Guilherme Costa Delgado

Brazil post-2010: economic, social and relevant external relations analysis

PhD in Economics at Unicamp (1984), IPEA researcher from 1976 to 2007 and currently working at the Board of ABRA (Brazilian Association of Agrarian Reform).

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Subject of analysis and preliminary justification

In this seminar, sponsored by the International Observatory of Human Capabilities (OICH), the focus is on a specific period to analyze the economic and social situation in Brazil in particular and its relevant external relations in this context, particularly in the group of BRIC countries (Brazil, Russia, India and China).

In 2013, the OICH also promoted a similar seminar, establishing a historical period - the decade 2000-2010. In both cases, the historical choice is not justified strictly by calendar reasons, but it tries to capture and interpret certain cycles of significant foreign economic relations. In the first case, because of the emergence of a clear movement of "primarization" of external relations, characterized as the axis of an engaging political economy (2000-2010). In the present case (post-2010), by signaling a reversal of this previous cycle, with all the conjuncture characteristics and multiple crises, such as we live in the present.

The contrast of these two periods is too relevant. In a way, it continues and deepens a critical-interpretative approach about the period of apparent economic boom to reveal now the "feet of clay" of the economic growth driven by "natural comparative advantages" in foreign trade, peculiar feature of the first decade. In this second decade, there are obvious signs of cyclical reversal that we need to characterize with certain severity, bearing in mind that its critical character does not manifest yet a new trend of political economy rearrangement. However, the social and political consequences are visible in the sense of economic stagnation and socio-economic development indicators.

Background

In the 2013 seminar, we synthesized 13 items, which analyzed on different approaches the situation in Latin America and for the BRIC countries in the decade 2000-2010. A focal point of all analysis of this situation is the so-called China-effect, i.e., the expansion of the Chinese economy, projected on a global scale, pulling the Latin American economies for economic growth, linked to the primary-export insertion of these countries in world trade.

With few exceptions, there is also a strong convergence in the empirical-analytical approaches to indicate that for the countries of Latin America and the BRIC occur simultaneously:

1. Widespread improvement in labor markets, with growth of employment and decrease of unemployment;
2. Absolute improvement in the Human Development Index (HDI) of almost every country;
3. General improvement in income distribution rates;
4. General improvement in education rates;
5. Demographic changes typical of economic development;
6. Widespread changes in the public health field - changing the epidemiological profile of the population and an increase in health expenditure per capita; improvement in life expectancy at birth etc.;
7. Gross Domestic Product and exports growth of almost every country.

In the interpretation of this growth process and peculiar external insertion, there is a diversion on the continuity as well as on the social and environmental implications of this type of expansion.

However, there is also convergence in findings that

> The deepening of the primary export-oriented model would be fatal for economic development and social equity in the

medium term. Even in the short term, it is assumed that once interrupted the flow and pace of the demand (worldwide) for commodities, there would be negative effects on economic growth.

The current period (post-2010): cyclical crisis, worsening economic indicators and stagnation of social indicators

The sign of cyclical change in world economy, signalized by the financial crisis in the US economy in 2008, reflects in a lagged and differentiated way throughout the world economy since then. First, in the US economy, which answers immediately with a huge program of "financial restructuring", supported by public debt issuance at very low interest, followed by strong currency issuance - quantitative easing - as a way to pay off parts of this debt. This US monetary policy affects the world exchange rates, particularly the real-dollar relationship, contributing to the loss of competitiveness of our exports in the latest period.

The European economy, in turn, will experience its own entrance in the financial crisis due to the situation of several countries in the Eurozone - Italy, Greece, Portugal and Spain - with tax problems, internal bank delinquency and external moratorium potential. There is an aggravating. These Member States no longer have, within the EU, public debt in their own currency and/or currency issuance as self-defense mechanisms.

The relative stagnation of the US economy from 2008 to 2013 (GDP average growth rate of 0.94%) and of the countries of the Eurozone in the the same period (average growth rate ranging from a maximum of 0.65% for Germany and 0.1% for France and Italy) certainly influenced the Chinese economy (average growth rate in 2012-2014 of 7.7%), strongly decelerated if compared to the period 2004-2010 (11.1% per year) [1] (primary data in Table 2 and specific analysis in the section "Some indicators of the world economy").

1 From 2011 to 2014, the IBRE-FGV Commodities Price Index, which covers 23 products, fell 18.7%, driven by oil, iron and soybeans.

The effect of the external crisis on Brazil is characterized by the reversal of the exchange ratio of commodities, whose explicit manifestation took place from 2013.

