MOBILISATIONS SOCIALES ET POLITIQUES : LES SOCIÉTÉS EN MOUVEMENT

MOBILISATIONS COLLECTIVES À L’ÉPREUVE DES CHANGEMENTS AU MAROC

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Le changement lié au processus de modernité et aux réformes portées par la politique de libéralisation économique engagée par le Maroc, s’accompagne de l’émergence de nouveaux acteurs sociaux qui s’approprient Internet, Facebook, en tant qu’espace virtuel de liberté d’expression pour une nouvelle socialisation des mobilisations collectives. En investissant l’espace public par de nouvelles stratégies et un nouveau répertoire d’action, ils tentent de renverser les conventions, les coutumes et les croyances pour des droits plus subjectifs. La nouveauté de ces actions se situe dans leur extraversion. Ces mobilisations collectives seront pensées et analysées par la sociologie du sujet, une démarche traitant l’acteur à travers son rapport social à l’autre. Ce rapport reflète une tension dynamique qui semble génératrice de conflits permanents, voire de changement. L’article se base sur l’observation, des entretiens et une analyse documentaire.

Mots clés : Mobilisations collectives, Internet, Facebook, espace virtuel/public, activisme numérique, Maroc.

Dans un contexte mondialisé caractérisé par l’accélération, l’encouragement et l’intensification des flux d’investissement, d’échanges et d’informations provoqués par l’ouverture économique et culturelle que connaîtra le Maroc actuellement – notamment par le biais de traités de zones de libre-échange avec l’Union européenne, les États-Unis et des pays arabes, mais également par *


TRICONTINENTAL POLITICAL ECONOMY: NEW SOUTH-SOUTH PARADIGMS

THE CHALLENGES OF CHINESE INFLUENCE ON DEVELOPMENT IN BRAZIL: COMPARATIVE ADVANTAGE AND DISTRIBUTIVE CONFLICT

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This article examines the impact of China’s economic development on the Brazilian economy. It begins by considering the fiscal orthodoxy-based compromise on income distribution, which was introduced by the Lula presidency in an attempt to restimulate growth in the domestic market. The sector-based consistency of Brazil’s development is correlated with distributive conflict. The conclusion is that a neo-developmental strategy is required in order to achieve a coherent productive structure. In this context, Brazil’s capacity to face up to the challenge of China’s industrial exports to its domestic market depends on the formulation of a new compromise on income distribution. Indeed, a more progressive fiscal stance would be needed in order to implement the neo-structuralist policy in a framework of regional integration.

Keywords: Brazil, China, productivity, sector-based dynamics, income distribution, exchange rate

Since 2003, Brazil’s economic growth has shown a trend of relative acceleration. This has been sustained by a very favorable international climate stimulating both commodities and industrial goods exports (in equal measure), as well as by a newly-dynamic domestic market. The GDP increased by an average of 2.7% per year from 2003 to 2008, as compared with only 1.4% in the period 1991 to 2002. The growth rate reached between 5% and 6% in 2004, 2007, and

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2008, but these increases were followed by tightened monetary regulations. In 2009, growth fell briefly to 0.7% as a result of the international financial crisis. A return to strong growth in emerging countries, as well as countercyclical measures, increased the GDP by 7.5% in 2010 (IPEA). It should also be noted that volatility decreased over the course of the last decade, in contrast to most countries in the region (Quenan and Torrija-Zane 2010).

As with other South American countries, Brazil’s increasing growth rate is linked in large part to the impressive development of capitalism in China since the 1990s. In 2010, China became the top destination for Brazilian exports, accounting for 13.2% in 2009 (Quenan and Torrija-Zane 2010). China has certainly also contributed significantly to growth beyond its own market. It constituted a major variable in the cumulative financial disequilibrium that was the foundation for worldwide growth in the first decade of this century. Finally, and most importantly, we must consider the increased room to maneuver in Brazilian economic policy provided by the trade surplus, which paved the way for an increase in domestic demand. The momentum of recent years marks a break with the trend of quasi-stagnation of the two preceding decades, however, there is trade development outside of Brazil and other macroeconomic data including, most notably, insufficient progress in investment. These issues raise questions about the sustainability of this accelerated growth rate and, more specifically, about the challenges that will eventually be posed by China’s industrial competitiveness.

Trading with China takes on a certain ambivalence for Brazil since, while it is very competitive in terms of some raw materials and food goods, industry remains a vital element for growth. The commodities export boom and price increases have translated into a growing surplus in the trade balance. It grew from 2.6 billion US dollars in 2001 to 46.5 billion in 2006 and dropped again to 20.3 billion in 2010 (IPEA). There is no guarantee that the surplus will last. The prospects for developed countries are somber and there is a growing deficit in industrial trade (30 billion US dollars in the first quarter 2010) according to data published by Brazil’s Ministry of Industry. Chinese rivalry, which the Ministry reports on regularly, thus appears to be a serious threat. This threat relates, first, to the domestic market, as imports have risen more quickly than exports in bilateral trade. An analysis of economic cycle correlations also suggests that China is eroding Brazil’s share of the regional market and, as a result, its capacity to promote regional integration (Cardoso and Holland 2009).

