DIFFICULTIES OF BRAZIL’S ECONOMIC DEVELOPMENT IN A GLOBALIZED WORLD

HAS BRAZIL FALLEN INTO A TRAP?
OUTLINE

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I - INTRODUCTION

“THE FOURTH INDUSTRIAL REVOLUTION

“We are at the beginning of a global transformation that is characterized by the convergence of digital, physical, and biological technologies in ways that are changing both the world around us and our very idea of what it means to be human. The changes are historic in terms of their size, speed, and scope. “

CAPITALISM AT THE CURRENT STAGE

A GLOBALIZED WORLD ON THE WAY TO AN UNKNOWN FUTURE (THE FOURTH INDUSTRIAL REVOLUTION)

• INTENSE COMPETITION
• INCREASING PRODUCTIVITY AND INNOVATION
• NEED OF LARGE-SCALE INVESTMENT IN TECHNOLOGY AND QUALIFICATION
II - BACKGROUND

FROM BRETTON WOODS TO THE G 20:

• Bretton Woods Institutions and the New International Order Post WW II

• NIFA I - New International Financial Architecture – The G 10 and the G 7 (from the early 1960’s to the 1990’s)

• Capitalism after the fall of the Soviet Empire
  – The G 7/8 (late 1990’s)
  – NIFA II - The GFC – Great Financial Crisis – and the first G 20 Leaders summit (2008)
  – the G 20 and the G 7/8’s prominence in the current Internacional Financial Architecture

III - GLOBALIZATION, GROWTH AND THE FINANCIAL SECTOR

III.1 - NIFA II – A BIG CHALLENGE FOR THE G 20 AND THE G 7/8

The G 20 Washington Declaration main goals (2008):

• Prevent any other global crisis by stabilizing and reforming the world’s financial systems;

• Enhance international cooperation;

• Restore global growth with employment and poverty reduction;

• Assert the shared belief on market principles, open trade, investment regimes, and effectively regulated financial markets, as the path to be followed to the achievement of the above cited goals.

Most recent G 20 summit in China

Reinforcement of the G 20 principles and goals by the adoption of the HANGZHOU CONSENSUS:

• **Vision** - Strengthen the G 20 growth agenda to catalyze new growth drivers (...);

• **Integration** - Pursue innovative growth concepts and policies by forging synergy among fiscal, monetary and structural policies (...);

• **Openness** – work harder to build an open world economy, reject protectionism, promote global trade and investment, including strengthening the multilateral trading system, and ensure broad-based opportunities through public support for expanded growth in a globalized economy;

• **Inclusiveness** – work to ensure that our economic growth serves the needs of everyone and benefits all countries and all people including in particular women, youth and disadvantaged groups, generating more quality jobs, addressing inequalities, and erradicanting poverty so that no one is left behind.

*Source:* Communiqué 2016
[https://www.g20.org/Webs/G20/EN/G20/Summit_documents/summit_documents_node.html](https://www.g20.org/Webs/G20/EN/G20/Summit_documents/summit_documents_node.html)
III.2 - AN INTERCONNECTED WORLD

• Every country is interconnected and interdependent as a consequence of the current international framework.

• Stability, growth and poverty reduction concern to all nations, including the developed ones.

• Emerging Economies play an important role in the achievement of the G 20 goals.

• In this context Brazil comes out as a very relevant actor since its GDP ranks the 9th position among the largest economies in the world.
Largest economies in the world (GDP for the year 2016)

<table>
<thead>
<tr>
<th>Position</th>
<th>Country</th>
<th>GDP (in dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>The United States of America</td>
<td>18.03 trillion</td>
</tr>
<tr>
<td>2nd</td>
<td>China</td>
<td>11.00 trillion</td>
</tr>
<tr>
<td>3rd</td>
<td>Japan</td>
<td>4.38 trillion</td>
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<tr>
<td>4th</td>
<td>Germany</td>
<td>3.36 trillion</td>
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<tr>
<td>5th</td>
<td>The United Kingdom</td>
<td>2.86 trillion</td>
</tr>
<tr>
<td>6th</td>
<td>France</td>
<td>2.42 trillion</td>
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<tr>
<td>7th</td>
<td>India</td>
<td>2.09 trillion</td>
</tr>
<tr>
<td>8th</td>
<td>Italy</td>
<td>1.82 trillion</td>
</tr>
<tr>
<td>9th</td>
<td>Brazil</td>
<td>1.77 trillion</td>
</tr>
<tr>
<td>10th</td>
<td>Canada</td>
<td>1.55 trillion</td>
</tr>
</tbody>
</table>

III.3 - THE ROLE OF THE FINANCIAL SECTOR

• It is largely accepted that the financial sector plays a vital role in facilitating economic growth.

