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# RE-EVALUATION OF THE PAST AND DISCUSSION OF THE FUTURE A PERSPECTIVE CENTRED ON ECONOMIC GROWTH \*

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## 1 INTRODUCTION

After twenty years of stagnation of per capita income, the possible return of growth has heated up the debate about the legacy and the future possibilities of the Brazilian economy. The discussion, however, immediately ran into problems relating to economic science.

In fact, the central preoccupation of economics has crystallised around the formal representation of how markets, operating freely and unhindered, generate equilibrium. From this perspective, economic growth is a consequence of the decisions of individuals to expand their businesses through opportunities revealed by markets. The rapid growth of certain countries and the stagnation of others are usually seen as exceptional situations which do not deserve the attention of economic theory – and which, moreover, will disappear as the result of the ‘cleansing’ and stabilising action of competition.

Despite this fundamental departure from mainstream economics,<sup>1</sup> episodes of rapid growth have been continually registered – and, in fact, multiplied during the second half of the twentieth century. Such episodes may be classified into three types:

1. Economies with abundant natural resources suddenly open to economic exploitation. In this type of experience it is essential that markets be unhindered, so that resources can be moved *en masse* towards the new opportunities and that rapid growth materialises. In short, this is an extreme case of comparative advantages suddenly revealed and exploited. One of the most notable examples is the growth of Argentina between 1870-1914. This is, in fact, the only case which may be found in conventional economic theory – it is useful to emphasise that here rapid growth resulted from something

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1. Models of growth became an obsession in MIT in the 1960's. However, in addition to having an extremely low capacity to explain the actual empirically observed growth (leaving residues of around 65-75%), such models were of absolutely no use for the studies of comparative experiences (a question which Robert Solow referred to as a job for “unemployed sociologists”). Actual contemporary models of endogenous growth, even when enriched by ideas coming from development theory, continue to ignore themes essential to the distinction between rapid growth and the frustration of growth. (Nelson, Richard, *Cambridge Journal of Economics*, Vol. 22, Number 4 July 1998).

inherent or intrinsic to economies: their endowment of factors. In the two types described below, the conditions leading to rapid growth have to be in some way created for this growth to occur.

2. Economies in which the construction of a modern economic structure is a result of a project carried out through State policies. This involves, ultimately, the transfer of solutions adopted in the more advanced countries (catch-up). Bismarck's Germany; Meiji Japan; Brazil (until 1980), Korea, as well as post World War II Italy and France are examples of this case. In this type of experience, the analysis cannot advance if the institutions, and the actors in their singularity, are not taken into account. In such conditions, the unease of the most cautious practitioners of economic science in relation to these experiences is not surprising. As Paul Baran observed in the 1950's, Japan used to be described in the economic media as analogous to a beetle, which, according to the laws of aerodynamics, should not be able to fly, but actually can. This type of experience has come to be commonly referred to as a "miracle".<sup>2</sup>
3. Economies in which a group of enterprises develop organisationally superior solutions, and through these acquire a strong expansive impulse, both directly and indirectly transmitted to the economy as a whole. Thus, the US supplanted England at the end of the nineteenth century, as shown by Alfred Chandler,<sup>3</sup> through the superiority of the corporations leading its industry at that time. Another important example is given by Japan, beginning in the mid 1970's. The key element in the latter is the emergence of enterprises which, amongst other innovative changes, "maintained long-term relations with their suppliers, shared technical and cost information with them, and involved them as much in product development as in production".<sup>4</sup> This new type of enterprise proved to be consistently capable of innovating and offering quality products at highly competitive prices.

Having briefly pointed out the paths to rapid growth, I will add some observations in order to fit Brazilian industrialisation into the typology presented above.

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2. Japan is particularly disconcerting because, contrary to what one might expect, neither the overcoming of traditionalism, nor the flourishing of individualism, or the accentuation of social mobility are found there. For this reason, perhaps, Japan did not undergo a drastic (and potentially fatal) reduction of social cohesion, which made other experiences unviable (such as, for example, Iran)

3. Chandler, Alfred (1977): *Scale and Scope The Dynamics of Industrial Capitalism*, Cambridge, Ma, Harvard University Press

4. Ghemawat, Pankaj (1999): *Strategy and the Business Landscape*, Addison Wesley Longman, New York, p. 96.

The unease of economic theory with catch-up experiences comes from, above all, its essentially political nature. In the case of rapid growth through organisational changes (carried out by enterprises), this discomfort emerges from the universal and atemporal claims of economic science. More concretely, there is an apparently insurmountable reluctance to admit that the enterprise actor – or any other actor – changes with time.<sup>5</sup>

None of the identified paths towards rapid growth should be considered as sustainable in the long run. On the contrary, it is reasonable to think of each one as corresponding to a form of exhaustion. Nonetheless, nothing prevents a nation from successfully shifting from one type of growth to another. Thus, for example, it is possible to show that the US moved from rapid growth driven by abundant and attractive natural resources, to that led by the superior quality of its leading enterprises. Japan, in its turn, went from catch-up to the third type of growth.<sup>6</sup> However, Argentina and Brazil, both exceptions in relation to growth based on natural resources and catch-up respectively (a theme to be explored below), were obviously unable to reinvent rapid growth.<sup>7</sup>

## 2 BRAZIL AND CATCH-UP 1930-1980

The fifty-year period analysed here, is usually referred to as the period of the Import Substitution Model. This denomination places the Brazilian experience in the same group as the other Latin American economies, especially medium and large-sized ones. Furthermore, the consensus is that this type of experience presents an initial phase in which growth is intense (and “easy”), but later extinguishes itself.

