Chapter VI

SUMMARY AND CONCLUSION

Developing countries all over the world have been groping with the problem of appropriate strategies for economic development. Latin American countries and in particular, Brazil are no exception to this. Like most Latin American countries, Brazil has traditionally been, since the time of colonization, developing such sectors/resources which enjoyed markets in the industrially advanced countries of Western Europe and United States. As a result, Brazil's economic development, at least until the end of the Second World War, has been halting and distorted. Each one of the commodity cycles lasted until its demand saturated in the world market. Consequently the economic development of Brazil became a function of the commodity cycles, resulting in lopsided growth, export-enclaves determining, to a large extent, the growth policy and pattern of the country. Between the last quarter of the eighteenth century and beginning of twentieth century, for instance, coffee sector literally ruled the destiny of the economy.

Admittedly, the "export expansion" growth that Brazil experienced during the last 300 years was far from satisfactory. Reasons for Brazil's dissatisfaction with such "export expansion" growth are obvious. Broadly speaking, growing balance of payments difficulties coupled with deteriorating terms of trade contributed to a sense of economic nationalism demanding a more viable and meaningful strategy. In turn, economic policymakers in Brazil, like their counterparts in the rest of the
developing world, began thinking in terms of an appropriate strategy of economic development that would at the same time resolve problems such as balance of payments difficulties and deteriorating terms of trade, arising out of the "export expansion" growth and correct such distortions as the unusual, and at times phenomenal, flow of capital into export sectors depriving the wage goods sector of necessary investment; inflationary spiral; rising unemployment; disparity in the distribution of income between export sector and domestic sector and finally, disparate economic development in different regions. Nowhere have these distortions been more pronounced than in Brazil by the beginning of 1950s.

The stage was thus set for evolving a strategy that would meet the above mentioned problems. However, when actual policy options were deliberated both at the domestic and at the regional levels in Latin America, the option that met with considerable acceptance was the import substitution process.

The import substitution process, implied reduction of imports by creating sufficient domestic capacity. It was argued that creation of such domestic capacity would remedy chronic balance of payments problems. The problem of fluctuating export receipts which in effect, conditioned domestic activity, it was felt, could also be tackled. Above all, it was comparatively a riskless activity which at the same time would meet the demands of those who were obsessed with the dependencia status of developing countries.

Brazil was no exception to the then prevailing current
of thinking regarding the import substitution process. A national consensus had emerged in respect of the importance of the import-substitution strategy and the need for implementing policies that would bring about the import substitution process. In doing so, the role of the export sector was de-emphasized to the point that such sectors were even characterized as betraying the countries drive to modernization. Together, whatever support that was given at the governmental level to promote exports was implemented on an ad hoc basis. Empirical data was also provided to show that Brazil's exports during the period of 1950s had generally stagnated. And this trend was explained by suggesting that demand for exports was neither growing nor likely to grow in the short and long periods.

The only instance of an effort that remotely had a favourable impact on the exports was that of symbolic purchases. Under this scheme, the CACEX would buy on its account, the desirable but difficult to sell, export products at prices that were sufficient to give the producer a reasonable return. Another instance of export promotion was one of transferring initially, manufactured products and later, all the exports except coffee, crude mineral oil, mamona and cocoa to a regime of free market rates.

Neither of these promotional efforts offered any positive gains in respect of encouraging exports. On the other hand, the policy of overvalued exchange rate resulted in the total neglect of the rather lucrative export sectors.
Very soon, however, the efficacy of the import substitution process, to the point of underplaying if not, undoing completely the export sector came under critical review. The circumstances that led to this rather agonizing reappraisal were the rising import coefficient, the shrinking domestic demand, the excessive protection through a policy of overvalued exchange rate, the excessive subsidies and the sheltered market resulting into inefficiency, the underutilized/unutilized capacity in many sectors, discrimination against agriculture, the rising inflation and unemployment and a skewed pattern of income distribution.

