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International Journal of Management and Economics 45, 57-82

2015

International Journal of Management and Economics
No. 45, January–March 2015, pp. 57–82; http://www.sgh.waw.pl/ijme/

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Abstract

One of the most important tasks for Brazil after the Second World War was to change the structure of its economy. Due to a relatively low level of domestic industry, consecutive governments found industrialization the main priority and focused on industrial policy to foster that process. One can argue that industrial policy was the core element of Brazilian economic policy throughout the post-war period, until the liberalization reforms of the 1980 s. Political and economic traditions, together with rapid changes in global economy over the last decades, have had a huge impact on more recent Brazilian economic policy. On one hand, the country has kept looking back to the protectionist practices that have shaped its economy since the emergence of the modern Brazilian state, on the other, Brazil's ambition is to become a leading emerging economy and serious partner in the developed world. A dual development track, and continuous inner-conflict between protectionism and liberalism, is clearly visible in Brazilian economic policy and often leads to contradictory measures being taken by successive governments. The objectives of the article is to provide a contextualized analysis of the evolution of Brazil's economic growth strategy, with a particular focus on the role of economic and political traditions, and institutions.

Keywords: Brazil, economic growth strategy, economic policy, industrial policy, strategic trade policy, international trade, industrialization, economic development
JEL: F13, F43, O14, O21, O24, O25, O54

Introduction

Brazil is the biggest country in Latin America and the fifth largest in the world in geographical area and population. As a former Portuguese colony, Brazil is the only Lusophone state in the Americas.

During the recent global economic crisis, the Brazilian economy experienced negative GDP growth in 2009 but resumed growing as early as 2010 (by 7.5 per cent) [UNCTAD], and achieved 2.49 in 2013 [IPEA, 2015] in part because its large internal market is less vulnerable to global recession and provides opportunities for expansion.

Apart from relatively stable economic growth, Brazil has increased its global trade, with exports accounting for 1.29 per cent and imports 1.33 percent, of total world merchandise exports and imports. A WTO member since 1995, Brazil has opened its economy and become an important voice in multilateral negotiations, defending its own interests and aspiring to represent developing states. Consequently, Brazil is the main architect of the G20 group, co-chair of the Free Trade Area of the Americas (FTAA) – together with the USA – and leader of the Southern Common Market MERCOSUR. Brazil has also undergone important domestic changes that established the foundations for sustainable development. In particular, the social reforms carried out under I. Lula da Silva's Presidency have generally improved the situation of Brazilian society, lowering poverty, extreme poverty and illiteracy. Rising incomes of the poorest, coupled with a slower rise of income for the richest, contributed to lowering income inequity (Gini index). Other crucial improvements in Brazilian economy include: relatively low inflation, well-focused social policy, and a program aimed at real increases of the minimum wage.

Brazil, as the largest Latin American economy, has always drawn the attention of the economists and policy-makers. First of all, its market size and proximity (geographically, institutionally, and culturally) to other economies in the region offer potential for investors and entrepreneurs. Secondly, Brazil has continued its tradition of political and economic independence as an active participant of multilateral negotiations and leader of developing states defending their economic interests. Thirdly, Brazil has implemented many economic policy experiments that – though often contradictory – contribute to the global discussion on economic growth strategies. Finally, Brazil I generally regarded as a rising star in the global economy, with further development encouraging potential investors to locate their capital and increase their overall trust in Brazil's economic future. Brazil's economic policy t has been characterized by strong Government involvement in the economy, including active policy-making aimed at shaping markets, relatively high protective measures (tariffs, subsidies, etc.) and strong involvement in international fora, especially when Brazilian commercial interests are concerned. This involvement has precipitated substantial changes in economic growth strategies, beginning with substitution industrialization (encouraged by the theoretical work of Prebisch and Singer[1], followed by export enhancement, and market liberalization – consistent with the Washington Consensus recommendations. The laissez-faire approach adopted in the early 1980 s intended to release market forces and force the government to withdraw from economic activity did not last long, however. Brazil has returned to stronger interventionism based, this time, on a pro-export growth strategy, of which strategic trade policy is an important element. As a result, within just three decades Brazil glorified, rejected, and reinstituted State intervention. Discussion of the State's role in economic growth has not lost impetus. The measures promoted by the Washington Consensus, encompassing a wide range of economic activity (macroeconomic adjustment, financial sector rearrangement, privatization of state owned enterprises, trade liberalization, welfare and labor reforms, etc.), profoundly changed Brazil's economy and its approach to development. New, liberal reforms were carried out in tandem with political transformation from authoritarian regime to democracy, what was common for many Latin American countries[2]. This may partially explain the initial failure of initial stages of liberalization in the region as newer democracies lacking strong institutions may offer more opportunities for special interest groups to pursue their own goals[3]. Nevertheless, the structural reforms formed a new base for the modern Brazilian economy and strongly tied the country with global markets.

Since I. Lula da Silva's Presidency, Brazil's economic growth strategy has been based on State-led growth, which has traditionally been a crucial element of Brazilian economic policy. The Government's shaping of economic life in Brazil and the strong role of industrial policy have prevailed despite much criticism from international financial institutions. However, past experiences shifted the debate from yes/no questions to government involvement in the market to those concerning its efficiency and long-term consequences.

This article provides a brief historic analysis of the evolution of Brazil's economic growth strategy and the major internal and external factors that have generally influenced it, and Brazil's industrial policy, since the Second World War. Economic growth strategy is economic policies and institutional arrangements designed to reach economic convergence with living standards prevailing in advanced countries. Brazil's economic growth strategy has been based mainly on industrial and trade policy.

In this article we extract the crucial factors influencing Brazilian economic policy and show their impact and durability using a broad, multidisciplinary approach.

Certain factors were selected based on desk research (statistical data analysis; literature review; official documents and relevant institutions' websites) and encompass a wide spectrum of issues, ranging from those rooted in the Brazilian mentality and political traditions to macroeconomic constraints and developments in the global economy.

The article is organized as follows: the first section contains a brief historical and institutional overview of the evolution of Brazil's development strategy as a background for the analysis conducted in the further sections. The second section is devoted to institutional factors having the biggest impact on that evolution. Section three focuses on external factors influencing this evolution, and, in that connection, the fourth section highlights political factors of particular crucial importance. The last section presents that article's conclusions.

From Import Substitution to Export-Oriented Development Strategy – A Brief Historical and Institutional Overview

The development strategy of Brazil was long based on promoting industrialization and protecting the domestic market from the outside shocks. These two guiding principles reached their nadir in the import substitution industrialization strategy applied by consecutive Brazilian governments (to varying degrees) from the 1950 s to the 1980 s.A systematic concern with the promotion of Brazil's industrial development dates back to 1940 s. Prior to the 1950 s, however, government measures lacked coherence and a broader focus [i.a., Versiani, 1987]. In the decade preceding World War II, particularly after the Great Depreciation, industrialization was a focus but modern industrial policy was not practiced in Brazil until the mid-1950 s. Simultaneously, attempts to coordinate institutions were initiated, and tools developed to fulfill the State's industrial programs.

The resulting import substitution industrialization was a development strategy subjected to many mutations and adjustments. Its evolutionary character can be detected in changes in principal institutions. This section provides an institutional overview of the main elements of ISI adopted in Brazil, which includes: (a) economic planning, strategy development and policy coordination; (b) legislative and organizational institutions; (c) sector, industrial and technological targeting; (d) auxiliary policies and instruments; (e) infrastructural investments (including educational policies) and describe the emergence of pro-export strategy.