During the application of this model, there was increasing criticism throughout Latin America, pointing to its limitations and forecasting its exhaustion.<sup>8</sup> In relation to the legacy it left, numerous authors have highlighted, in addition to its exhaustion (and the need for new bases for growth), an

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5. Obviously, it is not being suggested here that microeconomics, as such, does not renovate itself. Rather, what is being affirmed is that any characteristic, when perceived, tends to be conceived as a theoretical (and definite) advance. And it is worth noting that this applies as much to the present as to the past and future. Thus, for example, the phenomenon of moral hazards, once incorporated, is understood as being present at all times and in all experiences.

6. It has been observed that several of the new methods of enterprise-enterprise and enterprise-worker relationships developed in Japan were rapidly disseminated in the United States - which, combined with the leadership of the information-oriented technological revolution, has decidedly contributed to the vigour of contemporary North American growth.

7. The experience of Taiwan represents, perhaps more than any other case, an example of the utilisation of the three types of rapid growth. The intensive use of cheap labour for the export of traditional manufacturing sustained the first phase; catch-up was practised intensely from 1960 to the end of the 1980's; and from then on numerous progressive enterprises have stood out through their capacity to incessantly renew themselves.

8. Hirschman, Albert: “The Rise and Decline of Development Economics” in *Essays in Trespassing: Economics to Politics and Beyond*. Cambridge University Press, 1981.

inefficient industrial structure and an increase in distributive inequality. Moreover, the list of flaws attributed to import-substitution industrialisation has grown with time – so much that its legacy has come to be considered entirely negative and outdated.

Below, I attempt to demonstrate that, in the Brazilian case, this diagnosis can be challenged head on.

I) Table 1 shows that the period corresponding to import-substitution had a radically different significance in Argentina and Brazil. Whilst in Argentina the per capita income was reduced from two-thirds (66%) of the North-American to a little less than half (45%), in the case of Brazil the enormous distance between the per capita income of the country and that of North America was substantially reduced during the same period. In other words, in Argentina a severe relative decline of the per capita income was observed, while in the Brazilian case there was a true leap (in relative terms). The contrast is so great between what happened in each economy, that any generalisation about the significance of the import-substitution model for Brazil and Argentina must be doubted. More precisely, the table below concretely suggests that, while the “primary export model” was a great success in Argentina, – and a clear failure in Brazil – the opposite can be said about industrialisation.

TABLE 1  
Per capita income relative to the US (US = 100)  
(1990 Dollars)

Year	US	Brazil	Argentina
1930	100	17	66
1980	100	29	45
1998	100	22	36

\* Data calculated by Geary Khamis, cited in Cunha, P.G. (1999): “The Brazilian Socio-Economic Crisis: The International Scenario of National Development”, São Paulo, mimeo, 1999.

II) Mere economic growth is not regarded nowadays as evidence of the success of an experience. It is essential to consider the issue from other angles, particularly to evaluate the degree, or intensity, in which growth is translated into social well-being for the population. Next, I will present evidence related to the critical issue of the incidence of poverty. Poverty is understood here as a situation in which family per capita income is insufficient to meet basic needs.”

9. Albuquerque, Roberto Cavalcanti and Rocha, Sonia: “About Poverty Reduction Strategies”, in *Poverty, Citizenship and Security*, orgs Velloso, João Paulo and Albuquerque, Roberto Cavalcanti, Editora José Olympio, Rio de Janeiro, 2000.

Between 1970 and 1980, when industrialisation reached its most intense phase – and the policies focusing on it were most aggressive – the incidence of poverty was dramatically reduced in Brazil. As Table 2 shows below, the poverty indicator fell by an extraordinary 33 points in just ten years.

TABLE 2  
Brazil: percentage poverty incidence , 1970-97 (selected years)

1970	1980	1983	1985	1986	1987	1990	1993	1995	1997
68,3	35,3	41,2	35,0	23,7	28,3	30,2	30,4	20,6	20,9

Source: IBGE Census of 1970 and 1980 and PNDS. Special Tables, according to Cavalcanti and Rocha, op.cit.

It is worth emphasising that in the so-called “decade of reforms” (the 1990’s), the percentage poverty incidence also suffered a considerable reduction. However, this involved a drop of just nine points. More importantly, the reduction experienced in the 1970’s does not seem to have been the result of any singular episode – possibly tending, instead, to distribute itself throughout the period. The reduction (three times lower) verified in the 1990’s however, occurred strictly in the changeover from high inflation (1993) to relative stability (1995). It is thereby suggested that the progress which occurred in the 1970’s was inherent to the historic process then unfolding,<sup>10</sup> In the experience of the 1990’s, however, the improvement is strongly associated with a single transformation: stability. This suspicion is confirmed by the fact that a fall of similar magnitude was verified during the Cruzado Plan (1986) – and it largely disappeared after the failure of the plan.

The Golden Age of Industrialisation was therefore, in addition, a phase of vigorous improvement of the living conditions of the poorest part of the population. This, however, does not mean that the distance between rich and poor was reduced during this period. Rather, it means that the proportion of poor in the population was rapidly reducing – going against deeply held beliefs.

III) In relation to the third and last consideration it is useful to highlight the fact that labour productivity increased at an extremely high rate (around 6% a year) during the golden phase of industrialisation. Once again, this can be contrasted with the presented situation. It is true that during the 1990’s labour productivity rapidly increased – at a rate of between 5% p.a. (according to the National Accounts) and 8% p.a. (according to the index of physical

10. More precisely, and as clearly suggested by Pastore and Valle Silva, the poverty drop verified in the golden age of industrialisation is closely associated to urbanisation - and more concretely with the shift *en masse*, in the course of a generation, from the position of rural manual worker to that of unqualified manual urban worker. Pastore, José and Valle Silva, Nelson (2000): “Social Mobility in Brazil”, Makron Books of Brazil, 2000.

production of IBGE-PIM)<sup>11</sup>. There is, nonetheless, a deep contrast. In the peak of the industrialisation phase, employment grew at approximately 4.5% a year, while during the 1990's, industry laid-off massively. Needless to say, the rapid increase in both production and employment (only possible with an extremely rapid increase of production) is a type of ideal, which allows the combination of salary raise with the increase of competitiveness and the multiplication of employment.