The uncertain sustainability of the trade surplus must be assessed in light of the choices and challenges of economic policy. From this point of view, the issue is, first and foremost, the perverse effects on industrial competitiveness of an appreciation in the real exchange rate. This is stimulated by a base interest rate that has remained very high, despite having decreased from its peak in
2008. This base interest rate was, however, a principal variable in the increasing growth rate through its effect on budgetary latitude and through authorizing an increase in credit. This economic policy has the perverse effect of aggravating the industrial trade deficit. As such, reversing the deficit and promoting long-term growth entails new coordination between fiscal, budgetary, and monetary policy, giving the State room to intervene in support of structural competitiveness.

The resurgence of the debate on Brazil’s development model highlights the importance of the real exchange rate to this end. Bresser-Pereira’s (2009) analysis focuses specifically on the necessity of depreciating the real exchange rate as the cornerstone of a development strategy. This strategy must, therefore, be based on three interdependent variables: competitive exchange rate, domestic savings, and a balanced budget. A competitive exchange rate policy targeting long-term industrial trade balance involves avoiding recourse to external savings. This would lead to appreciation propped up against high interest rates, thus raising the opportunity cost of investment. A balanced budget would then have to be maintained to reduce the public debt, while providing the State with resources for industrial policy. This so-called neo-developmentalist strategy describes conditions for development in middle-income countries and is based on lessons drawn from Asian success stories. This widely-debated strategy most certainly informs government in a way that is liable to affect the tide of events.

Robert Boyer, in his preface to the French edition of the text introducing this strategy, notes several factors that may prevent it from being implemented. These include the strength of the Chinese manufacturing industry, the room for innovation brought about by the international division of labor, and direct and indirect income distribution. In addition to these economic issues, Boyer points out the social and political conditions that would support the emergence of a neo-developmentalist strategy.

This article approaches these issues in the case of Brazil with regard to the path dependency of its current growth regime. The first section below places the growth regime in context by comparing it with that of the Chinese in order to clarify the historical roots of their respective comparative advantages. These are considered in relation to distribution as defined by Pasinetti (1981), which explains the possibility that China (unlike Brazil) had to avoid a dualist mode of development that accentuates the productivity gap between business sectors. This analysis sets out the dynamic of the two countries’ comparative advantages according to the complementarity between production and consumer goods where salaries increase in line with productivity. The second section of the article demonstrates that the possibility of avoiding dualism springs from a political viewpoint through the economic policy choices made by Lula’s government. While exchange rate appreciation is their crowning achievement,
efforts to avoid dualism are simultaneously stymied from an economic point of view precisely for this reason. This contradiction between political and economic timing may be identified by considering the exchange rate policy as an instrument of distributive compromise.

The industrial trade deficit is thus put into perspective with the long historical legacy of this distributive compromise. The threat of the deficit worsening under Chinese competition, therefore, raises the question of whether the new political dynamic initiated by the Lula government is liable to result in a new political trade-off between taxation and public debt. A depreciation of the exchange rate is dependent on this as a condition for potentially avoiding the dualist development method, which, in turn, raises the issue of regional integration.

**CHINA’S HISTORIC ADVANTAGES AS COMPARED WITH THOSE OF LATIN AMERICA**

To what extent can we consider the accumulation mechanism in China as a validation of the advantages of comparative changes in productivity, as set out by Pasinetti (1981)? The latter have nothing in common with comparative advantages founded on a static analysis of factorial allocations. The concept proposed by Pasinetti (1981) is linked to a Smithian outlook: if productivity gains only entail a drop in export prices, rather than being held within the economic system (defined institutionally and monetarily), then the country is subject to dualist growth. The result is that the effectiveness of increased domestic demand cannot be evaluated solely at the level of GDP. Its sustainability depends on the expansion of productivity gains from more dynamic sectors to domestic demand sectors due to the more or less equal progress of both salaries and productivity. In a development process, a gap in productivity gains between dynamic and traditional sectors is inevitable but, if it is not reduced, it becomes a barrier to increased demand per capita of employees, thus leading to underutilization of productive capacities.