Economic Planning, Strategy Development and Policy Coordination

Economic planning and development strategies elaborated as formal national plans were initiated in Brazil during the 1930 s and 1940 s but with dubious practical results. The planning organs launched at that time resembled discussion forums more than effective strategic bodies. The first economic plan – *Plano Salte*, launched by the President Eurico Gaspar Dutra (1946-1951) and aimed at stimulating the Health, Alimentation, Transport and Energy sectors – was not given sufficient tools and was not effectively implemented [Draibe, 1985, pp. 155, 156].

The institutional base for economic planning started to be formed in the early 1950 s, particularly during the second government of G. Vargas. Using various structural problems analyses (e.g., that of the CMBEU (Comissão Mista Brasil-Estados Unidos), and CEPAL/BNDE group) the Commission for Industrial Development (CDI) launched the General Program of Industrialization (PGI). The PGI was not formalized, though and coordinative prerogatives remained with the Presidents [Suzigan, 1995, p. 8]. Initiatives started at that time served as the reference point for the later governmental efforts. The diagnostic and institutional elements of the General Program of Industrialization inspired the first effective industrial Brazilian development strategy, launched by the Kubitschek government under the name *Plano de Metas* (Goal's Plan). The plan, with the slogan: *Fifty years of progress in five*, was designed to coordinate domestic and foreign investment programs according to specified goals, with each type of investment under the supervision of a particular executive group coordinated by the Development Council (Conselho de Desenvolvimento). This system of economic planning and coordination introduced by the Plano de Metas was not effective, though.

In the 1960 s, economic and political crises led to an authoritarian regime, and national planning of industrial development was abandoned [Suzigan, 1995, p. 8]. National economic plans were used to stabilize the economy, and economic coordination was passed to National Monetary Council (Conselho Monetario Nacional; CMN).

During the period sometimes referred to as the *Brazilian economic miracle* (1968-1973), economic planning and developmental strategies re-emerged as vital elements of governmental economic policy. The National Development Plans (Planos Nacionais de Desenvolvimento) were its most important tools, characterized by the strong position of the National Monetary Council as the coordinating body, which prioritized macroeconomic strategy over projects focused on industrial/ technological development.

The First National Development Plan (I PND) was conducted under General E. Medici's government during the 1972–1974 period. It was established by the Act 5.727 in November 1971. At the same time the Goals and Framework of Government Actions Program for 1970–1974 was instituted. The major aim of the Plan was to build the infrastructure necessary to facilitate Brazil's rapid growth. Priority was given to the transport and telecommunication sectors, and particular interest paid to science and technology investments, and expanding the ship building, steel and petrochemical industries [See more in: Almeida, 2004] Implementation of the Second National Development Plan (II PND, 1975–1979) under General Geisel's government was the second effective planning initiative conducted in Brazil. The Plan was launched in response to the first oil shock at the end of Brazilian economic miracle that lasted six consecutive years. The major architects of the II PND were the ministers: J. Paulo dos Reis Velloso, Mario Henrique Simonsen and Severno Gomes who sought to stimulate basic inputs, capital goods, and food and energy production. Under the coordination of the Economic Development Council (Conselho de Desenvolvimento Economico) headed by the President of the Republic, new sets of joint investments in economic and social infrastructure, technology and science were articulated.

Legislative and Organizational Institutions

The formal definition of industrial policy objectives and instruments were introduced for the first time by the Goals Plan (Plano de Metas). However, it was based on the work done by the first Brazilian institution responsible for industrial policy; namely, the Council for Industrial Development (CDI). In 1952, the CDI published the classification of industrial activities and preference product groups in Brazil in deploying the country's General Program of Industrialization (PGI) [Draibe, 1985, p. 237]. The classification made use of the recommendations published by CMBEU and research carried out in cooperation with the President's council [Suzigan, 1995, p. 9]. The initiative was unsuccessful, however, with the exception of two CDI sub- commissions created in 1952 to stimulate the automobile and electrical equipment industries [Suzigan after Leopoldi, 1994, pp. 8, 9].

The problem with the first legislative framework and organizational institutions that would shape Brazilian industrial policy was their lack of consistency and durability. For example, the initiatives stated in n the Goals Plan ceased to exist with the end of that Plan. This fate was shared by executive groups tasked with coordinating certain industrial segments and the Commission for Industrial Development itself [Suzigan, 1995, p. 9]. These early efforts did, however, start the process of legislating and formulating Brazilian industrial policy, which was developed in later decades. The above-mentioned two sub-commissions of CDI that were successfully launched served as the pattern to follow. Moreover, the Goals Plan period witnessed the emergence of other important institutions that had under their jurisdiction important aspects of industrial policy, namely the Council of Customs Policy (CPA) and CACEX. CPA was created advise the Ministry of Finance on such issues as tax rates, minimum tariffs, and tariff nomenclature in general [de Godoy in: Receita Federal, Administracao Aduaneira, access: 05.11.2012]. CACEX replaced the earlier CEXIM (Carteira de Exportação e Importação do Banco do Brasil) and was the department of the Bank of Brazil aimed at financing Brazilian foreign trade, licensing imports and exports, and providing official foreign trade statistics.

In the 1960 s the executive groups, after a period of neglect, were regrouped to form the new Council of Industrial Development, which until 1979 was the institution responsible for industrial policy shaping. Its most important responsibilities were: guidelines and IP objectives formulation; IP priorities setting; and the administration of fiscal incentives to industrial projects. At the same time, the institutional framework was expanded and encompassed various sector, regional, technological and other organizations that coordinated particular projects [Suzigan, 1995, p. 9].

Sector, Industrial and Technological Targeting

Since the 1930 s sector industrial policy has been practiced in Brazil. At first, these were vertical policies aimed at promoting industries that produced basic inputs such as iron ore, paper and cellulose, steel, and alkalis. These sectors were believed to play a crucial role in the country's industrial development, and on the labor market. Sector goals were introduced after the Second World War and may be attributed to the Goals Plan. The targeted sectors changed and, in 1950 s, special projects were expanded over such industries as heavy chemical and electro-mechanic industries, transport equipment, and naval construction [Suzigan, 1995, p. 9]. This extended list of preferred industrial activities belonged to the industrial strategy declared by the Goals Plan and was supervised by various sector-specific executive groups.

Nevertheless, particular industrial targeting and vertical policies promotion were characteristic for the 1970 s, especially with the launching II PND. The priority sectors were reconsidered and special governmental help was given to such branches as petrochemical and non-ferrous metals as basic inputs producers, and telecommunication, aircraft, armaments, nuclear energy and informatics infrastructure as capital goods and technologically advanced industries.