If this evidence is ignored, the general tendency, first by some parts of the left wing and later under the neoliberal hegemony, has been to consider Brazilian industrialisation as a mere reworking of the failed import-substitution model. My own view is completely opposed to this. Import substitution is only concerned with one aspect of industrialisation – and only goes beyond the stage which ECLAC has traditionally referred to as “easy”, when pushed by public policies and institutions of great strength.<sup>12</sup> In Brazil this process was completed successfully around 1980.<sup>13</sup>

While the real side of the economy emerged renewed, the country's macroeconomic fragility was, however, dramatically heightened. Various attempts at stabilisation dragged the economy through a stunning succession of shocks, which only ended with the success achieved by the Real Plan.

### 3 THE HEGEMONIC PARADIGM IN THE 1990'S AND ITS RAPID EROSION

According to the hegemonic vision throughout the 1990's, the critical situation of the Brazilian economy was seen as a consequence of the mistakes and vices of the past. Past here refers both to the so-called lost decade (the 1980's) and the golden age of industrialisation. More concretely, the inefficiency of the state, the closing of the economy, hyperinflation and technological backwardness (Collor's “carriages”), were seen as the inherent traits of the import-substitution model.<sup>14</sup> Faced with such characteristics, only the adoption of structural reforms could enable the country to get back in step with modernity.

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11. Bonelli, R and Fonseca, R.: “Ganhos de produtividade e de eficiência: novos resultados para a economia brasileira”, IPEA/CNI, 1998. Mimeo. A comprehensive discussion of ideas and evidence concerning the phenomenon of increased productivity can be found in Carvalho, Paulo Gonzaga Mibelli: *As causas do aumento da produtividade da indústria brasileira*, Doctoral Thesis, Institute of Economics of the Federal University of Rio de Janeiro (UFRJ), 2000.

12. An attempt to reinterpret Brazilian industrialisation as a successful case was made in Castro, Antonio Barros: “Renegade Development: Rise and Demise of State-Led Industrialization in Brazil” in *Democracy, Markets and Structural Reform in Latin America*, eds Smith et al. North-South Center, 1994. Peter Evans in “*Embedded Autonomy: States & Industrial Autonomy*”, Princeton University Press, 1995, elaborates on some of the themes indispensable for the discussion of the Brazilian experience of industrialisation.

13. Castro, A. B. and Souza, F. R. P., *A economia brasileira em marcha forçada*, Paz e Terra, 1985.

14. The most ardent supporter of these ideas in Brazil is Gustavo Franco, main economic policy-maker of the country until the end of 1998. In this respect, see “A Inserção Externa e o Desenvolvimento”, a 1996 text, published by the *Political Economic Review* (*Revista de Economia Política*), vol. 18, July/September 1998.



With the generalised retreat of political interference in markets, and the advance of their international integration – as well as the great agility achieved through the information revolution – markets have become much less hindered and, importantly, much better in their operation. Therefore, one should not expect economic crises coming from the international market. Moreover, as they came up, the managers of economic politics would know how to address them – whether through the intensification of reforms, or through monetary policies oriented, essentially, towards the recovery of confidence. It is useful to remember, with regard to this proposition, that in the beginning of the 1990's, phenomena such as the “herd behaviour” were practically ignored – or even referred to as the idiosyncrasies of a long superseded past.<sup>15</sup>

With the reforms, the country began a process of surrendering, somewhat reluctantly, to a set of rules already adopted in other places – and to the rationality imbedded in these rules. In this sense, there was also a process of convergence tending to make the Brazilian environment similar to that found in other countries (and in the actual international market). Therefore, the country was no longer structurally or behaviourally different – being distinctive only with regards to the remnant archaism and injustice inherited from the past.

Having accepted the previous ideas, it should be emphasised that the crises that emerged were attributed to the distortions and idiosyncrasies of the actual countries involved. Such was the case of the 1994 Mexican crisis. In the cases of Thailand, Indonesia and Korea, *ad-hoc* explanations for the difficulties encountered in 1997 were also put forth. The rapid succession of crises in such markedly different contexts soon undermined the practice of creating a different explanation for each collapse. In addition, the suspicion that redemption through liberalising reforms contained serious problems also increased for this reason.

In the case of Brazil, various factors have contributed to the erosion of the belief in the new paradigm of modernity.

First, the lacklustre results in terms of growth and marked instability in the activity level between 1994-1998. In addition, the continuous deterioration of the macroeconomic picture, whether seen through the point of view of the balance of payments, or under the fiscal lens. Finally, the inability to avoid devaluation, as seen in January 1999, after years of preaching that currency depreciation was a typical measure of a long buried past. Undoubtedly, however, the erosion of new ideas was facilitated by the fact that, at a late stage of the adoption of the reforms, the Brazilian economy

<sup>15</sup>. For a critical overview of this picture see “How Washington Worsened Asia’s crash. The Confidence Game”. Krugman, Paul, *New Republic*, May 1998.