In Brazil, the 2008 crisis figured initially as mere cyclical fluctuations - a "small wave", as they called it back then. It received an important countercyclical response during Lula's second mandate, in the form of an extensive investment program with public funds and continuity of primary exports, supported respectively by Petrobras, the electric system and BNDES-National Treasury, on the one hand, and the Rural Credit National System, on the other. The expansion of consumer credit has also integrated this list of incentives to support domestic demand.

Effective at first to contain the beginning of the financial crisis in 2008-2009, with showy economic results in 2010 (GDP growth of 7.5%), the countercyclical measures started losing effectiveness over President Dilma's first mandate between 2011 and 2014. By the beginning of the second mandate, they were abandoned in the name of a conventional fiscal adjustment, led by Finance Minister Joaquim Levy.

Observed from a strictly empirical point of view, the period 2011-2014, which coincides with the first term of President Dilma, already manifest a clear movement of economic slowdown, with average GDP growth in the four years of 1.9% per year, compared to an average of 4.6% for the previous four years (2007-2010) or 4.5% on average in the period 2004-2010.

The year 2015 is symbolic because it explicitly express the various critical tensions of growth style in reversion process, but still not admitted by the official policy. It emerges as autonomous factors: 1) a clear reversal in commodity prices, with significant worsening of the current account deficit with foreign countries; 2) a manifest shortage of drinking water for urban supply and hydroelectric production; 3) a political and economic crisis in the Petrobras system; 4) a configured fiscal crisis, with explicit manifestation of the financial system - to deny the continuity of the countercyclical policy of the BNDES-National Treasury, financing the so-called PAC (Growth Acceleration Program).

The conjunction and simultaneity of these four economic contraction factors invalidate the countercyclical program of Dilma's first mandate and the tangible possibility of immediate economic growth (2015-2016). This is due, as we analyze in sequence, the cyclical and structural problems raised autonomously by the mentioned crises and circumstantially by the fiscal adjustment policy now underway.

Changes in commodities cycle

The world economy contraction and particularly the slowdown of the Chinese economy strongly affect external competitiveness of some Brazilian manufactured and semi-finished exports, responsible for more than half of the export basket - the main ones: crude oil, iron ore, aluminum, sugar, soy, corn, meat, coffee and pulp. Because of that, the foreign trade balance in the last two years was practically zero and the current account deficit with foreign countries was very high in the same period, around 4% of the GDP.

A particularly strong reversal in oil barrel prices, iron ore and soybeans, since mid-2013 - three icons of the external competitiveness of the oil fields, mining and agribusiness land - significantly reduced exports to China, while in Latin America the effects of the external crisis and the internal problems of the Mercosur countries also led to trade reduction.[2]

The classic argument of the natural comparative advantages of Brazilian commodities in world trade virtually configured the axis of Brazilian economic expansion from 2000 to 2010. This advantage resulted in extraordinary profit given to commodities by a peculiar endowment of natural reserves of crude oil, water resources, arable land and mineral deposits during the period of strong expansion of external demand.

The sharp fall in international prices of commodities significantly reduces this extraordinary profit, a fact that apparently would alleviate the tendency for intensive and extensive exploitation of natural resources. However, for purely commercial criteria, this is not guaranteed in an economy that has been specializing in raw materials for foreign trade.

2 For a detailed situational analysis of foreign trade see FGV-IBRE (2015).

At this juncture (2015), the explicit manifestation in the metropolitan areas of the Southeast, Midwest and Northeast of a water crisis - lack of drinking water for urban consumption and lack of accumulation of water for hydroelectricity generation - highlights the need to establish limits for water management, use and consumption. This criterion somewhat clashes with the belief of the natural comparative advantages as mechanical competitiveness source of international trade.

The water crisis shows visibly the so-called invisible costs of strictly commercial exploitation of land, water and mines. The implicit assumption of overabundant natural resources, to be converted into commodities, cannot be sustained. Emerging climate change in the same period show, in that case of water scarcity, a structural limit to the continued expansion of this style, not to mention the other components of the overexploitation of natural resources - waste, contamination, biodiversity loss etc., also assigned to the list of hidden costs.

Fiscal crisis and adjustment

In recent international public pronouncement (meeting of heads of state of the Americas in Panama, from April 10 to 12, 2015), President Dilma explicitly mentioned the strategies of a countercyclical program, exhausted in 2014, and of the fiscal adjustment policy, opposed in 2015, to cover a larger fiscal crisis allegedly due to economic cycle changes in the world economy. The fiscal crisis would figure here as negative fact of foreign origin and the programs of action a form of different internal therapies to treat it. In fact, we have here an official version, with all the half-truths convenient to the official discourse.