Auxiliary Policies and Instruments

Auxiliary policies and instruments were divided into four categories: foreign trade policies; financing instruments and guidelines; promotional incentives; and competition and regulation policies. Until the mid-1950 s there was no official articulation of the above- mentioned measures and no focus o the lack of national coordination. Industrial protection on the internal market was manifested in the increasing number of administrative controls on trade and non-tariff barriers imposed on imports which, similar to custom tariff, were eroded by inflation. Another significant feature of the industrial policy in the1950 s was a lack of any incentives to export and no production subsidies for manufactured goods. The general lack of capital negatively affected investments. Some institutions that were supposed to provide credits for investment activities and finance industrial projects in line with the government's preference list limited their help to narrow sectors or certain companies. One body created to finance industrial initiatives was the Bank of Brazil, but agriculture was the sector that received the most financial help. Another institution, the National Bank for Economic Development (BNDE), primarily supported only infrastructural projects. Moreover, the government's strategy in the 1953–1957 period aimed at regulating trade transactions, which led to the introduction of multiple exchange rates. Apart from a poor financing system to stimulate investments and introduce innovation, there was no incentive system within the industrial promotion policy. Notably, though, many elements of regulation and competition policies were introduced in Brazil in the 1950 s. Launching the controls over foreign direct investments was one of the first initiatives of this type, followed by other measures such as price, tax and public services "tariff controls," and regulation of the labor market [Suzigan, 1995, p.10].

The mid-1950 s also witnessed the emergence of deliberate governmental interventions aimed at promoting industrialization and the consolidation of strong protective policies (tariff and non-tariff measures). Pro-export incentives were introduced in the mid-1960 s. The system was gradually maturing and reached its apogee in the late 1970 s. During this time trade protection, excepting the mid-1960 s, was increasingly discriminatory via non-tariff barriers and custom tariffs (i.a., imposing elevated aliquots). Announced in 1957, Law 3,244 created a new tariff structure and instituted the administrative apparatus to adjust tariffs to actual development goals and industrial policy objectives [U.S. Library of Congress, access: 06.11.2012]. At the same time, sources of financing investments got more diverse thanks to diversification of BNDE prerogatives, the rise of regional development banks and bank research departments, the establishment of various special funds, instruments for foreign capital acquisition, and export financing programs. Other important elements of Brazilian industrial policy were investment incentives, regional development policies, small and medium-size enterprise incentives, and the promotion of scientific and technological development that gave raise to national system of innovation. Use of the above- mentioned measures was characteristic of the 1970 s, when the vision of industrial growth was clear and Brazil advocated state-led development. Until 1979, the country pursued strong, generally non-selective protectionism, offered a system of subsidies for capital creation and export promotion, and implemented regulatory policies.

Infrastructure Investments (Including Educational Policies)

The first investments in infrastructure in post-war Brazil were made in the areas of transport and energy, which was the result of a diagnostic study carried out at the beginnings of 1950 s. The main financing for infrastructural projects came from BNDE, state companies, and various public institutions. The money was directed into urban infrastructure, basic sanitation, housing and telecommunication. Deficiencies were overcome and, by the end of the 1970 s, Brazil's economic infrastructure was compatible with the requirements proposed by II PND as the sign of more advanced industrial development. Less positive was the state of education and training. Despite advances in higher education, post-graduate studies and research, deficiencies in basic education were not mitigated.

The Emergence of a Pro-Export Industrial Policy in Brazil Industrial policy based on export promotion is commonly regarded as an element of a development strategy adopted in Brazil and other middle-income economies in Latin America in the last decade of 20th century. According to many scholars, it was the answer to macroeconomic imbalances and the international pressure and an attempt to follow the success of East Asian economies. External shocks (oil crises) and debt burdens deepened the economic stagnation in Latin America, requiring a new policy that would stabilize the economy and attract international capital. Multilateral financial institutions discouraged state interventionism and promoted openness to trade, FDI and international financial flows. As a result, a number of developing countries, including Brazil, followed the prescriptions of the Washington Consensus and concentrated governmental actions on promoting exports and acquiring new trade partners.

However, the Brazilian experience with export-promoting-measures dates back to the 1960 s. The first attempts were based on exchange rate manipulation, but the unpredictable and accelerating inflation eliminated potential export gains from devaluation and the policy was quickly dropped [Cason, White, 1998, p. 49]. Moreover, the Government based trade policy on the principle of fully supplying the domestic market. Only after fulfilling this condition could Brazilian firms could export their products. Brazilian exporters did not benefit from official tax incentives for exports, either. First of all, such measures were only occasional and, more importantly, they were characterized by very complex, almost insurmountable bureaucratic requirements. In the second half of the 1960 s, after the modification of the country's industrial policy, Brazil witnessed spectacular growth in the export of the manufactured goods. However, various studies of this phenomenon suggest that it is attributable to expanding global markets, and not pro-export policies [Bonelli, Malan, 1977]. Brazil's export-promotion industrial policy also shows the importance of timing and t market access [Cason, White, 1998], and that skillful bargaining does not guarantee successful market entry [Cason, White, 1998, p. 57], Brazilian steel exports also demonstrate that the choice of industrial sector to embark on an export-oriented development strategy matters[10]

Foreign firms were accorded an important role Brazil's export-oriented industrial policy. The main reason for doing so was the high share of foreign capital in the Brazilian economy, on which the country significantly relied. Participation of foreign enterprises in direct exports depended on their bargaining with the state and on the global market trends [Cason, White, 1998, p. 60]. The first condition is illustrated by the automobile industry, where the government successfully used foreign companies that dominated the domestic market in its export strategy. Global market trends had even higher importance, especially after Brazil obtained access to the World Trade Organization in 1995. The specificity of the Brazilian economy illustrates the existence of "buyer-driven commodity chains"; a term Gereffi uses to describe industries "in which large retailers, brand named merchandisers, and trading companies play the pivotal role in setting up decentralized production networks in a variety of exporting countries, typically located in the Third World." [Gereffi, 1994, p. 97]. State led export strategy in such circumstances is less secure because the foreign firms generally follow the global strategies of the parent companies. However, there are some successful examples of making use of buyer-driven commodity chains. In Brazil a beneficiary was the footwear industry, which thanks to international buyers' participation continued (and even expanded) its exports. Emergence of a pro-export industrial policy and changes in the State led development strategy also impacted Brazil's domestic institution- building. New policies favoring and promoting exports made public and private sectors stakeholders in a continuation of policy, and stimulated private enterprises to present and defend their interests in public debate and lobbying activities. The establishment of industrial/ branch organizations strengthened their position in the bargaining process, facilitating enforcement of preferential treatment on the domestic market. Moreover, industrial lobbyists used their influences among Brazilian policy-makers to get better access to foreign markets and promote a pro-export business mentality. The public-private alliance in export promotion was drastically weakened during accelerating inflation and the debt crisis in Brazil in the 1980 s. in response to the deteriorating financial situation, Brazil's government adopted measures that were disastrous for exporters; for example, exchange rate manipulation (using overrated currency rate to curb the inflation), which hurt exporters by making the products more expensive and uncompetitive on the global market. Insufficient foreign exchange led, in turn, to the inability to pay off foreign debt. Despite the economic and political importance of the exporters, their relations with policy-makers moved behind closed doors. Boschi describes this way of influence-seeking, blaming the "fragmentary nature of the State" for the promulgation of minor regulatory changes that benefitted particular industrialists [Boschi, 1979, p. 35]. This informal decision-making practice, even if worked for the selected industries, weakened the bargaining power of the public sector. making collective actions more difficult [Cason, White, 1998, p. 60]. Moreover, it undermined the general trust in public institutions and stimulated the conflict between the policy-makers and Brazilian exporters. The policies introduced in the 1980 s to overcome the crisis were generally unsuccessful. The common belief in the need for substantial structural change did not result in new policies to end inefficient practices and the already established pattern of public-private interactions. The cost was immense- on the one hand, in the 1980 s many import-substitution measures existed and many industrialists benefited from the state subsidies. On the other hand, emerging pro-export policies were chaotic, uncoordinated, and lacked a strategic vision [Cason, White, 1998, p. 61].