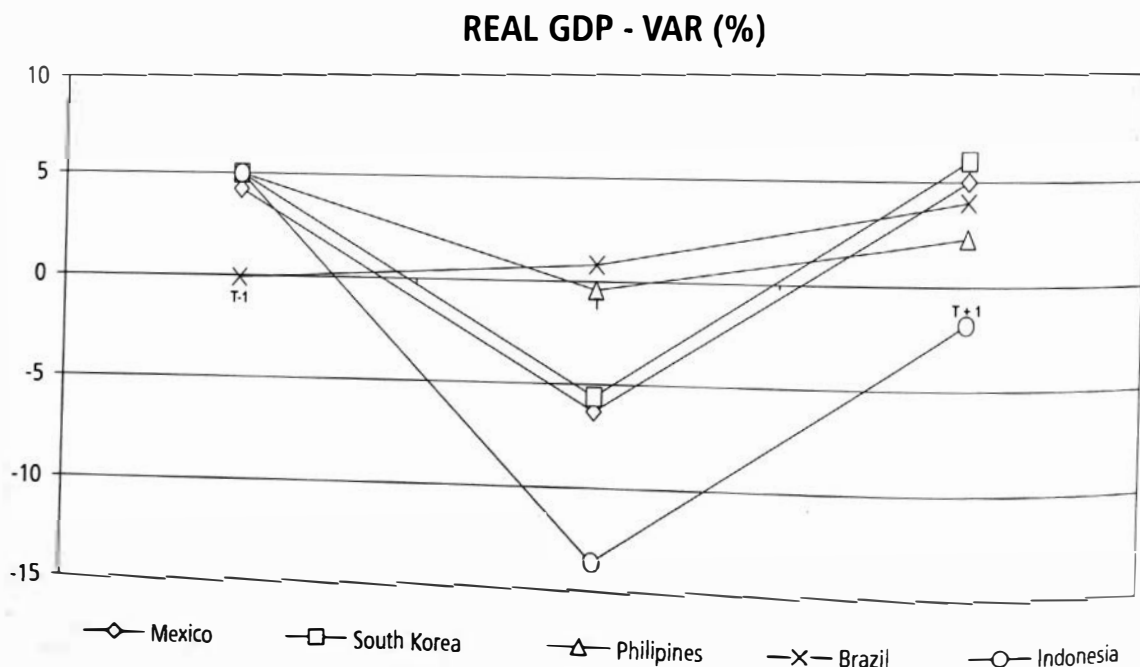
experienced the first difficulties associated with them, when, in other countries, the intensification of financial speculation and instability was already evident.

#### 4 DEVALUATION: THE RUPTURE WHICH GAVE WAY TO CONTINUITY

As shown in Graph 1 below, Brazilian devaluation was, in comparative historical terms, a great success.

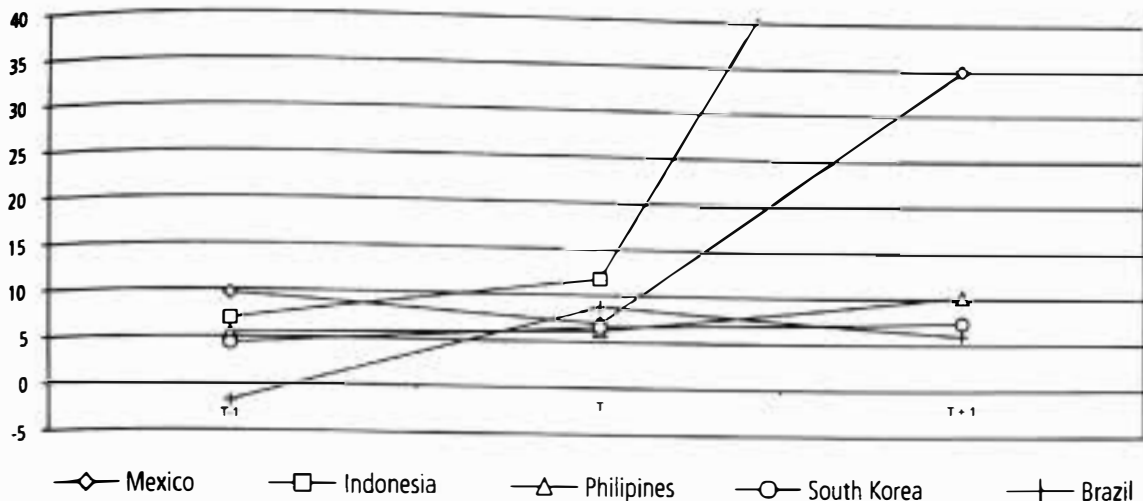
Next, I will highlight some of the structural and behavioural characteristics of the Brazilian economy, which clearly contributed to the success of the 1999 mega-devaluation.<sup>16</sup> The following observations certainly do not intend to offer an interpretation of the success achieved. Rather, they aim to draw attention to the importance of certain characteristics, arising in the past, which contributed to the originality of the episode – diverging sharply from the forecasts of well-known analysts and of the government itself. Moreover, through these, I will introduce elements which will be used in the final considerations on possible growth strategies.

GRAPH 1  
The impact of devaluation (T = year of devaluation)



16. In relation to the effects of devaluation on inflation see Goldfain, Ilan and Werlang, Sérgio, "The Pass-through from Depreciation to Inflation: a panel study", Mimeo, PUC, Department of Economics, Rio de Janeiro, 2000.

## YEARLY ACCUMULATED INFLATION - CONSUMERS PRICE INDEX



Despite a sharp increase between 1990 and 1998 (jumping from 5.9% to 19.3% in the case of industry),<sup>17</sup> the coefficient of imports in the economy continued to be relatively low. In practice, this means that in many cases enterprises considered the possibility of absorbing most of the increase of costs derived from devaluation. The dense layer of domestic production also allowed the possibility of depending on, throughout the productive chain – but especially in the final stages –, local suppliers eager to recuperate and/or increase their market share. In the particular case of workers' consumption, the relative lack of importance of imported goods was inadvertently added to the decline of the dollar quotations of various export goods. These facts, which were decidedly reinforced by the retraction of the market caused by the alteration of the exchange rate, no doubt contributed to removing the threat of reindexation of salaries in the post-devaluation period – despite the fact that the memory of inflation, supposedly, remained quite alive.<sup>18</sup>

A second important characteristic that should be emphasised is the relative immunity against the drastic increase of interest rates. To understand this, the low debt coefficient of enterprises and banks has to be taken into account before anything else. In addition, in the economy, there is an unusual familiarity with sudden changes of scenario – sometimes dramatically for the worse. In this picture, not only do the reactions to stratospheric interest rates tend to be quick, but earnings from these tend to be considered by many as income.