• Levine (2004) summarizes the key functions that a financial system provides in facilitating growth:
  
  – Mobilizing and pooling savings;
  – Producing information *ex ante* about possible investments and allocating capital;
  – Monitoring investments and exerting corporate governance;
  – Facilitating the trading, diversification, and management of risks;
  – Facilitating the exchange of goods and services.

• Even for the skepticals that do not find a necessary link between financial systems and economic development, it seems to be evident that the financial sector has no right of being an obstacle for the achievement of financial stability, growth and poverty reduction.
THE DARK SIDE OF FINANCE AND THE THRESHOLD THAT SHOULD NOT BE CROSSED

• According to Arcand et al. (2012), there is a threshold beyond in which the financial sector becomes a negative factor on the economic growth. Crossing this boundary can lead to a “dark side” where the financial institutions damage other sectors through misallocation of resources, “brain drain”, “political capture”, among other negative effects.

• Developing means of control (the Arcand’s “channels”) seems like a very important goal in order to prevent the financial sector from trespassing this boundary.

Sources:
IV.1 - 2003 TO 2014 – in this period Brazil’s economic growth is based on the following main factors:

1. Super cycle of commodities, generating surplus on trade balance.
2. A strong increase of bonds issued by the Federal Government with the aim of obtaining resources to implement public policies.
3. A strong expansion of credit and wealth distribution policies without a basis in the increase of productivity and innovation.

RESULT: Increase of GDP, production, consumption and labor market founded on **circumstantial and non steady basis**
IV.2 - 2014 to 1017 - The end of the super cycle of commodities, along with the maintenance of public expenses above the existent resources, and the disrespect of the Brazilian Budget Law lead to a breakdown expressed by the following two crisis:

THE WORST RECESSION
IN BRAZIL´S HISTORY

THE
IMPEACHMENT
OF PRESIDENT
DILMA ROUSSEF
BRAZIL – GDP GROWTH RATE 2014 - 2017
IV.3 - BRAZIL’S CURRENT SITUATION

• As one of the main emerging economies, a BRICS and G 20 member, Brazil depends on a large-scale investment in science, technology and innovation so that it may aspire to keep growing.

• On the other hand, Brazil must still overcome its enormous social inequalities regarding basic conditions of life for its population such as safety, education, health and so on.

• However, production, credit and employment have strongly decreased after the political and economical breakdown. Official data related to the first trimester of 2017 shows 13,7% of Brazil’s population unemployed, that is, 14,2 million people. This represents a new (and extremelly negative) record.

• Moreover, there has not been adequate investment in increasing productivity and competitiveness during the last growth cycle. Therefore, the traditional bad indexes related to this subject-matter remain along with the Brazilian historical social problems.
BRAZIL UNEMPLOYMENT RATE - 2017

SOURCE: WWW.TRADINGECONOMICS.COM | INSTITUTO BRASILEIRO DE GEOGRAFIA E ESTATÍSTICA (IBGE)
Global Competitiveness Report.

- 1. SWITZERLAND
- 2. SINGAPORE
- 3. THE UNITED STATES
- 4. THE NETHERLANDS
- 5. GERMANY
- 6. SWEDEN
- 7. THE UNITED KINGDOM
- 8. JAPAN
- 9. HONG KONG
- 10. FINLAND
- 81. BRAZIL

Sources: World Economic Forum Global Competitiveness Report. Page xiii
Growth of Labor Productivity.

Product per hour of work.
Average Growth per year between 2002 and 2012.

- SOUTH KOREA – 6,7%.
- TAIWAN – 6,2%
- SINGAPORE – 4,4%
- THE UNITED STATES – 4,4%
- JAPAN – 3,1%
- SPAIN – 3,1%
- GERMANY – 2,9%
- FRANCE – 2,2%
- AUSTRALIA – 1,3%
- CANADA – 1,1%
- ITALY – 0,8%
- BRAZIL – 0,6%

Human Development Index. HDI.

1. 1st - NORWAY – 0.949
2. 2nd - AUSTRALIA – 0.939
3. 2nd - SWITZERLAND – 0.939
4. 4th - GERMANY – 0.926
5. 5th - DENMARK – 0.925
6. 10th - THE UNITED STATES – 0.920
7. 48th - ARGENTINA – 0.827
8. 54th - URUGUAY – 0.795
9. 68th - CUBA – 0.775
10. 77th - MEXICO – 0.762
11. 79th - BRAZIL – 0.754
12. 90th - CHINA – 0.738
13. 187th - CONGO – 0.286

IV.4 – BRAZIL AND THE FINANCIAL SECTOR

a) THE BRAZILIAN DEBT SERVICING AND THE LACK OF RESOURCES TO THE INVESTMENT IN FUNDAMENTAL AREAS

• Once the “golden era” of commodities and non-sustainable growth is over, Brazil now emerges as a country seriously in debt with the financial sector searching a way to face its multiple challenges. According to the Brazilian National Treasury the public debt has more than doubled in the last 10 years.