Countries placed in such predicament as that of Brazil admittedly experienced these difficulties. As a result the import substitution strategy came under critical scrutiny. Professional economists as well as policy-makers felt increasingly the need for substituting the import substitution process with an alternative that would vitiate, if not, minimize the shortcomings of such a process. It was at this time that the development processes of such countries as West Germany and Japan on the one hand, and lesser countries as Hong Kong, Taiwan, Malaysia and South Korea were shown as success stories of "export-led growth". These examples together with the inefficacy of the import substitution process led the large continental-sized developing countries to orient their development process to what then came to be known as "export-led growth" strategy.

The superiority of the "export-led growth" strategy was underscored because of certain clear advantages that it offered
to these countries. It was argued that export activities reduced the uncertain risks of a purely domestic activity in the case of these developing countries. It was also pointed out that given the enormous debt liabilities which these countries faced, development of the export sector provided an immediate and easy way to meet the debt servicing charges. With the availability of unutilized or underutilized industrial capacities and other factors of production, it was viewed that promotion of this sector would ensure a catalyst for growth at minimum additional cost and effort. It was further argued that the developing countries need not cling to the traditional trade theory in its static aspect, but try to assimilate the dynamic flow of benefits arising out of export activity such as 'learning effect'.

The year 1964 was in many respects propitious for the Brazilian leadership to evolve and adopt such a strategy. Despite the fact that the import substitution industrialization process has been, to a considerable extent, satisfactory both in the overall economic development as well as in the sectoral growth rate, yet the attendant problems of rising import bills and the consequent balance of payments difficulties together with a rising domestic inflation and unemployment took a heavy toll on the economy. Politically the immediate consequence of the crisis situation was seen in the overthrow of a constitutional government by a military junta. In fact, the military, to some extent, certainly, took advantage of the emerging economic instability.
Among the different measures which the military adopted in the wake of the coup, the economic reforms were very important. In the Economic Action Programme initiated by military soon after coming to power (1964-66) the role and the significance of export sector was given special emphasis. Since the "indispensable provisions" for the expansion of exports in the Action Programme has, already been described at length, suffice it to say that these were the significant indicators of the switch over from the phase of import substitution strategy to the phase of "export-led growth". Since then the policy of the successive military regimes in Brazil till today has been positively one of promoting the exports of traditional and non-traditional primary and manufactured products.

It has been the major effort of the dissertation to review the policies adopted at different stages between 1964 and 1974 to promote the export sector and to initiate the programme of "export-led growth". Important among the policy measures were the fiscal incentives, exchange rate policy and export credit facilities. Implementing agencies and co-ordinating departments in the realm of export related activities were also evolved.

Extensive system of incentives under the three main categories mentioned above, proved to some extent effective. Infrastructure facilities that were evolved together with such new schemes as "export corridors" and the organizational innovations such as the National Foreign Trade Council (CONCEX) and the restructuring of Foreign Trade Department of the Bank of
Brazil (CACEX) and Association of Brazilian Exporters (AEB) contributed to the desired objectives.

Brazilian exports increased at an average annual rate of around 25 per cent during the period 1964-74, of which manufactured products accounted for 31.3 per cent of total exports in 1973. A review of selected commodities drawn from the agricultural/mineral, and manufactured products clearly show that their performance in terms of export growth both in volume and value during the period under review support and substantiate the overall export performance.

To establish any meaningful correlation between the export incentive schemes and the export performance of commodities is, however, beset with innumerable problems. Data relating to the cost of export incentives, for one thing, is neither available nor feasible to compute. Further, the rationale of the government to support a commodity as against another is also not clear. As a result, the only available basis on which the efficacy of the different incentive schemes that were adopted during the period under review is the export performance of the commodities selected. However, interestingly enough, the period under review in terms of the export performance of the commodities selected happen to be or to coincide with the period of generally favourable boom conditions for the primary commodities (agricultural) and eventually such boom conditions extending to the processed goods, also. As a result, it is very difficult to apportion which one of the factors - export incentive schemes and/or world boom conditions -
that contributed to the favourable trends and the satisfactory performance of the export sector. Probably, under these circumstances the efficacy of the export promotion measures being implemented in Brazil, will have to be reviewed under different world trade situations, at least until the time, adequate data relating to the cost-benefit analysis of these incentive schemes are available.