This principle has an inverse corollary effect when there is a significant gap between productivity growth in export sectors in a developing country and the same sectors abroad. The latter will thus be driven to shift their capital and will witness a reduction in their ability to create jobs. A developing country is thus better placed to develop export sectors whose productivity growth considerably exceeds that of the national economy, as well as that of the same industry in industrialized countries. Such a theoretical hypothesis appears to be a deciding factor in the varying trajectories taken by capitalism in developing countries, which explains why some augment their share of the world market and others do not. The difference between China and Brazil exists on this symbolic level and explains the potentially unequal effects of developing their trade.
China’s Capitalist Development

The structural and historic framework within which China initiated the transition to a market economy in 1978 demonstrates the strategic role of a production goods industry combined with the political capacity to modernize the market that is specific to a controlled economy. This gave China’s exports such comparative advantage. At that time, China already had an important capital goods sector focusing on heavy industries and the military. In view of its bad relations with the Soviet Union in the 1970s, China’s military arsenal supply depended on the existence of a large industrial sector. This was a complex industry, though not dependent on the outside world, but it was far from able to raise the population’s standard of living.

In 1978, China was not considering abandoning the Cold War with the USSR. Deng Xiaoping reformulated foreign policy, centered on the conflict with the Soviet Union, by bringing it more in line with the geopolitical interests of the United States in Asia. During the 1980s, China and the United States collaborated closely to support the Khmer Rouge and the Mujahedeen in Afghanistan. In the opinion of the pro-capitalist and very anti-communist Chinese diaspora, the credibility of the reforms was rooted in the credibility that they, themselves, were granted by Washington. At the beginning of the 1980s, the American government granted China “most favored nation” commercial status, renewable on an annual basis, as well as its green light for access to the International Monetary Fund (Foot 1995).

Confidence in the new policies of the Communist Party, entirely backed by Washington, led the diaspora to invest more than 66% of the total foreign capital in China up until the Asian crisis of 1997/8 (Hsü 2000). The objective of attracting such capital, a large share of which was directed to free trade zones, was to avoid a devaluation in the balance of current account payments caused by imports, without which the creation of free trade zones would have faced major difficulties. This can be viewed as a transitional period marked by contradictory policies. On one hand, Beijing pursued an export strategy focused on free trade zones while, on the other, the authorities were aiming for an accelerated modernization of heavy industries and signed long-term agreements between their public companies and major German and Japanese firms. This policy was based on the existence of a double exchange rate. A flexible rate, applied to free trade zones where the Yuan was devalued in relation to foreign currency, promoted capital imports from the diaspora and the launch of exports from free trade zones. It should be noted that, in this case,

1. This fact demonstrates the long-term importance of heavy industrialization plans initiated between 1951 and 1958 with the support of the Soviet Union (Hsü 2000). They were abandoned during the highly chaotic years of the Great Leap Forward and the Cultural Revolution (from 1958 to the end of the 1960s), but heavy industry stayed the course because it benefited the military sector, in particular, which was sheltered from these upheavals.
there was a loss of productivity gains to the outside. The other exchange rate was set by the State and was applicable to transactions and contracts signed by large public enterprises. In this case, the Yuan was overvalued with the aim of reducing these contracts’ costs in currency terms. The double exchange rate strategy was a complete failure because it did not prevent a deterioration in the balance of payments and, at the same time, it tied the country into long-term contracts. During 1986 and 1987, Beijing was to break these contracts, even though it risked paying large penalties. In 1993, the double exchange rate was abolished and the value of the Yuan depreciated by 50% in relation to the US dollar and to the Asian currencies to which it had been tied. Thus began the rise in Chinese exports and the formation of a large and growing surplus in the current account balance.

The policy of modernizing traditional sectors placed China in a relationship of financial dependence on developed countries. After the exchange rate was unified, the steel, cement, and chemical industries began supporting the growth of other sectors. This growth was achieved largely through the investments of multinationals, particularly through joint ventures. In addition, public enterprises assumed the anti-cyclical function of increasing output and investment in the event of private sector and export shortfalls, as happened at the end of 2008. The effect of the United States crisis on Chinese exports, which cost between 22 and 25 million workers their jobs over the course of six months according to the international financial press, was checked by a revival of heavy industry with funding provided through unlimited bank credit managed by the Central Bank. The most important role played by traditional sectors in transforming the country, however, has been as an impetus for import substitution. When a multinational firm invested in China under a joint venture, the firm imported the initial technology. Very quickly, however, activity expanded and the equipment increased due to the Chinese industry’s capacity to operate across the entire productive sector.

China succeeded in becoming the new magnet for world capital because, from the outset, it had possessed the basic industrial structure necessary for future accumulation and focused on creating a private market. China’s low production costs, its trump card, are based on the fact that they are spread across the entire range of production. It would have been impossible to create the “China price” in such a way as to transform the country completely if China had not already possessed a favorable starting position for subsequent development of productive capacities. This spared it from falling into the trap of perpetual and growing dependence on capital goods imports. This was one initial condition for current Chinese growth, which harkens back to Pasinetti’s (1981) approach based on an analysis of vertically integrated sectors, to develop a production chain represented by a series of labor coefficients: direct (the quantity of labor necessary to produce the final goods), indirect
(the coefficient related to production of capital goods used for the final goods),
and hyper-indirect (the labor coefficient required to produce capital goods for
producing capital goods).