17. The data refers to the coefficient Imports/Apparent Consumption. See Moreira, Maurício Mesquita, "A indústria brasileira nos anos 90. O que já se pode dizer", in *A economia brasileira nos anos 90*, orgs Giambiagi, Fabio and Moreira, Maurício Mesquita, BNDES, 1999.

18. Non-indexation was also accidentally favoured by the fact that the Brazilian economy never reached a high level of dolarisation. Even when, with hyper-inflation practically installed, indexation became "forward looking", the reference indices continued to be locally defined.

We are therefore faced with characteristics and behavioural patterns inherited from the past. In relation to industrial chains, what draws attention is that industrialisation through import substitution left highly integrated structures. On the other hand, there is a resilience which developed in the turbulent environment characteristic of high inflation – where, moreover, the activism of monetary policies was enough to cause convulsions.<sup>19</sup>

However, some features developed during the actual “reform decade” need to be added to these traits.

Starting in the early 1990’s industry began a process of restructuring that gained momentum on the eve of devaluation (1997-1998).<sup>20</sup> As a consequence, even when the macroeconomic unbalances were clearly deteriorating, a great number of enterprises had largely adapted to the opening and to the exchange rate operating in the economy. Amongst nationally owned enterprises, the adaptation often consisted of “entrenchment” strategies,<sup>21</sup> aiming to hold on to sustainable positions in the domestic market (and sometimes in Mercosur). In relation to foreign enterprises it can also be said that, as a rule, only the domestic market (possibly extended to the Southern Cone) was assigned to them by their parent companies.

Two important conclusions can be extracted from the foregoing.

First, it is correct to infer that the potential product was expanding, while the effective product was stagnant.<sup>22</sup> This, in turn, implies that the economy was subject to growing competitive pressure, originating in the domestic environment.<sup>23</sup> This fact, in addition, offers an explanation for the relative ease with which it was possible to devalue the exchange rate at levels only slightly above that of the 1997 and 1998 inflation.

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19. Perhaps it can even be affirmed that the drastic alterations in the scenario, and especially in the variation of real interest rates, had already exacerbated a “portfolio” vision on the part of the actual members of the real side of the economy.

20. It appears that a relative consensus has been formed amongst scholars, in that, in the beginning (1991-5), restructuring focused on the rationalisation and reorganisation of enterprises, basically through cuts. The “mini-cycle” of investment characteristic of the end of the decade only developed later. See Bleschosky, Ricardo et al: “Formação de capital no ambiente das reformas econômicas brasileiras dos anos 1990: uma abordagem setorial”, in *Brasil, uma década em transição*, org. Baumann, Renato, Editora Campus, Rio de Janeiro, 2000.

21. See Castro, Antonio Barros: “Indústria, o crescimento fácil e a inflexão possível” in *A crise mundial e a nova agenda do crescimento*, org. João Paulo dos Reis Velloso, José Olympio Editora, Rio de Janeiro, 1999.

22. A presentation or discussion of the reasons for the worsening of the macroeconomic picture does not fit in here, as there already is abundant literature about it. It is worth underlining the asymmetry between micro-macro movements. In this regard, see Castro, Antonio Barros: “A capacidade de crescer como problema”, in *O Real, o crescimento e as reformas*, National Forum, org. João Paulo dos Reis Velloso, Rio de Janeiro, 1996.

23. In relation to the phases of pre-devaluation exchange policy see Souza, Francisco Eduardo Pires: “A política de câmbio do Plano Real (1994-1998): Especificidade da âncora brasileira”, in *Review of Contemporary Economics* (Revista de Economia Contemporânea), no. 5, Jan./June 1999.

The second conclusion derives from the fact that, having been prepared during the previous years (since 1994 in fact) for living with a highly valued real, the productive activities of tradable goods – except for highly indebted cases – were able to enjoy, following devaluation, a period of respite. The external market, which was initially quite adverse, and the inertia which needed to be overcome for the amplification and diversification of exports, nevertheless, introduced a significant discrepancy in the reaction of external sales to the economy. In the first quarter of 2000, meanwhile, exports at constant prices increased by 34.5% in comparison with the first quarter of 1997 (before the outbreak of the external crisis), leaving little doubt about the medium-term potential response.

We can now return to the question of adapting to the brutal interest rates which followed devaluation.

In this country, as in other recent experiences, the government acts in a pro-cyclic manner, by drastically raising the interest rates after the collapse of the exchange rate. In doing this, despite trying to protect the economy, it runs the risk, in the short term at least, of strongly contributing to the deterioration of the situation.

We have already briefly highlighted a set of reasons why enterprises were not seriously hurt by devaluation – and how, in many cases, they even acted as small containment dams against inflationary pressures. Now, it is necessary to refer, equally briefly, to the attitudes of consumers.

Consumers might have adopted a defensive attitude towards the situation, reducing their expectation in relation to their permanent incomes, restricting their own spending, thereby contributing decisively to the worsening of the picture. Everything suggests, however, that this did not occur. In other words, despite the severe restraining pressure from the government (and the extremely negative forecasts coming from various sources), the Brazilian citizens basically maintained their patterns of conduct unaltered. By not siding with the decisions of the government (and the action of speculators), they put up very strong resistance to the fulfilment of pessimistic prophecies.