Nevertheless, it is possible to point out certain deficiencies, shortcomings and limitations in respect of the policy options chosen by the government and the particular incentives offered to certain of the commodities. The case of coffee offers itself for such an analysis. While the world demand for coffee had been, during the period under review, stabilized at a certain level - a level which was, comparatively speaking, higher than its 1950s level - yet declining share of Brazil's coffee in world trade had more or less set in already. In turn, this gave rise to coffee producing countries, other than Brazil, moving rather significantly in the world market. The important factor contributing to the declining share of Brazil's coffee was explained in terms of the depleting stocks of coffee and successive frosts that afflicted Brazilian coffee cultivation. Additionally, the fact that the government undertook a deliberate policy of eradicating coffee plantation during 1966-72 cannot be ignored. In explaining its policy of eradicating coffee plantation, the government took the view that (i) demand for coffee was stagnating, (ii) dependence on coffee sector must be minimized, and (iii) Brazil must maintain a regulatory
role in the world coffee supply. However, the fact remains that coffee as an export sector was relegated to the background. Such an attitude towards the coffee sector which traditionally has been the most important sector, proved disastrous to the economy in the mid-1970s.

Not only was the coffee sector denied of its export potential, also the resources withdrawn from the coffee sector were ploughed into another primary agricultural commodity - soybeans. The switch over in respect of incentive support from coffee to soybeans was justified on the basis of a booming but uncertain and irregular world demand, for the latter. The consequences of this step are yet to be determined.

However much one may underplay the importance of coffee as a secure and dependable export commodity, the continuing preeminent role of coffee cannot be denied - a lesson which Brazil has come to realize currently. Not only the world demand for coffee is increasing also, foreign exchange difficulties following the oil and other price hikes, have clearly placed Brazilian economy in a situation that perhaps may pose serious problems for the economy to reorient itself. The full impact of the policy of neglect of the coffee sector during the period under review has created a crisis situation for Brazil from which, it appears, it will take a long time, at least until 1980, to emerge out. For, the policy of low priority, low stocks and low investment in the coffee sector has reduced its production base. It raises, therefore, a question perhaps, fundamental whether a country such as Brazil in
its export sector where coffee had literally ruled for over a century, should neglect that product and switch over to another. In this respect at least, it appears, it was rather premature for Brazil in its "export-led growth" phase to place coffee in the background. To redeem the situation at this juncture the switch over to soy and beef products appears ill-advised. Compensating the loss incurred in the coffee sector by increasing the area of coffee cultivation or investing additional resources in either soy or beef products also seem ill-advised. For, neither soy nor beef provides an assured market for a long time to come if one should take into consideration the highly competitive nature of these products in the world market scene. For another, the cost of coffee cultivation is increasing.

It is in this context that one should review the incentive schemes that were applied to coffee exports. As has been pointed out, practically there was no incentive whatsoever that were offered to the coffee sector in 1950s except for a half-hearted exchange rate policy. Ironically enough, even in the so-called "export-led growth" phase, coffee enjoyed no other incentives other than flexible exchange rate and price. These incentives in effect acted as disincentives in view of the fact that contribution quota and minimum registration price that were levied, defeated the promotional efforts for coffee exports. A more fruitful effort would have been to let the coffee sector grow unimpeded to take full advantage of the existing export potential. For, after all, Brazil is well-endowed for coffee cultivation, and with its enormous experience in coffee culti-
cultivation and exports Brazil could have derived maximum benefits by a more judicious coffee policy.

The urge to diversify the export sector as far as agricultural commodities are concerned is, undoubtedly, a welcome effort. While doing so, sufficient care and caution, however, must be taken, which at the same time would ensure the competitive edge traditionally such commodities enjoyed. On the other hand, diversification should not be at the expense of losing such a competitive edge. In this respect, it appears that Brazil has adopted a questionable policy. The support and incentives offered to non-traditional agricultural commodity such as soybeans is a case in point. However, as has been mentioned earlier, it would prove good provided Brazil in competition with a formidable country such as USA adjusts its production base for soy on the basis of adequate market intelligence. Recent export tax levied on soybeans and its derivatives appears well-advised specially when one takes into consideration the fact that the world demand for soybeans is increasing.