This route remains closed to countries such as India and Indonesia due to
lack of sectoral strength. Russia did use this approach but liberalization led
them to abandon it. The question is whether this approach is conceivable for
Brazil in light of its path dependence.

**The Development of Capitalism in Latin America and Brazil as Compared to that of China**

Brazil’s past and future comparative advantages vis-à-vis China must be
thought of at the level of the Latin American continent. This is not only because
of the importance of economies of scale and of the coherence of the produc-
tion system, but also because of a shared historic destiny above and beyond
the specifics of Brazilian development, which now represents a major asset for
steering it in a favorable direction.

China’s transformation was founded on pre-existing major mechanical,
metallurgical, and chemical industrial sectors, which were created without
external debt. This allowed the country to climb the ladder of technological
modernization quickly. According to United States Commerce Department
data, at the end of the double exchange rate regime, the great majority of North
American imports from China were focused on textiles and light industrial
products. In contrast, at the beginning of this century, the majority of Chinese
exports to the United States were from the mechanical and electronics sec-
tors. Latin America, too, needs to make major changes in the composition
and level of its economic activities. This issue touches directly on linkages
outside the continent, which the economy needs to move away from, such as
their dependence on the export of raw materials and food. At this time, there
is no movement to free the continent in relation to raw materials. On the con-
trary, the conditions for this economic and social liberation are becoming even
more difficult to achieve, due to the twin effect brought about by China. The
first effect relates to its demand for commodities, which drives world demand.
It is also related to the financial activities tied to commodities, whether directly
on forward markets, or through the exchange and interest rates of exporter
economies (Brazil, Australia, Argentina). The second effect harkens back to
the structural gap separating Latin America from China. With a population
of 500 million people and a modern demand for goods, in spite of its large
social disparities, Latin America is completely open to Chinese imports. It
has not developed the capacity, however, for an alternative strategy that might
involve, if not a return to protectionism, at least some regulated use of it within
a framework of regional integration.
The continent’s economy has been extroverted since the European conquests. Its period of capitalist transformation was staked out only with a view to being an adaptation fit for the raw material import needs for capital accumulation in Europe. The development approach, introduced by Prebisch, was presented as a need for industrialization based on the domestic market in order to mitigate a deterioration in the terms of trade. As a result, it got caught up by insufficient salary growth as well as the political difficulties of developing a production chain as defined above. Today, this analysis takes on new significance from this double viewpoint, in the light of a markedly extroverted economy. Latin America did not have the national and international political conditions that allowed China to transform from a closed country into a country at the center of worldwide growth. China took advantage of its pre-existing industrial base and lack of debt to launch a transformation connected to international markets. Latin America, however, must rehabilitate its industries on a domestic level, even though industrial exports are important to external balance. Indeed, the domestic base also addresses the question of regional integration, which is the territorial level at which Brazil could confront what we refer to below as a new perverse variant of the unequal exchange theory.

In terms of the scope of industries directly and indirectly involved in the production of most goods, Brazil is the only country on the continent to have an endogenous capital goods sector and relatively autonomous accumulation capacities. As will be demonstrated in the next section, however, the possibility of sustainable growth from the demand for production goods, aside from those intended for the raw materials and food export sectors, is far from being achieved.

A Perversion of Prebisch’s Theory

Prebisch’s original theory about the deteriorating terms of trade between developed and developing countries in Latin America was valid so long as industrial production imported at oligopolistic prices came from the Triad countries (Europe, Japan, and the United States), where salaries are higher. The perspective changes given China’s transformation into a global factory. Chinese demand for food goods is destined to increase more than its demand for industrial raw materials, as China is losing many hectares of agricultural land each year due to urbanization and desertification. Both tend to reinforce the Latin American economies’ extroverted specialization. The main share of the continent’s exports is focused on raw materials and food goods. In Brazil, these represent half of all exports with potential for growth, however the same cannot be said for the future of industry. The rise in commodities prices and the anticipation of demand for them strengthen the ties between these sectors and creative finance based on derivative products. This then exacerbates economic financialization. For the social groups and classes driving this
financialization, domestic output is perceived as a cost that could be reduced through China’s global export capacity. The momentum itself of the domestic market is viewed as a result of the growing value of commodities exports and financial securities. The entire economy is thus rolled up in a financial bubble without strengthening industry and its services.