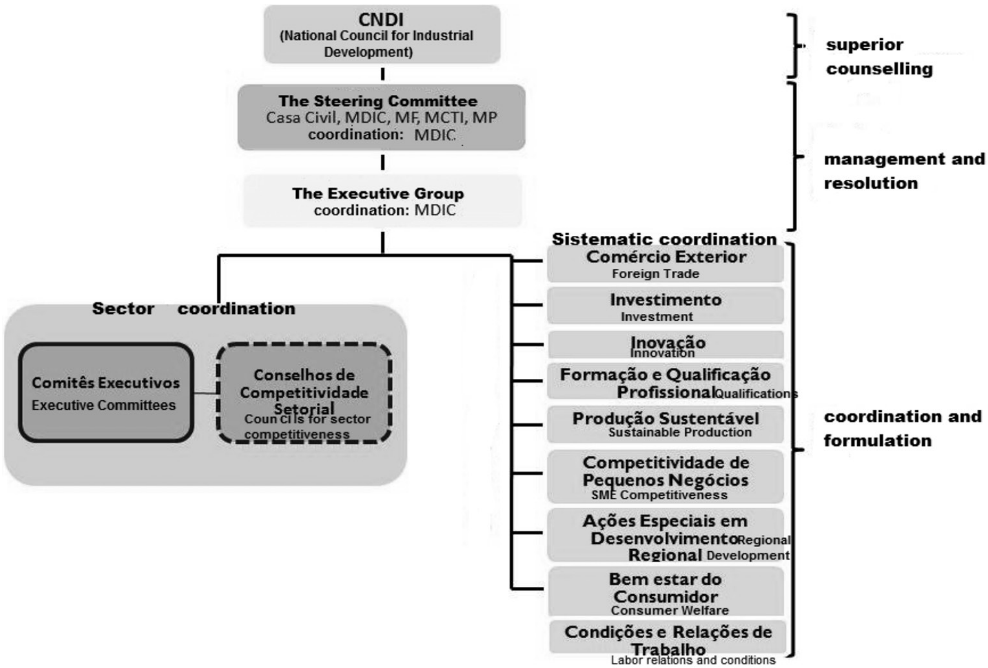
Current Brazilian economic growth strategy is illustrated by the so-called "Great Brazil Plan" (O Plano Brasil Maior), launched by President Lula da Silva and continued by President Dilma Rousseff, which attempted to reach certain aims for industrial policy, technology, services and foreign trade within the 2011–2014 period.

Focusing on innovation and national production as competitiveness-driving forces, the Plan was launched to facilitate private investments in the areas of Research and Development, technology and internalization. The key to the current industrial policy of Brazil is the Program's subtitle: "Inovar para competir. Competir para crescer." (Innovate to compete. Compete to grow.).

The idea behind "Plano Maior" is to integrate different institutions, both public and private to cooperate to achieve the plan's initiatives and aims. This requires the participation of various Ministries and governmental organs, as well as scientific institutes, universities and industrial chambers. From an operational standpoint, O Plano Maior has a triple structure. The bodies are divided and operate on three levels: (i) coordination and formulation, (ii) management and resolution, and (iii) advisory activities.

The Plan continues the government's policy of encouraging and strengthening the domestic industry, which was launched in 2003's PITCE (Política Idustrial, Tecnologica e de Comercio Exterior (Industrial, Technological and Foreign Trade Policy) and strengthened in 2008 by adopting PDP (Política de Desenvolvimento Produtivo, The Policy of Production Development). However, "O Plano Maior" is more institutionally comprehensive. Compared to its direct predecessor- PDP, O Plano Maior includes more actions and measures to encourage foreign trade, commerce and services [Canedo-Pinehiro, 2008, 2011; Suzigan, Furtado, 2006; Hay, 1998].

FIGURE 1. **Operational structure of "Plano Maior"**



Source: own translation, MDIC, 20th July 2014.

In line with the traditional approach to industrial policy, the Plan combines horizontal as well as vertical initiatives. The former aims to increase productivity of the Brazilian economy as the whole, while the latter is directed at specific economic sectors (for more on the newest industrial policy of Brazil see [Czarnecka-Gallas, 2013]).

Given this backdrop of recent changes in Brazil's economic growth strategy that that bear some similarities to previous development-focused policies, it is important to identify the institutional and external factors that affect the country's economic policy. Answering this question could help in understanding the evolution of Brazil's economic growth strategy and the factors that have the largest impact on that country's policy.

The Institutional Factors Influencing Brazilian Economic Growth Strategy

The analysis of internal factors that most impacted Brazilian economic growth strategy reveal that the most important ones include: a) the tradition of protectionism and State led development that is prevalent in Brazil (and, to varying extents, in other Latin American economies), which dates back to their colonial past and emergence as modern states; b) the so-called "Grandeza Brasileira" concept, which refers to Brazil's aspiration to be a regional or even pan-regional leader; and c) the ongoing long running debate on the domestic economy debate among economists, politicians, and various industries' representatives,

The Concept of State-Led Development and the Tradition of Protectionism

Brazil, and the Latin American region, have traditionally given an economic development role to their governments and can be characterized as highly protectionist states, especially concerning trade. These attributes are rooted in these countries' history, late independence, social upheavals, and need to rapidly catch up to advanced economies. The time of attaining sovereignty by Latin American countries was also the time of rapid industrialization and technological progress in Western economies, which gave the latter a huge advantage in the development process and the ability to set global economic activity rules. Late-comers needed to first finance their newly independent nation-states, consolidate nation-state structures, develop universal institutions, and then build the economic potential in societies with a colonial heritage that contributed to patrimonial political-institutional systems in which political actors gained superiority over social ones and were able to craft social-economic policies according to their own goals.[4]

Brazil's modern protectionism dates back to late 19th century, when the newly sovereign state needed financing that would support the national account. High tariffs, licenses and quantitative barriers brought revenues that were easy to collect as Brazilian trade passed through only a few ports, and taxing trade did not need a huge administrative apparatus. Domestic tariffs were set by the federal government, in contrast to administrating national customs, which was the responsibility of state (sub-national) governments. Another explanation for Brazil's high tariffs during this is the endogenous trade theory. In the line with that theory, because the main inputs for industrial production- capital and labor – were scarce, they were subject to state protection. High protectionism in the era of Pax Britannica in Brazil is also connected with its monetary policy that pegged Brazilian currency to the gold standard. Under the gold standard regime the only completely convertible currency was the British pound, which required governments to accumulate pounds. As a result, policymakers tried to fight prevailing disequilibrium in the balance of payments and international reserve loss by applying various protective measures and direct interventions on the market. One such instrument was high tariffs that helped to manage aggregate demand and maintain the peg.

The group that benefited the most from the system of high tariffs and subsidization was the landowners. Protectionism and Brazil's manipulation of primary commodities made it the price-maker on the global commodity market, which helped to sustain commodity prices. One beneficiary of this policy was Brazilian coffee producers. The "coffee example" had important consequences for industrial policy in Brazil. First, high tariffs imposed on trade did not dramatically decrease income from Brazilian exports. Instead, the price of protectionism was paid by the world's coffee consumers, and by Brazilian consumers of imported manufactured goods. The net loss of welfare was smaller since distortions in consumption and production were compensated by relatively high world prices. Second, high tariffs encouraged coffee producers to expand their economic activity and enter the industrial sector to protect themselves against unstable exchange rates and benefit from the rents that were available for manufactures in Brazilian protected market. This situation helped justify the Import Substitution Industrialization strategy undertaken in Brazil, and explains the traditional reluctance of Brazilian policymakers to liberalize trade [Pinheiro, L. de Abreu, 2004].

