games Mode", the design ensures the best conditions for the efficient operation of sport competitions. This project was conducted and completed in 2016. Good infrastructure is needed for the provision reliable services and to enable local businesses to expand.

#### **Final summary**

It can be forecasted that Brazil will play a significant role in the global economy in the future, this is suggested by its growing population size and economy. Brazil has been successful in becoming part of the global economy, this has been possible because of Brazil's willingness to transition into an open economy which has made economic growth possible. In addition to being an open economy it has also been involved in several major trade agreements with other nations giving the country a better reputation amongst the global community, these trade agreements have given Brazil the opportunity to elevate its international profile and be less dependent on other nations such as America. Brazil has the advantage to benefit from the other nations such as China and South Africa being its greatest trade partners, these trading partners have allowed Brazil to integrate into the global economy.

Trade liberalisation has been one of the major strategies used to industrialise Brazil and achieve economic growth, the removal of tariffs promotes trade flows between countries, this has proven to be an effective method due to the barriers between countries being eradicated and goods and services to be traded freely. As an emerging economy Brazil gains more from global trade liberalisation as a percentage of their GDP unlike developed countries who are highly protected due to their higher tariffs. Another strategy Brazil is reliant on is substituting imports for domestically produced goods, this strategy is aimed at reducing Brazil's foreign dependency through the local production of goods and services. Imports are cheaper for local consumers relative to domestically produced goods, this effects the quality of life because the inflationary prices force people to spend more. Brazil uses these protectionist strategies domestic producers to compete against foreign competition. Both these strategies are successful in promoting growth and development as they have allowed economic growth to occur.