



BRAZIL

IN THE GLOBAL ECONOMY



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ABSTRACT

Brazil has a complicated relationship with free trade. A founding member of the World Trade Organization and a key player in the Mercosur agreement, Brazil has long participated in free trade when determined to be advantageous. However, in particular industries of domestic importance, Brazil has avoided constraining themselves to international trade agreements in the same manner. Clearly, Brazil's choice to lean into free trade is not ideological, rather it is strategic — and selective. Similarly, Brazil has had a wavering relationship with free trade agreements as they relate to attempted impositions of environmental protections. The decisions of the Brazilian government with regard to selective ecological concern are often reflective of the nation's status as a semiperiphery economy and the internal core-periphery structure. Within this world economic structure, international trade agreements represent an underdeveloped tool for strengthening environmental protections within Brazil and particularly within the most disadvantaged, internal periphery communities.

The experience of the Brazilian economy over the past several decades is a story of cautious optimism for countries of the global south seeking to advance and develop within and even utilizing the context of globalization and free trade agreements. A variety of micro-experiments in free trade have been conducted throughout various industries in the Brazilian economy with highly variegated levels of success. One of the most successful industries of the Brazilian economy has been aircraft manufacturing. Looking at trends across industries within the Brazilian economy and at what separates industries like aircraft manufacturing from less successful industries, the conditions which allow for global trade to be beneficial and the conditions that allow for exploitative free trade become apparent.

First, one must consider whether or not Brazil did participate in global free trade, and, if so, to what extent and in what ways. One of Brazil's most notable forays into free trade is the 1991 Mercosur agreement, which initially brought Argentina, Brazil, Paraguay, and Uruguay into economic and political alignment based on eliminating internal trade

restrictions, implementing common external trade policies, and pursuing similar goals to those of the European Union, going so far as to have considered instituting a shared currency.¹ A notable aspect of this agreement is that all founding nations, current member nations, and affiliated nations are members of the global south. In 1995, Brazil became a founding member of the World Trade Organization, having previously been a member nation in the General Agreement on Tariffs and Trade since 1948.² Despite overwhelming international pressure, Brazil did not sign on to the WTO's 1980 Agreement on Trade in Civil Aircraft and has negotiated their own trade agreements in the domestically important industry of aircraft manufacturing.³ Since the foundation of the global movement towards free trade in the mid-20th century, Brazil has been a participant. And, as of the 1990s, Brazil was actively advancing the global free trade agenda. Though it is important to note that Brazil is careful to only participate in free trade agreements that Brazil feels can benefit the nation. Brazil does not favor free trade policies ideologically, but rather strategically participates with peer nations, such

as in the South American Mercosur agreement, and avoids foreign interference in particular industries, like aircraft manufacturing.

In order to determine the potential effects of these agreements and other movements towards free trade, an analysis of Brazilian economic conditions before and after integration into these global agreements must be considered. The Brazilian economy has undoubtedly, though unsurprisingly, grown significantly across the past half century. In 1960, the GDP was just over \$15 billion; by 1990 the GDP was about \$462 billion; in 2011 the GDP peaked at \$2.6 trillion.⁴ GNI per capita has undergone similar growth to a current value of \$8,840, qualifying Brazil as an upper-middle income nation.⁵ Data on the percent of the population living in extreme poverty (defined as living on \$1.90 or less per day) has only been available since 2001, but since then it has fallen from 24.7% to 8.7%.⁶ Data on the percent living in poverty (defined as living on \$5.50 or less per day) has been collected intermittently since 1981. In 1981, 60.4% of the population lived in poverty; now 19.4% of Brazilians live in poverty.⁷ These figures suggest that at least some of the economic

development that has occurred in Brazil over the past several decades has had positive impacts on even the most impoverished members of Brazilian society.

Clearly, over the time period analyzed Brazil enjoyed economic growth and improvement, and Brazilians across the income and wealth spectra had some benefits from this growth. Free trade, however, is only one of many dynamic variables across this era. For integration into free trade compacts to be considered responsible for Brazilian economic improvement, specific links between globalization and particular industries must exist. Today the non-agricultural industries which are most important for the Brazilian economy are mining, automobile manufacturing, oil, aircraft manufacturing, and steel,⁸ which account for 10.63%, 6.0%, 3.95%, 2.96%, and 2.55% of exports, respectively.⁹ These industries, which account for over \$47 billion or 26.09% of total Brazilian exports, are all dependent on exporting their products to foreign markets. The major corporations in each of these industries, excluding automobile manufacturing, began as state-owned enterprises, including Gerdau,

CSN, Usiminas, Embraer, Vale, and Petrobras. Additionally, leading companies in key domestic industries began as state-owned enterprises, such as Telemar in the telecommunications industry.¹⁰ This dependency on exports suggests that Brazilian economic development was dependent upon integration into foreign markets through global trade. An important unique characteristic of Brazilian development is the extent to which state owned entities were the basis for economic growth. This suggests that though globalized trade was important, complete free trade devoid of Brazilian government intervention was not a successful strategy for economic development. Certainly some industries did not have the massive government interventionism experienced in aircraft manufacturing, steel, mining, or oil production, however, only one such industry, auto manufacturing, had the same success of these industries.