For the reader not used to the economic jargon, these expressions sound strange and need to be decoded, especially when on their behalf people are trying to adopt political actions with strong impact on social life.

In 2015, after at least six fiscal years (2009-2014) of successive countercyclical operations of contributions from the National Treasury to

BNDES for financing of various investment lines of the Bank[3], they abruptly ended these operations and initiated the policy called fiscal adjustment in the second Dilma government, whose premise is to combat the strong imbalance in the public accounts.

Without considering for the moment the merits of this fiscal adjustment as appropriate remedy to the fiscal crisis, it seems that the obvious economic fact is the very fiscal crisis on the one hand, and, on the other, a source of controversy - how to face it through economic policy.

In turn, the strategy of cutting public investment (fall of BNDES loan funds), reducing social spending (MPs 664, December 2014, on pensions, and 665, from the same period, about unemployment benefits and allowances salary), canceling pension tax relief and increasing certain taxes and tariffs (electricity and petroleum fuels) has a clear sense of programmed demand contraction, to which are added two other unscheduled movements: i) the crisis in the Petrobras system and partner companies of the chains of inter-industrial relations; ii) the fall in exports of commodities caused by the reversal of the terms of trade of these goods. Combining programmed with non-programmed effects of contraction of domestic and external demand, the so-called fiscal adjustment produces a very negative result on production and employment, [4] something that, according to economists in favor of planned measures, such as the former Minister of Finance Delfim Neto, would be inevitable to adopt. Otherwise, the markets themselves would perform a much more radical fiscal adjustment. Probably the former minister is referring to an external speculative attack, with capital flight and deep currency crisis, like what we observed in 1982 (industrial recession) and 1999 (the attack to Brazilian currency real at the beginning of the Fernando Henrique Cardoso government).

Apparently, defending the fiscal adjustment would reflect a state of necessity, something the operators sooner or later would end up doing.

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3 Between 2009 and 2014, the Treasury borrowed for the BNDES loan funds and other public banks an amount of over 400 billion reais (or US$ 127 billions), with the issuance of government bonds. Converted into long-term financing, this money would also be paid in the long run.

4 The result of the GDP in 2015 will be negative, according to all expectations, but it is uncertain how strong (see data - Tables 1 and 2). The implications for employment are felt indirectly by the labor market downturn.

However, those who defend the adjustment strategy operate at the limit of pure instrumental rationality, under the argument of balanced budget with a primary surplus to pay interest. This technical discourse is seen, ideologically, as a belief in correcting the distortions imposed by the State interventionism, to be operated by market forces, and as certain theological idolatry appeal to sacrifice the weakest ones socially and economically, a punishment that, by the end of a certain period, would bring back the "animal spirit" of entrepreneurs. As a reward to such expectation would emerge, as phoenix from the ashes, an animal entrepreneur, to take investment decisions to rebuild the battered economy.

Whatever the economic theories and theologies underlying fiscal adjustment, two important questions arise: 1) there is no civilized coexistence in deep and prolonged economic recession environment; 2) the fiscal crisis, in fact, pre-existing, can worsen exponentially because of the therapeutic economic adjustment itself, especially if it does not contain any ethical principle of economic justice to guide it.

In order not to fall into the tautological trap of fiscal adjustment as an end in itself, it is necessary to inquire about the nature of the fiscal crisis that leads to it, which is also of foreign economic relations and the very essence of the model of growth implemented in the previous decade (2000- 2010).

Note that since 2008 it is clearly outlined the inadequacy of the Brazilian foreign trade strategy to specialize in the export of commodities. Since then, exports of manufactured goods have shrunk – in a relative or general and absolute manner, for some sectors. The country has a deficit in current account continuously growing, evolving from about 1% to over 4% of GDP in eight years. Foreign investment covers all the years this gap, but it does not substantively address external dependency. It addresses the specialized growth sectors, which both in the first decade as during the period of countercyclical policy (2011-2014) continued to rely on natural comparative advantages in foreign trade and investment in infrastructure that could turn them attractive in locational terms.

In turn, the countercyclical program of effective demand defense, put in place from 2009, under the aegis of BNDES – National Treasury, Petrobras and electrical system in the component -, PAC, the mining sector and the Rural Credit National System - and BNDES, regarding agricultural commodities - had as basic assumption one exchange ratio between commodities and manufactured prices strongly in favor to the first ones.