The colonial past of Brazil led to the general hostility towards economic liberalism and strengthened the perceived need for a powerful state that would play a guiding role for the society and intervene in the market [Fausto, 2001; Maxwell, 1973]. The history of Brazilian plantations illustrates the problem. The plantation system was characterized by strong state intervention that started with helping initial investments and high sunken production costs that required economies of scale. The plantation system contributed to the emergence of large monopolies in Brazil[5], deteriorating market conditions and domestic institutions, and poor innovativeness over time [Eagerman, Sokollof, 1997]. Strong protectionism and State led development were consistent with a mercantilist ideology popular in Brazil when it was building the modern state. In addition, international trade was tied to security issues, and primarily viewed as a way protect the country against threats from abroad, and only secondarily as a way to accumulate capital and hard currency.

The institutional approach to economic phenomena tries to explain them in a broad country-individual context. According to Douglas North, the process of economic growth will differ among the societies due to their varied cultural heritage, geographic, physical, and economic characteristics, as well as the different experiences of each society over time. All of which are likely to result in different perceptions of the world, leading to reliance on different institutions providing the same incentives [North, 2003].

In the case of Brazil the institutional approach attributes an over-regulated economy and inefficient institutions to the colonial heritage and development of patrimonial social-political system. Industrial and, particularly, trade policies were the traditional sphere of interest-groups interactions made up of private actors with strong connections to the bureaucratic apparatus that were able to obtain favorable decisions at the expense of others. Studies indicate that former Spanish and Portuguese colonies (like Brazil) generally perform worse as far as economic development is concerned, which may be attributed to the historic restrictions placed by the colonizers on market exchange, an inward orientation of economic institutions, and the huge role of state monopolies [Acemoglu, Johnson, Robison, 2001]. Other research analyzing Brazilian economic performance concludes that economic growth is hindered by government's inability to build solid institutions and incentives, as illustrated by the failure of important infrastructural projects [Summerhill, 2000]. The insufficient level of investment is explained by weak property rights, unclear rules and guidelines for investors, poor law enforcement, a lack of financial stability, and an underdeveloped capital market.

The unsatisfactory pace of development did not change the general need for State intervention and protective policies. Consecutive governments were expected to change strategies and apply new, more effective measures but not to withdraw from the economy. The tradition of State-led development and protection prevailed through the years of low growth rates and were supported by the periods of economic revival. Discussion of the need for state led development and a political pact to support it has been vivid and actual up to now, in what may be associated with the heterogeneity of the Brazilian society. The argument has been broadly discussed by L.C. Bresser- Pereira, who noted that:

"While in more homogeneous societies, as the developed ones, a Hobbesanian social contract is enough, in dual and underdeveloped societies it is additionally required a development oriented political pact. Only some sort of cooperation among social classes and sectors of society, some sort of class coalition endowed of a development project will be able to assure the necessary governability to the regime. A political pact will enable price stabilization, the implementations of the required – market oriented – reforms of the state, the resumption of economic growth and the consolidation of democracy" [Bresser-Pereira, 1993, p. 2].

The Concept of a So-Called "Grandeza Brasileira"

Attempts to build a strong international position and be the unquestionable leader among Latin American countries is one of the most important elements of the modern foreign diplomacy of Brazil. The ideology of "greatness" was particularly propagated during the military regime period (1964-1985) when successive governments appealed to the patriotic and sentimental feelings of the citizens, made use of populism and nationalistic slogans and presented Brazil as a significant political force. One symbol of this approach was to relocate the capital from Rio de Janeiro to Brasilia, which was supposed to end the rivalry between Brazilian two most important cities- Rio and Sao Paulo – and fulfill the dream of having a modern capital in the heart of the country.

Along with democratization, ideological overtones were weakened but persisted exist. Brazil's ambition of regional leadership, and being an important partner with e developed economies, have affected Brazilian industrial policy for decades. Previously, the motive for import substitution industrialization and economic nationalism, these aspirations now inspire robust economic diplomacy and a pro-export industrial policy aimed at enhancing the position of Brazil in international trade.

Moreover, the emergence of new, important economic players, in tandem with overall changes in the global economy, facilitated government initiatives to make Brazil a significant participant of international economic and political structures.

While the United States remain the world's biggest economy, other developed countries have been losing to such rapidly industrializing nations as China, which is currently the second largest economy in the world.

Such a situation showed that much is possible in contemporary international relations and that the countries which were regarded as 'lagging behind' can use the new political and economic circumstances to their advantage. The so-called BRIC is another example of changing forces on a global economic sphere that may motivate other emerging economies eager to play a greater role in international economy.[6]

TABLE 2. Total GDP of the selected economies in mln USD (1970–2013, selected years)

	1970	1980	1990	2000	2010	2013	rank in 2013
Brazil	35,214	191,125	402,137	644,729	2,143,035	2,250,370	7
China	91,039	306,520	404,494	1,192,836	5,949,786	9,318,901	2
France	146,724	691,699	1,246,571	1,328,943	2,570,401	2,740,566	5
Germany	_	_	1,714,447	1,886,400	3,304,439	3,629,850	4
Japan	209,071	1,086,988	3,103,698	4,731,199	5,495,387	4,932,312	3
Russian Federation	_	_	_	259,446	1,524,917	2,144,146	9
United Kingdom	124,805	541,917	1,019,349	1,493,559	2,295,523	2,533,429	6

Source: own elaboration based on UNCTAD, http://unctadstat.unctad.org, accessed: 22nd March 2015.

The growing role of emerging states is also evident from their participation in global exports. In 1950 s, the United States and the United Kingdom had the biggest export shares which, in combination, accounted for almost 30 per cent of total global exports. Since the 1990 s, the situation is more dynamic, and reveals the strengthening position of developing countries. In 2012, China outperformed all other exporters, while, Russia, India and Brazil increased their share in global exports.

A similar trend holds for imports. Western economies no longer monopolize international trade – their shares are decreasing in favor of developing countries. The United States remains the largest importer, and the second position, formerly held by the United Kingdom, is currently occupied by China.

The appearance of new global players has had an impact on Brazilian policy-making. The rapid growth of some Brazil's direct competitors (i.e., China, regarding the production and exports of some manufactured products[7]) poses challenges to Brazil's traditional goal of being a regional leader and important player in global political-economic affairs.

The rhetoric has changed but the concept of the "Great Brazil" prevails. The diplomacy of Presidents' Cardoso and Lula da Silva have moved Brazil from the status of a peripheral leader to being one of a privileged group of decision-making states. Brazilian foreign diplomacy achieved considerable success at the World Trade Organization's Conference in Cancun, in 2003, when the first post- World War II "coalition of the South" was formed. Brazil's diplomacy also played an important role in establishing the G-20, which is a group of countries formed to address trade issues from the perspective of developing states [Cervo, 2010, p. 9].

The Domestic Economic Debate

The economic debate on growth and state interventionism are ongoing among Brazilian policy-makers and the country's academic circles. From the economic orthodoxy of finance minister Eugenio Gudin, to a popular development economists that favor state planning and government intervention to enhance sustainable growth, Brazil's economic and politic scene has historically been and remains, diverse. The lack of unanimity between the intellectual and governing elites, however, has also contributed to the discontinuity of government actions and existence of contradictory macroeconomic and sectoral policies [Almeida, 2004, p. 7].