• In 2015 the amount spent only on debt servicing was correspondent to 47,43% of the GDP. However, in the same year the expense on science and technology was 0,27%, on education 3,91%, and on health 4,14% of the GDP. This data shows the range of the difficulties that Brazil must overcome if it really wants to grow in the current framework.
b) THE INTEREST RATES CHARGED IN BRAZIL AND THE “TOOL” ECONOMY

• Brazil´s government pays the bond´s highest interest rates in the world, and the highest one among the G 20 members.

• As a consequence, the interest rates paid by the Brazilian productive sector and the Brazilian consumers are also too high.

• According to Dowbor, an IPEA´s research based on data of 2009 showed that the interest rates charged to consumers in Brazil that year could reach ten times as much as those charged to consumers abroad.

• For Brazilian enterprises comparing to those situated abroad the difference of interest rates was about four times higher in the same year.

• This situation has led Brazil to what Dowbor calls the “tool” economy

1. DOWBOR, LADISLAU, Professor of PUC/SP - BRAZIL. O Sistema Financeiro atual trava o desenvolvimento econômico brasileiro (This article only in portuguese). At http://dowbor.org/2015/02/ladislau-dowbor-o-sistema-financeiro-atual-trava-o-desenvolvimento-economico-do-pais-setembro-2014-11p.html/
G 20 Interest Rate – March/April, 2017

1- Brazil
11.25
Apr/17

2- Russia
9.25
Apr/17

3- Turkey
8.00
Apr/17

4- Mexico
6.50
Mar/17

5- India
6.25
Apr/17

6- Indonesia
4.75
Apr/17

7- China
4.35
Mar/17

8- Australia
1.50
Apr/17

9- South Korea
1.25
Apr/17

10- The United States
1.00
Mar/17
## G 20 Interest Rate – March/April, 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate</th>
<th>Date</th>
<th>Country</th>
<th>Rate</th>
<th>Date</th>
</tr>
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<tbody>
<tr>
<td>Canada</td>
<td>0.50</td>
<td>Apr/17</td>
<td>Italy</td>
<td>0.00</td>
<td>Apr/17</td>
</tr>
<tr>
<td>The United Kingdom</td>
<td>0.25</td>
<td>Mar/17</td>
<td>The Netherlands</td>
<td>0.00</td>
<td>Apr/17</td>
</tr>
<tr>
<td>Euro Area</td>
<td>0.00</td>
<td>Apr/17</td>
<td>Spain</td>
<td>0.00</td>
<td>Apr/17</td>
</tr>
<tr>
<td>France</td>
<td>0.00</td>
<td>Apr/17</td>
<td>Japan</td>
<td>-0.10</td>
<td>Apr/17</td>
</tr>
<tr>
<td>Germany</td>
<td>0.00</td>
<td>Apr/17</td>
<td>Switzerland</td>
<td>-0.75</td>
<td>Mar/17</td>
</tr>
</tbody>
</table>

Source: Trading Economics - [http://www.tradingeconomics.com/country-list/interest-rate?continent=g20](http://www.tradingeconomics.com/country-list/interest-rate?continent=g20)
The “Tool” Economy

Brazilian Government

The highest G20 interest rate
Drain of public resources

Investment constraints in science/technology/innovation

Enterprises
High cost of private investments leading to less supply and more acquisition of government bonds

High interest rates

MISALLOCATION OF PRODUCTIVITY RESOURCES

Financial Sector

Consumers
High cost of credit leading to the reduction of consumer’s purchasing power and less demand

High interest rates

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V. CONCLUDING OBSERVATIONS

1. The “commodities and artificially expanded credit” Brazilian growth model has failed, leading the country to the worst recession in its history.

2. The interflow of typical emmerging economies needs, wrong public policies and a financial system that is not concerned about its role in a globalized and interdependent world has brought about what Dowbor calls the “tool economy”, in which the emerging country becomes a hostage of its debt, and where only the finance creditors are benefited.
V. CONCLUDING OBSERVATIONS

3. This situation may be described as a trap, since the amount of resources that the financial sector currently drains from the Brazilian economy make not viable Brazil’s insertion in a global market as a major partner, despite its strategic importance for the achievement of global goals such as economic growth, inclusiveness, finance stability and poverty reduction.

4. It urges that a solution be found for this deadlock. Brazil’s development is not a subject-matter that only concerns to the Brazilian people, but also to the international community as a whole.
A TRIBUTE TO PROFESSOR NORTON

THIS WORK IS A TRIBUTE TO PROFESSOR NORTON ON BEHALF OF ALL THE BRAZILIAN STUDENTS THAT HAVE HAD THE HONOR OF TAKING PART IN HIS CLASSES.