The cyclical reversal of foreign exchange relationship, which began after 2010 and was clearly set in 2013, radically affects two basic components of growth model: 1) the rise in current account deficit with foreign countries, a thermometer of external dependence; and 2) the stagnation of GDP growth, in part for the loss of external dynamism, in part by the erosion of internal profitability of public and semi-public investments linked to the axis of commodities.

At this perverse interaction of dependency and economic stagnation, the economic policy reacts with a countercyclical program of support of the domestic demand based on a variety of public funds without causing growth and at the same time increasing external dependence. From this to the current fiscal crisis is a step.

The so-called countercyclical program generates a gross public debt and fiscal and financial subsidies. To stop this gross debt from turning into a net debt and these subsidies do not become fiscal spending without tax coverage, there needs to be economic growth, able to raise the various sources and forms of government revenue. However, once installed the fiscal crisis, the way to fight it makes all the difference because factors of dependency, stagnation and social inequality that implicitly push the system to the fiscal crisis cannot be solved either with fiscal adjustments or even orthodox countercyclical programs, because they have no relation with overcoming structural factors of underdevelopment.

Social development indicators – 2011-2014

The period of analysis from 2011 cannot be considered a continuation of the previous cycle, for the reasons presented in previous sections. However, it still contains no clear empirical evidence of reversal of development indicators of the business cycle, especially in the social field. Considering some macro growth indicators and recent development (2011-2014) - GDP, HDI, unemployment rate, Gini index of income distribution and evolution of the economically active population (see Table 1), the available statistics is still precarious.

Table 1 Some socio-economic indicators for the period (2011-2014) – Brazil

Years Indicators	2011	2012	2013	2014	2015 (conjectures)
GDP – real growth rate (%)	3.9	2.7	1.0	0.1	Negative
HDI – Brazil (index)	0.718	0.742	0.744	-	-
Unemployment rate – PME-IBGE (%)	6.0	5.5	5.4	4.8	Above 5.5 cf.
Gini index of income (PNAD)	0.506	0.505	0.501	-	-
Economically active population (level detected in millions of people)	99.0	99.5	101.9	-	-

Source: FGV, 2015; IBGE, 2014, 2015.
Obs.: HDI data until 2013 are available on the internet.

What is evident from the empirical analysis (Table 1) is the stunting of economic expansion from 2012, because of the explanatory factors already analyzed. The GDP indicator from 2012 is clearly falling, especially compared to the 2004-2010 period (see data in Table 2).

In turn, employment indicators (unemployment rate and level of economically active population), income distribution (Gini index of all income identified by the PNAD) and the Human Development Index (HDI, consisting of monetary income indices, basic education and health) deserve special analysis.

The labor market has slowed down in terms of net jobs created each year, but the net inflow of new workers into the labor market, according to the evolution of the economically active population and the unemployment rate, does not characterize unemployment growing. Perhaps in 2015 yes, but for other reasons, in a certain way independent from the economic cycle.

Despite the observed drop in GDP from 2012 to 2013, the Human Development Index has not fallen, reflecting improvements in educational and health indicators of that index. Finally, the Gini coefficient of the distribution of labor income and benefits of social policy, which is what the PNAD effectively identifies, has not worsened and remained almost stable between 0.506 and 0.501 (slight improvement).

Apparently, demographic conditions in the labor market and the maintenance until 2014 of the contributions of state social policy lightened the weight of the economic downturn on the living conditions of the population. However, if there were abrupt change of economic policy and social policy, probably the results would be others.

Some indicators of the world economy

For didactic purposes, we selected in Table 2 a common indicator to 12 countries that maintain relevant trade and financial relationships with Brazil - the GDP growth rate in the periods 2004-2010 and 2011-2015. The countries, as shown in the table, are: a) the BRICS group (Brazil, Russia, India, China and South Africa); b) The United States of America; c) the top three in the Eurozone (Germany, France and Italy); d) three relevant in Latin America (Argentina, Venezuela and Chile); e) Japan.

The purely statistical analysis of the economic performance and external trade of different groups of countries has little significance. We must resort to reactionary movement to external financial crisis, recovering the arguments of the beginning of this section. For the US economy, protagonist of the global economy, the relevant analytical cut is from 2008 to 2013, when GDP grew an average of 0.94% per year and, in a way, pushed the entire global system for recession or economic slowdown. The Eurozone countries, even in the most recent period of 2011-2015, are the most affected by the financial crisis, carrying since then effects of low growth - Germany and France, in a range of 1 to 1.5% per year, while countries of southern Europe, represented here by Italy, remain in recession for almost eight years already.

In turn, the BRICS differ in the cases of China and India, which slowed their growth rates before and after the financial crisis, ranging from

11 and 9% per year, respectively, to the current levels (2011-2015) of 7.8% and 6.7%, respectively.