Until very recently, Latin America’s relationship with China was mostly as a supplier of raw materials. However, over the past few years, the continent has become an export market whose significance is growing. Brazil is at the heart of this market, but the process involves the whole continent. One example of this is the 2011 agreement between Beijing and Bogotá to construct a railroad system between the Pacific and the Caribbean. Such a project also has the express goal of forming free trade zones for the re-exportation of ‘Made in China’ products by undermining the Panama Canal route. But we must focus our attention on Brazil, as the Chinese strategy, consisting of tying imports of raw materials to exports of its industrial products to Latin America, will fail or succeed based on its potential success in Brazil. Even if the country could maintain a commodities-based trade surplus with China, industrial imports would weaken national production even further, especially in consumer and electronic goods. China will also become an important source of construction and railroad transport equipment imports for the continent as a whole. Brazilian exports of raw materials and food goods to China have little multiplying effect on its own urban economy. On the other hand, imports from China sap Brazil’s national productive capacities, an eventuality that the country must avoid at all costs. From this viewpoint, Prebisch’s theory is as relevant now as it was in the past. It has deviated from its original form, however, as China’s transformation into a global factory, founded on a long-term reserve of labor, means that increases in the price of raw materials will not translate into a proportional increase in Chinese export prices. Brazil’s profile is determined more and more by ties between commodities exports and finance. This leads inflation in the price of raw materials to be transformed into domestic inflation and entails a currency overvaluation, which reduces the competitive capacities of national production. As in the United States, Brazilian multinationals would be better off relocating (to China) than increasing local production, while dominant economic interests are amassed on the basis of financial returns.

Dependence on commodities and finance does not meet the needs of the Brazilian and Latin American populations. As an alternative, regional integration would need to be a means of relaunching the capital goods sector, which has been weakened by numerous crises. The continent’s renaissance obviously runs up against the worldwide rules of the game and against the interests of classes that benefit locally from these rules. A new political dynamic, however, particularly in Brazil, justifies considering such a possibility.
THE POLITICAL ECONOMY OF GROWTH, EXTERNAL LIMITATIONS, AND THE EXCHANGE RATE

The possibility, as well as the difficulty, of reversing this national and international economic policy is revealed by the economic policy of the Lula government (2003 to 2009). It succeeded in reducing external vulnerability, which was tied to the public debt, while also raising the growth rate, which was fueled by the domestic market and contributing to reductions in inequality. The following analysis of the macroeconomic bases for this economic policy will highlight how the growth regime is unlikely to be sustainable. The appreciation of the real exchange rate represents an important factor on account of its ambivalent effects. On one hand, it damages price competitiveness and thus limits the growth of industrial output. On the other, it widened budgetary room for maneuver and made a significant rise in consumer credit possible during the term of the Lula government. It must, therefore, be considered an indirect but decisive policy instrument to support a rise in demand. As a result, however, trade surplus has become a condition for exchange rate appreciation and any reduction now signals the limits of the accelerating growth rate. The growth regime has led to a constriction from external constraints and thus from budgetary constraints. It runs the risk of being exacerbated by the new global context in the aftermath of the financial crisis of 2008. From a political point of view, the distributive compromise allowed by this economic policy is difficult to sustain. It is important to highlight this strictly political dimension because it determines whether it will be possible to address the challenge of deficient industrial competitiveness.

This compromise was established based on a monetary and budgetary austerity commitment. It should be mentioned that this was rooted in the economic policy choices made by former President F.H. Cardoso to address the 1998 exchange crisis, which resulted from the fixed exchange rate policy initiated in 1994 to end the inflationary spiral of the two preceding decades. The policy led to a serious trade deficit and to the ensuing increase in public debt. Lula’s commitment to maintain the austerity measures and his formal reneging of his party’s former denunciation of the illegitimacy of external debt would halt a new exchange crisis triggered by the anticipation of his probable victory. The budgetary surplus and the already-high interest rate would have increased even more, but the transition to a trade surplus in 2002 ended up by widening the room for maneuver in economic and social policy. This breathed new life into the domestic market over the course of Lula’s second term. This outcome must be considered as a new distributive compromise accomplished through economic policy. The following three points will be discussed in detail below: (i) the latitude of economic policy that allowed for a distributive reorientation of the growth regime, (ii) the macroeconomic role of an appreciated
exchange rate, and (iii) its strictly political dimension as a distributive compromise.

**Reorientation of the Growth Regime and Latitude for Economic Policy**

Since 2004, the household consumption growth rate has been the primary component of the GDP growth rate, reaching values fluctuating around 3% or 4%. Anti-cyclical measures taken in 2008 and 2009 to limit the depressive effects of the international financial crisis held it between 1.2% and 1.7% during the three quarters in recession. It then returned to previous levels. Since 2006, except for this period of recession, gross capital formation has shown growing rates and reached a peak of 3.3% in the third quarter of 2008. Net exports showed positive rates from 2001 to 2006 fluctuating between 1% and 2%, except for peaks of 3% to 4% in the last two quarters of 2002 and first two quarters of 2003. These rates have been negative since 2006 (apart from the three quarters in recession). They exceeded 3% during the first three quarters of 2010, dropping back to a negative value of around 1% in 2011 with the slowdown in growth (national accounts of the Brazilian Institute of Geography and Statistics [IBGE–Instituto Brasileiro de Geografia e Estatísticas], developed by IPEA/DIMAC/GAP).