In short, what has just been said is that, for various reasons and differently from experiences, the economic decisions of enterprises and consumers possibly mitigated the impact of devaluation on inflation and the level of activity. Additionally, the new regime of floating exchange rates contributed to increasing the resilience of the economy. Furthermore, the elimination of the fixed exchange rate fed the perception that the country would return to some level of autonomy in the determination of its fate.<sup>24</sup>

<sup>24</sup> This, however, must be understood in contrast to what happened in other contemporary experiences – and not *vis-à-vis* the past of the Brazilian economy itself.

All the same, it has been registered that devaluation and the new exchange regime have recreated, to a certain extent, a situation – traditional in the history of this country – in which the exchange rate defends the balance of payments, instead of disciplining, or punishing, domestic producers. Nonetheless, there is no lack of competitive pressure – coming as much from abroad as, quite importantly, from domestic producers themselves. Meanwhile, interest rates have stopped being used to stabilise the balance of payments – reopening the possibility that they will act to the benefit of domestic activity. The set of changes caused by devaluation, therefore, points towards the reestablishment of a certain degree of autonomy for decision making related to economic management. Or, at least, it frees economic policy from the imperative to act in a pro-cyclic manner.

These last considerations serve as a starting point for the consideration of possible growth strategies for the Brazilian case. Before this, however, a small digression on national strategies is required.

## 5 A SHORT DIGRESSION ON GROWTH STRATEGIES

The capacity of the public powers to formulate and implement significant transformations of behaviour seen in the past (for better or for worse) has virtually disappeared in Brazil. On the one hand, the complexity acquired by the Brazilian economy, the democratic maturity of the country (and consequently the proliferation of decision-making centres) and the speed of the contemporary transformations strongly suggest that the accomplishment of plans centred on a single objective, as was the case in the past, is no longer either feasible or desirable. Moreover, the centralisation of decisions makes a lot of sense in relation to the construction of productive structures. However, once these are largely established and operating, roles change and the actors involved multiply. It is the task of the public powers, in their various forms, to develop long-term visions, as well as to motivate and co-opt actors in such a way that they are incorporated into the general trend. It also belongs to the public powers, whether by themselves or in partnerships with private interests, to concentrate efforts on a small number of large-scale tasks, which are unattractive to the private sphere, but considered to be of important public interest.

Assuming the above is true, it seems important to add some words of caution.

It is no longer possible to ignore the fact that less developed countries can grow for long periods at rates never reached by countries at the edge of development. After verifying the evidence, it makes sense to invert the conventional view and to admit that, in the cases of the relatively less developed countries, slow growth is a proof of lost opportunities and wasted potential.

In order to properly stress this point, it is useful to mention that the International Monetary Fund, in its most recent edition of growth scenarios, forecast an average rate of GDP increase of around 5.8% a year for developing countries in the period between 2002 and 2004. The growth rate of Brazil, one of the most cited “large emerging markets”, can, in principle, exceed the average expected result. However, this cannot easily be achieved in the absence of a long-term vision which would allow the decisions of enterprises to be more than merely reactive – and allow the economy to explore possible shortcuts in the assimilation of advances already widespread in developed countries.

The second consideration is also related to the impossibility of orchestrating (using the old metaphor) economic decisions. As mentioned before, the advantages and efficiency gains tend to come from greater consistency – but also, quite importantly, from greater motivation. In this sense, given that instances of power (states and municipalities) endowed with significant weight already exist in society, the co-ordination of decisions and the actual political energy put at the service of strategy will depend on the capacity to select common objectives, thereby dividing functions and responsibilities.

Finally, attention should be drawn to the fact that, here, one is not justifying the adoption of strategies aimed at mere economic growth. The lengthy stagnation we are trying to avoid was, above all, a consequence of the extenuated ‘stop and go’ to which economic agents were submitted. The core discussion is the possibility of rapid growth – object of the final sections of this work.

## **6 ON THE NEW STRATEGIES AVAILABLE IN THE POST-REFORM WORLD**

In the present climate of recognition of the subsistent (or even aggravated) difficulties in the world of liberalising reforms and globalisation, the hypothesis of convergence towards a single type of economy outmoded. In fact, whether favoured by circumstances, as hostages of irreversible decisions, or really looking for new paths, different groups of countries have been trying to search for their own solutions and arrangements. In the following section, I attempt to characterise the situation, contrasting three patterns of conduct. The Brazilian case will be resumed later.

### **6.1 Strategies of total fusion in the international market (or in the leading economies)**

In this first group, one can find the countries which have significantly advanced in the reforms, and in what we can call the internationalisation of domestic markets. Frustrated with the results achieved until the present, to a greater or lesser extent, but unable to visualise alternatives (or prisoners of extremely

difficult to reverse changes), these countries are presently involved in a type of “forward flight”. This trend can, or even tends to, culminate in the abandonment of local currency.

In these countries economic policy is completely oriented towards building confidence – and, characteristically, can only operate in a pro-cyclic manner. More concretely, faced with the possibility of adverse external trends, the local compensation of these is not even contemplated. The response is likely to be new fiscal rectitude promoted through domestic policies.

Perceived and internalised by individual economic agents, this final trait also causes them to act in a pro-cyclic manner. This is especially the case for consumers, through the prompt revision of (expected) permanent income. No doubt, the possibility exists that, faced with the display of generalised self-restraint, the expectations of external financiers will improve. In this case and given that external confidence is a really critical variable – the re-evaluation of the overall picture can spread throughout the domestic sphere, enabling a (rapid) recovery of the economy. Nevertheless, the synchronisation of conduct of so many social actors can have extremely negative consequences. Moreover, it is hard to imagine that this type of situation will not have disastrous consequences on social cohesion and political sustainability.