A particular case study of the unique Brazilian model of economic development through globalization can be seen in the aircraft manufacturing industry. One of the most successful Brazilian businesses is the aircraft manufacturer Embraer. Embraer, the

company's current name, is a portmanteau of Empresa Brasileira de Aeronáutica, the Ministry of the Air Force entity which first began manufacturing aircraft for the Brazilian military in 1969. This subdivision of the air force held key partnerships with several government sponsored research universities and Finep, a financial institution organized out of the Ministry of Science and Technology for promotion of Brazilian scientific research. Up until 1994, Embraer was entirely controlled by the Ministry of the Air Force under the Brazilian government, though it had begun to transition to commercial aircraft manufacturing during the 1980s. In the early 1990s, as the Brazilian government planned to privatize the corporation, there were initially no offers made to purchase Embraer at auction.¹¹ It is clear that for the first several decades of Embraer's existence the company was only able to survive due to massive government intervention and subsidization; Embraer was not competitive in a free market. However, in 2009 Embraer employed 17,000 Brazilians, a 10,000 employee increase in 10 years, sold more regional aircraft than any other manufacturer globally, and was

the third largest aircraft manufacturer overall, behind Boeing and Airbus.¹² Obviously a massive shift occurred over the 15 year period from 1994 to 2009 for Embraer to become such a successful company. Embraer's contemporary business model is dependent upon their highly successful line of regional aircraft. In 1996, airlines in the United States saw growing demand for regional air travel, and, thus, U.S. airlines increased demand for regional aircraft. Embraer was uniquely positioned to take advantage of this newfound demand; in the 1990s grants from and partnerships with Brazilian universities specifically encouraged Embraer to pursue massive research and development in the regional aircraft product category. In 2009, Embraer exported \$4 billion in regional aircraft, 95% of all regional aircraft produced.¹³ For several years, Embraer was able to experiment with new models while selling products below the costs of raw materials because of extensive grants from Brazilian universities and the Ministry of Science and Technology.¹⁴ Without this unique competitive advantage in the niche market of regional aircraft, Embraer could not have

taken advantage of the shift in U.S. markets. Of course, international trade is facilitated by trade agreements between countries. Today, the United States is the destination of 52% of all aircraft manufactured in Brazil,¹⁵ which are nearly entirely Embraer aircrafts.¹⁶ The assistance of government universities and the Ministry of Science and Technology was essential and they worked in tandem with beneficial trade structures.

It is clear that Embraer is an incredibly successful company and of great benefit to the Brazilian economy. However, it is important to consider the dynamics behind the success of Embraer. The WTO has a specific agreement on Trade in Civil Aircraft which mandates duty-free trade of aircrafts and over 250 aircraft parts between signatory nations. Only five nations in the world produce commercial aircrafts, and Brazil is the only one of these nations that did not sign onto the Trade in Civil Aircraft agreement;¹⁷ Brazil also happens to be the only one of these five nations in the global south. The Brazilian government retains a veto-power stake in Embraer and has traditionally resisted the efforts of foreign companies to

acquire significant ownership.¹⁸ The Brazilian government has established bilateral trading policies with the United States that seem to protect both nations' comparative advantages, a relatively unusual agreement to come by between nations of the global north and global south.

Currently, exchange in aircraft manufacturing between Brazil and the United States is complex. Most Brazilian regional jets produced by Embraer go to the United States.¹⁹ However, 70% of the parts in Embraer regional aircraft come from the United States.²⁰ Embraer's primary competitor is U.S. manufacturer Boeing, which benefits greatly from extensive indirect U.S. government subsidization of aircraft manufacturing, mostly under the guise of national security. Brazil has been able to set up a key trade exchange with the United States, though only in such a way that causes minimal threat to U.S. manufacturers. This is, however, still a massive achievement for the Brazilian government and economy which directly facilitates the existence of one of the nation's flagship corporations. Though Brazil has not been able to outperform nations of the global north, by being strategic in the realm of free

trade, Brazil has been able to establish their own competitive niche for the benefit of the domestic economy, providing a model for other industries and possibly other countries.

The Brazilian case study, at least with regards to one of their most important industries, aircraft manufacturing, seems to contradict Friedman's view of globalization. It does not appear that ties to stronger economies gave Brazil any technological access or allowed for a "leap-frog" of development. The Brazilian technology that gave Embraer a competitive advantage was domestically developed with painstaking protectionism. On the other hand, Brazil would seem to fit into Stiglitz conception of "semi-periphery" nations which the global north has allowed to develop into manufacturing strong houses, but no further. It is interesting that Brazil is able to exist as a semi-periphery nation, as opposed to a periphery nation, not because of free trade, but in resistance to free trade, which would otherwise cripple key industries, like the case study of state organized aircraft manufacturing.

Brazil can serve as a model for nations of the global south seeking to carve out a niche

in the increasingly tilted global markets. By strategically resisting free trade and promoting the domestic development of key industries, Brazil is able to sustain competitive positions in elusive industries typically reserved for the global north. However, Brazil has not resisted globalization. Globalization is what allows for the export oriented economy and its key corporations, like Embraer, to exist and grow. Brazil has simply chosen to globalize on their own terms, not terms dictated by the global north. Of course, the luxury of developing their own terms is not afforded to many nations, which have become entangled in weaponized forms of debt. Brazil has the luxury of defining

their own course in the global market: Brazil has used free trade when advantageous, such as among peer, South American nations through the Mercosur agreement, but Brazil has resisted attempts of the global north to compete with Brazilian industries that would not be able to keep up with the massive advantages afforded to pre-existing corporations of the global north. When possible, this course of integration, paired with strong domestic government interventionism and protectionism, appear to spur economic development for the Brazilian economy.



ENDNOTES

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