The issue of whether a growth regime propelled by the domestic market is sustainable applies to the reversion of the current account that began in 2007. The current account surplus rose to 13.6 billion US dollars in 2006. In 2010, it reached a deficit of 47.3 billion. This evolution stemmed from the growing divergence between rising exports and imports that has reduced the trade balance surplus since February 2010, despite a slowdown in economic growth from 8.9% to 5.1% between the first two quarters of the current year (IPEA 2010). In a restricted document from July 2010, which the press was able to report on after the elections (in the journal *Valor* on 11/16/2010), the Minister of Development, Industry, and Commerce expressed alarm at the projected record deficit in the manufacturing sector that year. The document recalled that the sector had a surplus of 4 billion US dollars in 1992 and a deficit of 9.8 billion in 2007, which grew to 30.5 billion by the first quarter of 2010. It should also be noted that the possibility of this deficit worsening assumed a geographical dimension: the drop in exports observed during the crisis, corresponding to all of Mercosur, Europe, and the United States, was not offset by the rise in Chinese demand (CEPAL 2010).

The balance of payments surplus have been increasing since August 2009 thanks to portfolio investments. Between August 2009 and 2010, these investments were responsible for the accounts rising to 153%, while the slowdown in direct investments and the current account deficit had a negative effect of -86%
(IPEA 2010). This indicated that the latitude for economic policy maneuver was changing.

**Macroeconomic Centrality and Perverse Effects of the Appreciated Exchange Rate**

The exchange rate and the interest rate are the two primary variables in macroeconomic regulation that allow for distributive reorientation in the growth regime while also defining its limitations, thereby rendering it eventually unsustainable. This macroeconomic regulation's limitation on the effects of redistribution goes hand in hand with a limitation on industrial investment. Both limitations were rooted in the overall transformation that allowed finance to enhance its monetary power. The variant that we observe in Brazil can be seen in the composition of the banking and financial system operational revenue guaranteed by the monetary and exchange policy: the credit share of the productive sector has decreased in relation to securities since the neoliberal configuration of the economic institutional framework was consolidated by the Cardoso government, elected in 1994.

This financial structure was implemented during the 1980s in the wake of the continuous rise of the public debt. Previously, credit for business activity represented the foremost share of the banking system's profitability. The importance of bank credit has once again become topical as a factor invigorating domestic demand, growing markedly during the first decade of this century. However, it is primarily a question of consumer or short-term business operations credit. Since 2003, the ratio of credit to GDP has risen from the all-time low of 22% seen in April of that year. The rise allowed it to recoup much more than the decline of close to 15 points that it had posted since 1995. In 2009, it rose again to 45% (Central Bank of Brazil, cited by De Paula 2010, 43). During the month of August 2010, it reached 46.2%. However, this progress must be put into perspective. The GFCF posted a ceiling of 19.9% of GDP in 2008; its lower limit for the decade in 2003 was 15.8% (CEPAL 2010).

Growth in activity and investment credit is limited by public indebtedness, as the latter is a decisive variable in currency values. The keystone of the macroeconomic regulation apparatus depends on the value and liquidity of sovereign bills. These are backed by the inflation-targeting monetary regime, which involves maintaining very high interest rates, a primary budget surplus, and an exchange appreciation regime. Leeway for credit expansion is then restricted.

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2. In ten years, the Central Bank’s real rate, called SELIC, went from its highest rate for the period, 14.1 in 1999, to 5.9 in 2008. Of course, this drop promoted the rise in business activity credit. The nominal rate was again raised in 2010, reaching more than 12%, and then decreased again in the face of growth deceleration and the deterioration of international conditions in summer 2011.
In a flexible exchange regime, the trade surplus generated by the boom in raw materials is the primary factor in appreciation, but this has also been fueled by portfolio capital inflows that bring about high base interest rate levels. This policy has allowed an accumulation of exchange reserves, held as a term of resiliency against any reversal in the external situation. However, the diminution in total and external public debt to GDP ratios has the effect of raising those for domestic debt (fig. 2). It is also possible to observe that the growth in stock for this domestic debt follows the cumulative interest curve (fig. 3).

As long as external demand prospects remain sufficiently favorable, exchange appreciation is a powerful lever for the valuation of quasi-liquid assets represented by treasury bills. Their return has ambivalent effects in terms of macroeconomic equilibrium. On one hand, their return finances (at a high price) the current account deficit without raising the primary budget surplus to service the debt, and thus contributes, in this capacity, to the distributive compromise, as will be demonstrated below. On the other hand, this return is established as a benchmark for productive capital returns, which partially explains converting industries’ drop in importance in the GDP. This is precisely where the long-term perverse effects of the centrality of exchange rate appreciation to macroeconomic regulation manifest themselves. We detect this centrality in how sectoral evolution in investment is confronted and in

3. Increase in financial returns hinders the accumulation rate and explains the impediment to increased growth demonstrated by the Brazilian economy for a long period in the 1980s (Bruno 2008).
industrial product/GDP and exchange rate ratio curves. From 1980 to 1995, the cycle of these two latter variables was linked. Following the end of inflation, the sector share of GDP appeared to become unaffected by the exchange rate after stabilizing at its lowest level as a result of the appreciating exchange rate (fig. 4).