## 6.2 Strategies of national (re) affirmation

In contrast to the fusion strategy outlined above, are the cases of countries like China and India. In these, the preservation of autonomy and national identity, if indeed they were ever doubted, is no longer questioned. It is important, meanwhile, to remember that in the case of such a vast, complex, and peculiar country as Russia, there was the illusion, in the beginning of the 1990's, that an undifferentiated fusion with the global market would be possible. The experiment was a huge disaster. At the end of the decade of reforms, Russian per capita income had been reduced by half – whilst in China, where the reforms were openly conditioned by the local context, and the efforts aimed at the country's economic development were never abandoned, per capita income more than doubled.<sup>25</sup>

I do not intend to elaborate on the aspects of the second type. Rather, it should be pointed out that in these countries the opening was controlled and privatisation had nothing to do with the ‘big bang’ attempted in Russia. In short, we can affirm that this group of countries has also been trying to increase the weight of markets in the making of economic decisions. However, the changes

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<sup>25</sup> Stiglitz, Joseph, “Whither Reform?”, Annual Bank Conference on Development Economics, World Bank, 1999.



are mediated by and filtered through local institutions, values, and objectives. Therefore, social cohesion has more chances of being preserved – and the global efficiency of changes has proved to be quite satisfactory.

### 6.3 "Reform of the Reforms" strategies

Between the two opposites just outlined, there is a possibly increasing number of experiences which, implicitly or explicitly, are related to what French Davies has called reform of the reforms.<sup>26</sup> Fundamentally, this type of position means that, under the impact of serious crises, or frustrated by the inadequacy of the results obtained, different countries are trying to recover a certain level of autonomy in decision-making, including that which relates to economic growth.<sup>27</sup> Two representative cases will be highlighted below.

From 1976 to 1982, Chile took to the extreme its pioneering experiment in pro-market reforms. The initial results of this experiment are well known: in 1982, the country entered a brutal crisis, which continued for approximately three years. In 1985, changes, which later would be referred to as the reform of the reforms, began to be introduced.

The specificity of the Chilean case, developed after the dramatic downturn between 1982-85, consists of, above all, the rehabilitation of active macroeconomic policies. Basically, the new macroeconomic management policies kept the economy on a sustainable course of growth, trying to avoid both over-heating and recession. In addition, the filtering/mediation of external impulses, by means of the control of capital entry, was important to, and characteristic of, the Chilean experience.

However, the active policies implemented in Chile also went (moderately) in other directions. In fact, although not the strongest element in the Chilean experiment, policies aimed specially at the real side of the economy were also developed. In this respect, the operation by the public powers of the economic strategy for copper (which was never privatised), and, in addition, a few experiments of public-private articulation in setting up clusters (such as in the salmon industry), can be cited.

Looked at in perspective, what most draws attention in the Chilean experience are the reasonably successful efforts, by a small economy, to partially disengage domestic macroeconomic policy from the timing and upheavals of the international market. Recent difficulties suggest, however, that this is not

<sup>26</sup> French Davis, Ricardo, *Macroeconomía Comercio y Finanzas para Reformar las Reformas en América Latina*, McGraw Hill Interamericana, 1999.

<sup>27</sup> A provocative introduction to the theme of the preservation of national differences can be found in *National Diversity and Global Capitalism*, eds. Berger, Suzanne and Dore, Ronald, Cornell University Press, 1996.

enough to insulate the local economy<sup>28</sup> – but this does not mean that the relative autonomy of the country's economic policy has been questioned.

Another interesting example, which can be classified as an implicit intermediary strategy, can be found in Korea. In this country, the adoption of its own policies – which profoundly changed the initially accepted IMF proposals – arose out of the threat of reproducing, to a greater scale, the downturn which Thailand and other Southeast Asian countries were undergoing. It should be noted, importantly, that similarly to Chile, the differentiation re-emerged through the occurrence of triggering events – which had either already happened, or were about to happen.

In the next section I will try to show that Brazil can be considered a strong candidate to enter the vast intermediary zone, situated between the explicit strategies of national reaffirmation and the position of countries pushed into being no more than – in the economic sphere – a fraction of the international market.<sup>29</sup> In other words, I believe that the country can achieve (and is even moving towards this) its own version of the “reform of the reforms”. To effectively demonstrate this, it is necessary to look at three complex themes: how to complete the construction of a macroeconomic regime capable of maintaining relative autonomy in the management of the activity level; how to obtain vigorous and sustainable growth; and how to address inequality and poverty issues. Of these three themes, only the second and third will be discussed.

## **7 BRAZIL AND THE PATHS TO RAPID GROWTH: BLOCKAGES**

It makes no sense, currently, to think about the possibility of rapid and sustainable growth for the Brazilian economy through any of the three paths outlined at the beginning of this work.

In fact, given the size of the Brazilian economy (and, quite particularly, that of its population), the level of urbanisation reached, and the extreme diversity of the productive chains, it makes no sense to suppose that the economy can be turned en masse towards opportunities based on the exploitation of natural resources. In other words, the “repression” seen in so many Latin American countries since the opening, as well as the other reforms, have always been an unviable road for the Brazilian case. This is not just

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28. The “repression” that the Chilean economy went through in recent decades made it quite difficult to spare the country from the instability of external markets. In relation to the repression referred to, see Katz, Jorge, “Cambios en la estructura y comportamiento del aparato productivo latinoamericano en los años 1990: después del “consenso de Washington”, ¿que?”, CEPAL, UNITED NATIONS, 2000.

29. In a recent debate in Argentina a respected economist declared that he knew what “Argentinian geography” meant but not what the expression “the Argentinian economy” meant. The phrase, deliberately provocative, appears to me to clearly show the essence of the strategy implicitly adopted in the country: concentrate on the market and become an undistinctive fraction of the international economy.

because of the factors which have just been discussed, but also because of the fact that, contrary to what occurred in other cases (Chile possibly being the worst case), industry went relatively easily through the test of opening. This theme will be returned to later.