The policy debate in newly democratic Latin American countries revealed a polarization between state versus market approaches; that is, between advocates of pure interventionism and free-market fundamentalism. In Brazil, this polarization is demonstrated by the Constitution debate in 1988, in which the two opposing sides defended extreme stances. The victory of the supporters of interventionism meant adopting industrial policy based on a heavy regulation and economic nationalism.

On the whole, an interesting observation was made by Bresser-Pereira on Brazil's internal economic debate. According to this scholar, in Brazil neo-liberal ideology is effectively supported by none of relevant social groups, even if some of its important elements are popular among the businessmen. The researcher claims that:

„*To be conservative in Brazil does not mean to be against state intervention except for rhetorical purposes. The capitalist-bureaucratic coalition that ruled the country between 1964 and 1984 was authoritarian, conservative and for state intervention. In the late 1980 s the neo-liberal rhetoric gained room in the discourse of Brazilian conservative politicians and businessmen, but a corresponding political practice did not emerge. Even among the intellectuals it is hard to find true representatives of this perspective*" [Bresser-Pereira, 1993, pp. 9–10].

This dichotomy has, by all appearances, endured in contemporary Brazil.

The External Factors Influencing the Brazilian Economic Growth Strategy and its Economic Policy's Switches

Several political economy studies show the influence of international turning points on policy choices. As noted by Haggard and Webb, global macroeconomic and financial shocks may be crucial for both policy orientation and new development strategies. Empirical data need not be long searched for, as the twentieth century was marked by several global shocks and provoked significant shifts in economic paradigm and modern policy-making [Haggard, Webb, 1994]. In accordance with this theory, Brazilian economic growth strategy has been greatly influenced by external factors. Particularly important for the country's economic policy design were: the international oil shocks; the global economic discussion of the economic growth's determinants and conditions; and the real economic processes changing the global economy.

The International Oil Shocks of the Second Half of the Twentieth Century

From the perspective of Brazilian industrial policy, the first international shock that had a huge impact was the Great Depression of the 1930 s. The economic crisis that was felt across the globe contributed to the need for an autonomous strategy of development for all of Latin America. The region was deeply affected by an abrupt drop of global prices for its major commodities, such as sugar, coffee, cocoa, copper, rubber, and guano. A severe decline in terms of trade disrupted the South American trade system, caused a foreign debt default, and precipitated a serious social-economic crisis. The intellectual response was to advocate for state intervention. This response came mainly emerging economic actors- industrialists and reforms-friendly politicians who saw the world order in a new light and had different social backgrounds than the governing elite. The Great Depression mobilized Brazilian workers, industrialists and militarists against export-oriented landowners, resulting in Brazilian autarky and an inward-looking development plan [Rogowski, 1989]. Social tensions during this period brought G. Vargas and the supporters of autonomous economic policies to power, who blamed the international system for the backwardness of Brazil and the whole region.

The new political and economic elite tried to formalize their beliefs about the negative impact of export-oriented model on Brazilian and Latin American economy through several studies and research papers published in 1940 s and 1950 s, and the emergence of the so-called the structuralism school. The most important findings of this research revealed that the outward model fostered large domestic income concentration and severe wealth disparities. The reasons for the situation were traced to the strong connection between landowners and global markets, with a characteristic over-reliance on foreign consumers and primary goods, coupled with the fact that few in Brazil/ Latin America benefited from the high rents generated by international trade at the expense of the rest of society. The influence of the structuralism school and the idea of struggling for economic autonomy that were popularized in this era have been visible ever since.

Just as the Great Depression shaped the state-oriented mentality of Brazilian society and gave strong arguments to supporters of import-substitution industrialization, other 20th-century external shocks significantly undermined the foundations of the Brazilian development model. In particular, the second oil shock in 1979 helped end Brazil's import-substitution era.

The second oil crisis, sharp rise of US interest rates, and situation on the global commodity market caused a decrease of terms of trade for Brazil. The government tried to rescue the economy with a policy of gradual devaluation of the currency, which had dramatic results. First of all, Brazil then faced skyrocketing public and private debts. Secondly, the country could not deal with the fiscal profligacy fueled by increasing state debt, while spiraling inflation provoked by the exuberant use of seigniorage. And these problems, coupled with the recession, led to a stagflation that devastated the economy.

The search for a policy framework to stabilize the economy resulted in several unsuccessful stabilization programs and undermined the fiscal position of the public sector. The 1980 s was characterized by a balance of payment problems that limited economic growth in Brazil, serious fiscal constraints that – together with the financial crisis – dramatically lowered public investment capacity.

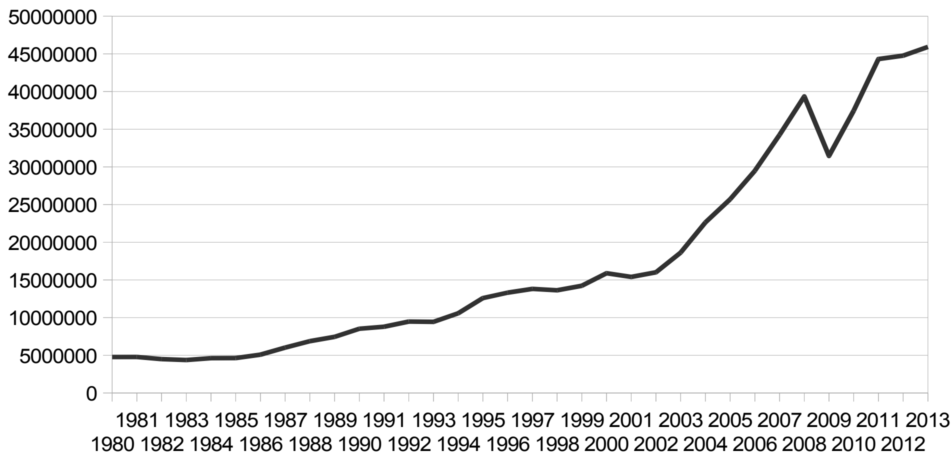
Macroeconomic imbalances triggered by the second oil shock and reinforced by the internal structures of Brazilian economy (including traditional public-private alliances and historical political inertia) affected policy-making in the following decades and dramatically changed the country's industrial policy. The measures practiced in import substitution industrialization (ISI) required heavy state support not only concerning regulatory and legislative frameworks, but also direct financing programs. However, the poor state of public finance raised serious concerns about the effectiveness of government spending, and the ISI strategy. Criticism about state transfers to chosen industries gained strength, but was unable to quickly change industrial policy which, despite the economic crisis, was not significantly altered until the second half of the 1980 s. These external shocks revealed many weaknesses of Brazil's economy and impacted a growing call for substantial changes in the country's policy-making.

Other External Factors Influencing the Switch in the Country's Economic Policy

Brazilian economic policy has been subject to many external pressures. Its responses to them were based on intellectual concepts developed to address the changing economic paradigm, emerging schools of thought, and real economic processes that were changing the global market.