This statistical observation does not mean that industrial development would not be affected by this appreciation. On the contrary, it seems more plausible to interpret this as a reflection of structural changes in specialization, revealed by the fact that, since then, investment has been growing only in natural resource intensive goods (fig. 5). Sectoral evolution in investment heralds a new regressive productive specialization from a technological point of view. As growth in export revenues increases currency values, the competitiveness of the rest of the economy will continue to decline. The prospect of a future trade surplus, due to new oil fields and even ethanol exports, is important in terms of its capacity to service the public debt. There still remains, however, the issue of growth restriction implied by accentuating productive specialization in raw materials.

The Distributive Compromise: An Exchange Policy Backed by Fiscal Arbitrage/Public Indebtedness

Bresser-Pereira’s (2010) analysis clarified the diverse factors of an appreciating exchange rate that involves a tendency toward deindustrialization in Brazil. Two of these factors are structural in nature. First, differential returns for natural resource extraction on an international scale lead to a market appreciation in the exchange rate, which can ensure long-term current account equilibrium. However, this level is lower than that made possible by expanding the so-called marketable goods sectors (subject to international competition) using leading-edge techniques. A managed rate is, therefore, necessary to ensure long-term equilibrium in the balance of trade for industrial products. A second structural factor refers to foreign capital flows attracted by higher profit and interest rates, which implies the relative rarity of capital in an economy with plentiful labor. In addition, economic policy has been based on external savings going hand in hand with managed inflation, reliant on an exchange rate appreciation accentuated by the high interest rate level. This analysis showcases the alliance of interests that such an economic policy allows to be forged over the short term by permitting an increase in real salaries, profits, and returns.

This strictly political factor implies, however, an economic dimension—fiscal arbitrage/public indebtedness policy—that eludes this approach focused on flaws in the exchange market. We may, therefore, go beyond the primarily normative framework of this analysis to ponder the possibility and the difficulty of a change in economic policy called for by the constriction of external
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Figure 2: Public Debt Ratios (1991-2009)

Figure 3: Net Internal Public Debt Reserve and Cumulative Factor of the Real SELIC Rate (1991-2009)
limitations. This betrays the inter-temporal inconsistency in the exchange policy noted by the author: the rise in consumption is not drawn from the rise in investment, which simultaneously generates a rise in savings, liable to guarantee longevity. It should be noted, however, that this inconsistency is
an expression of the governmental imperative to promote a more distributive compromise that is compatible with managing the public debt. This preserves the monetary power of finance by backing it in the de-dollarization of public debt. So, the question is whether the new political dynamic, begun by this compromise, will lift the limitation imposed by the monetary power of finance, as this power is expressed by a toxic austerity imperative that skips fiscal reform.

The experience of the exchange crises in 1998 and 2002 convinced authorities of the virtues of de-dollarization of the public debt through appreciation of the exchange rate. From the point of view of commodities returns and industrial profits, this strategy was sustainable. What is lost in external revenues, when converted into national currency, is offset not only by the increase in the price of commodities (IPEA 2011) but also by the valuation of a share of these revenues, provided by its investment in treasury bonds. This reasoning also works for productive profits, including on the domestic market. The central feature of these exchange rate distributive effects is the increase in the domestic public debt stock (resident creditors) which entails a still-high interest rate. From a political point of view, the appreciation of the real exchange rate not only preserved financial returns, paired with raw materials returns, it also allowed for a virtuous circle between product growth and fiscal revenue, thanks to a parallel progression of productivity and average salaries.

Asset demand in Brazilian currency (reals) can be stimulated if reals are guaranteed to be convertible by maintaining the budgetary surplus level, and thus also public expenditures, which ensure that the public debt is credibly tenable. It was possible to increase public expenditures due to a rise in fiscal pressure (from 31.9% of GDP in 2003 to 35.2% in 2008), largely linked to better returns from income tax and VAT following the increase in growth (Vianna and Bruno 2010, chapter 7). It should be highlighted that social expenditures increased as a result, particularly for retirement, in a larger volume than their ratio to GDP. Transfer, pension, and subsidy expenditures represented close to 15% of GDP at their peak in 2007 (12% in 1995), but they had only gained half a percentage point since 2003. The principal item, transfers of private pensions and unemployment insurance to the general retirement program, remained almost stable from 1995 to 2008 (30%), while transfers for pensions to non-subscribers increased by only 0.26% to 0.55% between 2003 and 2007. Interest charges decreased from their peak of over 9% of GDP during the exchange crises to 5.6% in 2008 (Vianna and Bruno 2010, chapter 7).