Neither is it reasonable to suppose that the country should try to reopen, at this stage, the late comers' path. First of all, because this path is designed, basically, to copy and transplant the existing structures of the more advanced countries. This historical task, typical of late industrialising countries, was practically – since then – to influence conduct, construct differences, reinforce the risk-taking spirit, etc. This contrasts quite flagrantly with the actual sense of catch-up.

On the other hand, since the economic structure of the country still presents serious problems, it makes little sense for the public powers to (massively) promote actions, if for no reason other than the fact that we are now faced with a much more open and privatised economy – and a much more democratic and demanding society. In these conditions it is not easy to protect activities, and fiscal restriction becomes a permanent imperative. In addition, the intense dispute for resources makes it much more difficult to direct public spending to expensive goals, not associated with the social sphere – and whose fruits will only appear in the future. However, this does not mean that the role of public powers in sponsoring actions should be eliminated.

Finally, it is even more evident that the country does not have internationally renowned enterprises that would spontaneously act as a basis for the micro-foundation of vigorous and sustained growth.

Given the unviability of each of the paths to rapid growth, we are confronted with a disturbing fact: Brazil possibly enjoys conditions which are extremely favourable for the combination of ingredients from all three paths. In other words, not being able to reproduce any of the three solutions, Brazil is clearly, I insist, a candidate to combine them. In addition, there are signs that it is already moving in this direction.

## 8 BRAZIL AND THE PATHS TO RAPID GROWTH: POSSIBILITIES

The ingredient growth via exploitation of the comparative advantages associated with natural resources is widely present through the exploitation of the *cerrado* – and more especially the northern *cerrado*. This consists of an immense arch which extends from the west of Bahia to parts of southern Amazonia – going through Tocantins, Mato Grosso, the south of Piauí and the south of Maranhão. The knowledge required for the exploitation of these lands, based on decisive contributions from Embrapa, is already quite developed. On the other hand,

the fact that this vast frontier can generate products of low aggregate value does not mean that its contribution to growth should be underestimated. To understand this, it suffices to note that production costs are 30% to 40% lower than average – which allows the creation of substantial profits and the payment of attractive salaries. Undeniably, the infrastructural and logistical problems are large – but their confrontation may be seen as another ingredient in the process of growth.

In relation to the catch-up component, several warnings have already been made. However, there is space for initiatives supported by the public powers, aimed at matching the more advanced countries. I will not try to specify these. Instead, I will just point out that the opportunities should be very carefully selected – rather than being tackled en masse, as in the classic catch-up cases. It is also convenient to remember that, again in contrast with the past, this involves supporting enterprises rather than projects – whose task is to transfer solutions achieved in the developed economies. Moreover, ideally at least, this does not involve mere copying, but, on the contrary, attempting, simultaneously to this transfer, to pursue differentiation.

It should be stressed, however, that the discussion does not entail, except in an extremely limited sense, the use of financial resources. For this and other reasons, it is also worth remembering that foreign enterprises, both individually and through joint ventures with national enterprises, can be of great importance in transferring areas of activity that are absent in the country. This has occurred in the past and could become an element of the policy to make up for lost time in the last fifteen to twenty years.

Finally, the adoption, by local enterprises, of much more creative and daring strategies has to be seen as very important. Here, I refer, above all, to those enterprises which performed well in surviving the opening of the economy. As mentioned before, this can often cause the enterprise to get involved with products and markets where it can already draw on a reasonable amount of knowledge. It only remains to be seen to what extent they can take new and bigger risks, aimed at the future conquest of (new) positions. To move in this direction there are decisive steps to be taken: support to research and development activities by the public powers, greater integration between enterprises and universities, as well as other integral items from the agenda of technological policy.

The synergy between the three dimensions of growth discussed here is recognisably not strong. Neither can it be hoped that those interested in advances in each strategic area will try to join, or articulate, with the dominant interests in the other areas. In addition, as the return to centralism is out of the

question, it has to be concluded that the previously outlined growth ingredients have to be explicitly conceived as three separate and unique growth strategies. Ideally, each one of these will have clearly defined objectives, and flexible means to achieve them – whilst admitting the possibility of improvisation.

## **9 NOTE ON THE RELATIONSHIP BETWEEN GROWTH, DISTRIBUTION, AND POVERTY**

The rapid and sustained growth which occurred in the past in Brazil was capable of strongly reducing poverty, without, however, decreasing inequality. In other words, the assumption that growth leads to better distribution was shown to be mistaken - but the expansion of the economy proved to be efficient, as shown by the fact that it removed millions of people from extreme poverty.

At the present time, it is known that the drastic reduction of poverty verified at the climax of industrialisation occurred, fundamentally, because of the multiplication of unqualified urban occupations, both in industry and outside it. However, it is also known that the expected re-intensification of industrial growth will not involve a significant expansion of jobs occupied by the poor. A sustainable and expressive increase in unqualified non-industrial employment is also doubtful. In addition, the drastic shrinking that formal employment is presently undergoing might result in new reductions of the average income of various types of work.

The preceding should not be understood as an indication, or proof, that growth is no longer of interest, even in relation to poverty reduction. It should be clear that not only inequality, but also poverty, have become autonomous problems. In these conditions, the remaining indirect link between economic growth and the social problems referred to here, is basically reduced to the volume of resources levied by the public powers.

This assumption, however, should not lead to the conclusion that growth itself has effectively become autonomous. Rapid growth at least – as shown throughout the text – currently depends, crucially, on widely shared visions of the future, as well as on the mobilisation of numerous public and private actors. This, however, cannot be achieved in deeply divided societies suffering from permanent identity crises.

These final observations suggest that rapid growth not only allows, but in effect requires, a substantial improvement of the living conditions of the population. Not for the reasons previously put forth (the formation of the internal market, etc.), but for moral and political reasons – which are only indirectly economic.

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