One t type of e pressures resulted from different philosophical approach to economic growth. The Brazilian concept of a state led development contrasted with the West's laissez-faire attitude that dominated global economic thought after the oil crisis. The multilateral institutions, such as the World Bank and the International Monetary Fund, also promoted trade liberalization and minimal state interventionism. Pressure from the West increased after many Latin American economies collapsed in the 1980 s. Several general outcomes followed. First, the financial help and the expertise were conditioned on market-oriented reforms. Second, the emerging system of free trade agreements and economic integration forced weaker partners to accept top-down decisions. To be the part of the GATT and, later, WTO systems, Brazil had to drop some of its protective policies and comply with the provisions of Intellectual Property Rights policies. This process did not go smoothly. Even in the face of poor economic results, the Brazilian government continued applied most ISI measures and stiffened its position in multilateral negotiations, especially at GATT summits and with reference to IPR protection[8]. Internally, the gradualist approach to the market reforms was demonstrated by a partial commitment to reform, and the focus on short-term fiscal issues [Pinheiro et al, 2004].

FIGURE 3. Global trade flows[9] 1950–2013, USD million

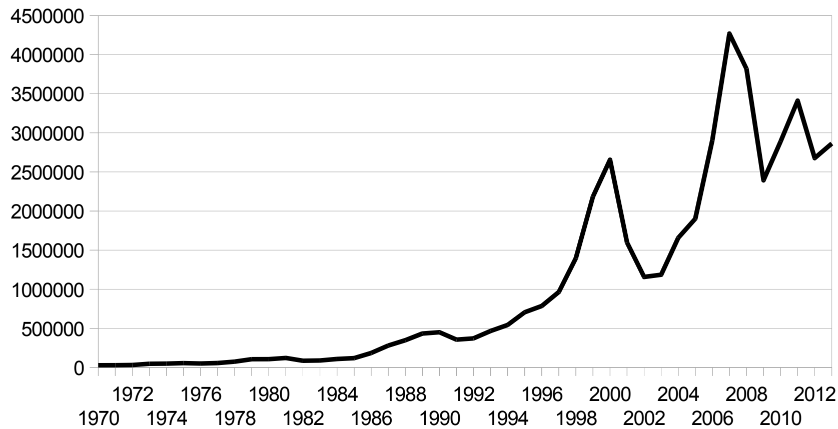


Source: own elaboration based on UNCTAD, http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx, accessed: 22nd March 2015.

Moreover, other pressures connected with real economic processes existed. Relevant global changes included the huge growth of world trade and intensification of international financial flows in the form of direct investments and commercial loans. Global trade flows started growing rapidly in the late 1980 s, and soared at the outbreak of the new millennium. Until 1986, international trade flow levels were relatively low, and did not exceed 5,000, 000 USD. The situation changed with the liberalization reforms of the 1980 s, and adopted by many countries that had previously opted for limited participation in global trade. Between the mid-1980 s and mid-1990 s flows doubled, exceeding the level of 10, 000, 000 USD. However, the most rapid growth took place in the first decade of 21st century In 2013, total trade flows amounted to almost 46,000, 000 USD

A similar, though less stable trend is observed in global FDI flows. Until the 1990 s they did not exceed 500, 000 USD. The situation changed in mid-nineties and, in the 2000 s, reached the level of more than 2, 500, 000 USD. Afterward, global FDI flows declined, only to soar again in the second half of the first decade of 21st century -reaching its highest value in 2007.

FIGURE 4. Global FDI flows 1970–2013, USD million



Source: own elaboration based on UNCTAD, http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx accessed: 22nd March 2015.

In combination, these changes pressured Brazil to modify its economic strategy and liberalize its market. It can also be argued that to maintain its stake in economy, the government had to finally distance itself from import substitution industrialization, which completely discredited it as a market-regulator. Therefore, advocates of state interventionism turned to the ideology of pro-export growth, which allowed the government to play some role in shaping the domestic economy while bringing more freedom to the market.

The Influence of the Political Factor on the Change of Economic Strategy of Brazil

Although the political aspects of Brazilian policy-making are not at the core of the research presented in this article, some of the most significant changes in this sphere undoubtedly influenced Brazil's current development strategy.

The institutional theory broadly posits that democracy as a political regime imposes strains on public finance, which affects the development of a country. The Brazilian case confirms this claim. The democratization that started in 1985 did impose a toll on a state budget. The idea of building a welfare state and enforcing the "nationalistic developmentalism" is clearly demonstrated in the Constitution enacted in 1988.

First of all, the Constitution emphasized the redistributive role of public finance to support a large segment of Brazilian society. Some of the important decisions included: increasing labor benefits; establishing minimal levels of expense on public education, health and social security; and transferring federal funds to states and municipalities.

Secondly, the Brazilian Supreme Act called for the State-led development and economic nationalism. The discussion between market-oriented reform supporters and the advocates for strong state intervention ended with the latter's victory. As a result, industrial policy and heavy regulation played an important role in the Brazilian economic regime. Furthermore, the legislative and regulatory framework ensured that the main executors of the economic development of Brazil were domestic firms and public agents (institutions, enterprises, funds, etc.), as foreign (direct) investments were restricted or prohibited in selected branches. The rationale for these regulations was in the strategic nature of affected industries (energy, mining) and the belief that public goods should be provided by the state (health, social insurance). In fact, the Constitution reaffirmed high entry barriers to the Brazilian market that inhibited investment capacity and contributed to the emergence of monopolies. The disregard for the fiscal issues (treating them as monetary setbacks rather than structural problems) and for the dynamics of the globalization deepened Brazil's outdated economic structures and limited Brazilian growth. Democratization and the Constitution debate did, however, enhance political and social participation after two decades of the military regime. Even if the "national developmentalists" won in the first phase of the process, the voices of their opponents were clearly heard. Moreover, the nature of democracy enforces compromise and flexibility that with time may have affected policy-making. This process also reveals the strength of certain lobbies that defended state intervention and economic nationalism, blocking market-oriented reforms. These groups had a huge impact on domestic industrial policy (by, for example, influencing sector policies) and on Brazil's stance in international trade negotiations on market regulations and IPR issues.

Within the literature on Brazilian post-Constitution policy-making, Alston, et al., 2006, provides an interesting interpretation of the stages of that process. According to those authors, Brazilian policies can be separated into: "stable but adaptable" which concerns fiscal and macroeconomic issues; "pork," used with reference to localized interests of the congressmen; "hardwired" – meaning mandatory constitutional transfers (i.a., health, education policies); and "residual," which encompasses ideology-driven policies (i.a. wealth distribution, land reform). Alston, et al., claim that the political equilibrium reached after enacting the Constitution allowed "residual" and "pork" policies to be traded for macroeconomic and fiscal ones to stabilize the economy and enforce fiscal adjustments. The only stable policies were the "hardwired" ones. This gave autonomy to the Federal Executive in economic policy-making and began a public debate on sector policies in the Congress, which might have improved societal leverage. However, the strong presence of interests groups embedded in Brazilian politics led to widespread corruption, particularism and market inefficiencies.

Another perspective is provided by the integrative initiatives that encompassed Brazil. Regional integration arrangements (RIA) became a global focus after the Second World War. The developing countries in Latin America followed that trend to enhance local trade, capital flows and the economic growth of member states. Moreover, Latin American integration in the post-war era was regarded as a tool to propagate Import Substitution Industrialization in the region [Starzyk, 2013].