The macroeconomic centrality of the exchange rate, which appreciated due to its interaction with fiscal, budgetary, and monetary policy, defined its strategic political character during this period. The distributive compromise that it
implemented was an arbitrage between the tax system and debt, which defined its limits and the limits of the growth regime. The distributive compromise can thus be defined according to the decrease in the ratio of public debt as a primary target of the policy mix, and thus of the macroeconomic regulation that influences pro-cyclical variations in the employment rate and salaries. These variations show the effects of the competitiveness regime in the possible terms of the distributive compromise, setting the labor income level. As such, even if the rise in salaries (and transfer income) has been propelled by a significant increase in the minimum wage, they can be considered the residue of a distribution of the economic surplus. This determines the level of returns first and then the level of industrial profits, in view of the fact that the former sets the opportunity cost for investment. This type of relationship between growth and distribution has not prevented an increase in salaries. Since 2005, the growth of nominal salaries has been higher than inflation, and the real average salary now follows gains in productivity. The unitary cost of labor has stabilized, however, at a low level in view of what it was in the 1980s. Salaries’ share of national income has climbed back up, nevertheless, from its all-time low of 31% in 2002, without actually reaching the average of 34% seen in the period from 1990 to 1995 preceding its fall. Finally, it should be added that growth has allowed for an increase in the net creation of formal employment. While it stagnated at around 500,000 between 2000 and 2003, it then exceeded the one million mark and reached 2 million in 2008 (IPEA 2010).

The virtuous circle of rises in growth and in all types of income was founded on a distributive compromise whose longevity is no longer certain. The choice to raise interest rates was made by the new government who took office on January 1, 2011. It has clearly signaled that it is increasing the cost of the debt, which strengthens pressure to raise the budget surplus, involving changes to the current account. The arbitration parameters very recently changed with the turnaround of international conditions in the month of August 2011. This led to a lowering of the interest rate again, thus cushioning a movement toward depreciation in the exchange rate that was taking shape on the futures market. This does not not indicate a willingness to establish a new distributive compromise that would encourage a boost in output. Such an objective cannot be achieved by playing on counter-cyclical latitude, as happened in 2009. It involves calling into question the monetary power of finance linked to the public debt, which influences a reorientation of bank and financial profitability for productive investment. This will then bring about an expansion of domestic, private and public savings.
CONCLUSION

We must therefore conclude that the response to the question of the challenge that China represents to Brazil’s development remains uncertain. It is overdetermined by the unavoidable change in this distributive compromise. The potential role of a future competitive exchange rate, as a condition for long-term industrial trade balance, admittedly cannot be conceived without a balanced budget giving the State the means for an industrial policy. However, this neo-developmentalist strategy presupposes a fiscal reform that will service the existing debt through increasing taxes. This is one condition for reducing the strategy’s cost and reaping the financial returns tied to it. It is also a condition, therefore, for not only lowering the opportunity cost of industrial investment, but also for increasing the capacity for infrastructure and social expenditures. A new political intermediation of concerns through economic policy is now essential for allowing a virtuous circle between expansion of (i) direct and indirect salary gains, (ii) productivity gains beyond just the natural resources intensive goods sector, and (iii) those in industrial sectors where the international division of labor leaves room for innovation in local production.

It remains to be seen whether the reduction in current latitude for maneuver could force such an evolution based on the new political deal that is represented by the arrival and maintenance in power of a government whose legitimacy depends on reducing inequalities. In this sense, the possibility of escaping from dualism, in Pasinetti’s sense of the term, is doubtless imaginable on Brazil’s existing industrial base and, even more so, in the context of regional integration that increases potential productivity gains. We may add that the progress of per capita income and domestic demand in China also remains unknown and that it now appears to be a condition of China’s ability to boost Brazilian exports once the international regime of the first decade of this century becomes obsolete.

4. Argentina represents an illustrative example in this respect, having succeeded in achieving an average growth rate of around 8% thanks to the trade surplus, a depreciated exchange rate, reduced debt service through restructuring, and taxing exports. However, the same difficulty of implementing a neo-developmentalist strategy is demonstrated by (i) a rise of inflation, (ii) opposition to export taxes or quotas on those that are also salary goods, and (iii) the same limitations on investment growth highlighted here for Brazil. For a comparison of the two countries, see Salama (2010) and Marques Pereira (2011).

5. Its viability in terms of the coherence of a productive system and macroeconomic coordination remains unknown, but doubtless it is a research program for development, in view of the economic integration project that could be revived by a recent agreement of one Union of South American Nations (UNASUR – Unión de Naciones de América del Sur).
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