The other members of BRICS - Brazil, Russia and South Africa -, the Latin Americans, especially Argentina and Venezuela, and mainly the countries of southern Europe (Italy, Spain, Greece, Portugal and Ireland, not listed in Table 2, except for Italy) are the main victims of the post--crisis adjustment process. We are here excluding African countries and the Middle East, victims of religious and civil wars or foreign occupation, but we cannot ignore them at all, because here also arises a human problem, which is not new, but aggravated by the economic crisis: forced mass migrations to Europe.

In summary, taking into account the indicators of economic growth, it is possible to say that the world economy has changed the pattern of expansion of the first decade and apparently is heading towards regional and not global arrangements in the coming years.

Conclusions and perspectives

The period under analysis (2011-2015) is characterized by the reversal of external relations favorable to the axis of commodities, which led, in the previous decade, the expertise of Brazilian foreign trade, particularly with China.

In a sense, one can attribute this reversal to a secondary wave effect, arising from the financial crisis, whose epicenter was located in the US economy in 2008, with financial repercussions for the European and world system, subsequently, although with peculiar characteristics for each group of countries.

In the Brazilian economic system, defense against external crisis, in 2009, took the form of a program of public investment and incentives to consumption that generated at first countercyclical response (2010-2011); then, semi-stagnation (2012-2014). In the meantime, there is the so-called fiscal crisis and the federal government, pressured by financial markets, reverses its multiple and heterogeneous actions, called countercyclical, to adopt a conventional policy of fiscal adjustment.

In addition, both the countercyclical policy adopted during Lula's second term and Dilma's first mandate and the government's fiscal adjustment during Dilma's second term operate under the assumption of a scenario of restoring economic growth, potentially anchored in the same sectors that played it out in the previous decade.

However, the multiple crisis manifested in 2015 - external exchange relations, fiscal, of water resources and of the Petrobras system - draws attention in particular to the impossibility of this path of primary-export specialization.

Finally, the social development indicators, while stagnant, do not show yet clear signs of deterioration. Due to growing crisis, the political economy faces on the one hand the discourse of the new pattern of development and, on the other, the threat of prolonged stagnation - or even the instable attempt to restore the previous standard of the commodity axis.

In foreign relations, an innovation: new relationships with the BRICS, especially with China, with the creation in 2014 of a common monetary stabilization fund and a development bank of the block, unfortunately, not yet operating.

Even in external relations, agreements on climate change set out in Quito (2014), with a promise of ratification in Brussels (December 2015) on limits to world oil consumption, gas and coal by 2030, can reconfigure external relations in the world economy friendlier to the environment.

Finally, there are the signs of innovative opportunity that the current crisis indicates to the economic and social development in the near future. Certainly, they are present in several ways of ecological economics, agroecological farming, low-impact energy production (low entropy) etc., but this is still very marginal on the official agenda of the Brazilian state.

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Appendix

Table 2. GDP growth (%) for some great partners of Brazil – 2004-2010, 2011 and 2015

Years	2004/2010 Annual average rate (5)	2011	2012	2013	2014	2015(*)	2011 - 2015 Average
Countries							
Brazil (*)	4.4	2.7	1	2.5	0.1	(-)1.0	1.1
Russia	4.5	4.3	3.4	1.3	0.6	(-)3.8	1.2
India	8.5	7.7	4.0	6.9	7.2	(7.5)*	6.7
China	11.1	9.3	7.8	7.8	7.4	6.8	7.8
South Africa	3.7	3.5	2.5	2.2	1.5	2.0	2.3
United States	1.5	1.8	2.2	2.2	2.4	3.1	2.3
Germany	1.2	3.1	0.9	0.2	1.6	1.6	1.5
France	1.1	1.7	0.0	0.3	0.4	1.2	0.7
Italy	(-) 0.2	0.4	(-)2.4	(-)1.7	(-)0.4	0.5	(-)0.7
Argentina	7.5	8.6	0.9	2.9	0.5	(-)0.3	2.5
Venezuela	6.7	4.2	5.6	1.3	(-)4.0	(-)7.0	0.0
Chile	4.0	5.8	5.4	4.1	1.8	2.7	4.0
Japan	0.8	(-)0.6	2.0	1.6	(-)0.1	1.0	0.8

Sources: ONU, 2013; Fundo Monetário Internacional, 2015.
Obs.: Data from 2015 are IMF forecasts. The data from 2011 regarding Brazil predates the methodological IBGE review, announced in March 2015. The data of India for 2015 is na extra forecast of IMF.