The characteristic elements of early RIAs in Latin America were the elimination of trade and investment barriers within the integrated region while maintaining protection against the outside partners, combined with state planning, government interventionism and heavy regulation. However, early integrative initiatives, such as the Andean Community, the Central American Common Market (CACM), the Caribbean Community (CARICOM) and the Latin American Integration Association (ALADI), were not successful. The nationalistic, individualistic approach of the member states and ideological considerations behind the integration undermined its economic efficiency. In fact, the "old regionalism" did not contribute to larger economies of scale, better infrastructure, fiercer competition or the increase of private domestic or foreign investments that were expected as potential outcomes so, from an economic perspective, it was a complete failure.

The Brazilian attitude to the early initiatives of the regional integration was not enthusiastic either, even though the country was a leader of Import-substitution industrialization and the strategy's biggest supporter. The size of its domestic market coupled with the abundance of natural resources and ample labor force, positioned Brazil to be a more autonomous player. On the whole, the integration process that took place in Latin America until the 1990 s did not visibly influence Brazilian industrial policy and development strategy.

On the contrary, modern integrative attempts started in the 1990 s have had a huge impact on the industrial policy of their participants. The most important RIA launched in Latin America was MERCOSUR, which initially a customs union between Argentina, Brazil, Paraguay and Uruguay. The novelty of the arrangement was the establishment of CET- a Common External Tariff – which encompassed almost 90 per cent of goods traded on the internal market. MERCOSUR signaled an important change in the development strategy of Latin American countries, which wanted to abandon high tariffs, overvalued real exchange rates, and heavy state intervention [Edwards, 1994]. Moreover, it became a symbol of the new approach to national trade policy as member states decided to liberalize in order to achieve macroeconomic stability and, in the long run, increase the international competitiveness of the region. The establishment of MERCOSUR strengthened other integration initiatives in the region. It revamped earlier trade arrangements in the Central American and Andean blocs and implemented in 1994- the North American Free Trade Agreement. The new approach to the RIA in Latin America was based on trade liberalization and openness to (foreign) investments, which was most apparent in the North American Free Trade Agreement (NAFTA) and to a lesser extent- in MERCOSUR. The welcoming policy towards FDI, which regarded it as a growth-driving factor, led to the adoption of less interventionist and less regulatory measures. Furthermore, the surge to attract multinational corporations (MNCs) resulted in various tax breaks' and or tariffs-exemption policies. "Specially-treated" multinationals, in turn, were expected to modernize manufacturing processes, transfer technology and develop final products.

The initial phase of MERCOSUR was marked by an internal trade boom, both in terms of volume and prices. However, in the late 1990 s the union faced serious difficulties. The problems were both of internal (exchange rate and fiscal policies) and external (the Asian and the Russian crises). Currently, MERCOSUR continues to search for a formula that best suits its member states[11]. Its enlargement and negotiations with Venezuela and Bolivia added to the political and technical challenges of the Latin American RIA. The heterogeneity within the member states can be observed not only on the internal scene, but also with reference to the foreign partners. Polarized trade policies may be traced to the region's relations with the United States- from confrontational discourse represented by Bolivia and Venezuela, to the bilateral trade agreements strategy adapted by Central America, Chile, Colombia, or Peru, to the friendly but autonomous attitude of Brazil. Moreover, even though MERCOSUR popularized liberalization and marked the end of the ISI era, it allowed for many trade exceptions which are the remnants of past practices.[12]

The above-mentioned changes in Brazil's political sphere have certainly eased the process of opening its economy and adopting a different development strategy by recent governments. In combination with other internal and external factors described in this article, they transformed traditional perception of the role of the state and its prerogatives in regulating the market. Nowadays, despite the fact that the government plays an important part in shaping Brazil's economy, it is more focused on outward-oriented issues, and its major initiatives revolve around successful internationalization of domestic enterprises, attracting FDI, and increasing Brazil's competitiveness and position in international trade. In this context, industrial policy (especially as practiced during ISI) seems to be a secondary priority, with primary attention devoted to trade and, most recently, strategic trade policy.

Conclusions

The article describes the important institutional and external factors affecting Brazil's economic growth strategy. As can be noticed, institutional embededness is the key to understand Brazil's macroeconomic choices and the strategies it has adopted to foster the economic growth. State intervention is deeply rooted in the country's policy-making. Even if economic strategy changes, the government is tasked with the role of shaping, and to some degree, regulating the market. Since the late 1980 s, special attention has been directed on opening the economy. Recently, there has been a withdrawal from the prior focus on industrial policy, traditionally regarded as the country's primary economic growth strategy. Now, even if the government treats industrial issues as vital for the country's development, the priority is on the benefits from international trade, investment and internationalization. Abandoning an active industrial policy and lessening state intervention resulted in the adoption of many measures aimed at freeing market forces and withdrawing from many market regulations. The analysis of Brazil's economic growth strategy suggests that the country adopted a new form of strategic trade policy that takes into account the needs and economic possibilities of a developing, but not yet highly-developed, economy.

On the other hand, one can argue that the role of the government in shaping the Brazilian economy is not diminishing, even though it adopts a more open economic growth strategy. Such phenomenon can be explained by the range of institutional factors.

Notes

1 More on the theoretical foundations for import substitution industrialization see: Prebisch, R., [1950], *The Economic Development of Latin America and Its Principal Problems*, United Nations, New York; Prebisch, R., [1959], Commercial Policy in the Underdeveloped Countries, *American Economic Review*, No. 49 (May 1959), pp. 251–273.

2 Compare: Liberska, B. [2009], Ameryka Łacińska w poszukiwaniu nowej strategii rozwoju i modelu globalizacji, in: M. Kania, A. Kaganiec (eds.), *Doświadczenia demokracji w Ameryce Łacińskiej*, UJ, Kraków, pp. 19–35.

3 More on the factors undermining the contemporary industrial policy of Brazil see: M. Czarnecka-Gallas, What undermines the efficiency of industrial policy in XXI century. The case of Brazil, *Gospodarka Narodowa*, No. 7–8 2013.

4 To find out more on colonial institutions in Brazil see Furtado, 1963.

5 One of the best-described examples is sugar industry, where the commercialization was done through few traders directly related to Companhia das Indias Ocidentais, Portuguese monopolistic company.

6 More on the topic see: Sporek, K. [2013], Rosnące znaczenie krajów BRIC, in: M. Purga-Bartosik, J. Schroeder (eds.), *Prądy rozwojowe w gospodarce światowej*, Prace Naukowe Uniwersytetu Ekonomicznego w Poznaniu, Poznań.

7 China's position has also grown as far as its foreign investments are concerned, which have been located in i.a. Latin America. More on this phenomenon and their impact on the relations with Brazil see: Czarnecka-Gallas, M. [2012].

8 On Brazilian position at GATT see more in: Odell, 1987.

[9] Import and export value flows, USD, at current prices and current exchange rates.

[10] The Brazilian exports in the steel industry could not resist protective measures imposed in Europe and the United States where the steel industry was politically strong. As a consequence pro-export strategy in the steel sector did not work for Brazil (Cason and White, 1998, p. 57).

[11] More on the economic effects, the stages and the consequences of the integration in Latin America see: Starzyk, K., [2013].

[12] Although the MERCOSUR introduced one single tariff for all its member that in 1995 accounted for app. 12 per cent, CET (Common External Tariff) granted temporary exceptions for selected industries, such as automotive, electronics, information technology, etc. The tariff exceptions were introduced to allow the industries to catch up international competition and to restructure. The best example of this type of the managed trade policy is the automotive industry, which was the subject of the sector agreement between Brazil and Argentina established in 1996 and prolonged in 2006.

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