In the case of other primary commodities - sugar, frozen and chilled beef, raw cotton, iron ore - the policy of flexible exchange rate is applied subject to the contribution quota and minimum prices. Unlike coffee and soy with the exception of iron ore these commodities play only a secondary role in the export market. It is not surprising, given the highly competitive world market for sugar and the limited capacity in cotton that Brazil at least at the moment is not venturing to expand these commodities or providing special incentives. However,
given the enormous export potential of iron ore which Brazil is well endowed, it is interesting to note that special attention, in terms of promotional measures (such as bilateral deals) is being offered.

In sum, it may be said that the effectiveness of these incentive schemes would have had a more favourable impact on the exports of primary commodities if only adequate steps had simultaneously been taken to nurture viable production base, enhance infrastructural facilities and refine overseas marketing intelligence.

The performance of manufactured products in the overall export trade of Brazil deserves special mention. And, the meaningful and appropriate promotional measures in the form of a variety of incentives offered by the Brazilian Government during the period under review also deserves commendation.

Admittedly, manufactured items are the new items in the Brazilian export basket. Chemicals, boilers, machinery, transport material, instant coffee, processed beef and textiles and allied products figured importantly in the export trade during the period under review. In addition to such incentives that were offered in common with the primary commodities, a set of new incentive schemes were initiated for the manufactured goods. Special export projects and BEFEX assisted export among them can be considered as innovative.

For the category of manufactured goods too, the world boom conditions to some extent certainly applied. However, considering the fact that Brazil was one among the several
countries, both the developed and the developing ones, the performance in terms of manufactured exports, though not constituting a considerable chunk in the total exports of Brazil, yet, was significant enough. During the period under review, the group of semi-manufactured and manufactured products accounted for 17.5 per cent of total exports during 1964-67, and rose to 37.3 per cent in 1974. In this context the performance of such commodities that have been selected for the analysis clearly seems to be significant. For example, the exports of chemicals and allied products registered an average growth rate of 69.7 per cent during 1971-74; boilers, machinery and parts thereof 77 per cent; transport material 136 per cent; and textiles and allied products 70 per cent for the same period.

It must, however, be pointed out that the commodities selected for review, when looked at, in terms of the inputs that go into their production, present a rather discouraging picture. Products such as chemicals, metallurgy, machinery, electrical machinery and equipment and transport material which, by and large, are capital intensive products enjoyed more benefits under the incentive schemes. It must also be taken into consideration that these are products, the inputs of which, at least most part of them, were imported. Even more significant is the fact that most of these products were in the production jurisdiction of the MNCs.

While their export performance, statistically, at least, shows encouraging trends, yet the question lingers whether it
was well-advised to promote these products for export purposes. It is true that the incentives offered to manufactured products were determined in terms of a minimum export quota that these products should enjoy. Largely the MNCs were able to fulfil the export commitments. As a result MNCs alone enjoyed the maximum advantage of such export incentives. Given also their marketing network and outlets not only elsewhere but specifically within the LAFTA region, MNCs were the only ones which were ready to take advantage of these incentives.

Brazilian export incentive policy in respect of manufactured products in which the MNCs had a preeminent position, therefore, should be looked into more carefully in future. For, it clearly places the indigenous industry at a disadvantage as against the MNCs. Also, that these very category of commodities were capital intensive, its impact on the overall economic development was also limited. Should Brazil continue to an "export-led growth" strategy, it may be imperative for Brazil to review more carefully the export of manufactured products.

The chosen policy, whether deliberate or unintentional, in fact, proves even more questionable if one reviews the policy regarding exports of other commodities such as footwears, instant coffee, textiles and processed beef. Undeniably, these are commodities for which Brazil is well endowed in respect of its own resources and given that the level of technology being indigenous, they were, to a large extent, labour intensive.

The extent to which this category of commodities could benefit by the incentive schemes differed from one commodity to
another, and depended largely on the varying incentives offered. To give some examples the footwears, even though, enjoyed various types of incentives (aggregate subsidy amounting to 69.02 per cent of f.o.b. export value in 1971-72) yet, many shoe firms were unable to cash-in all their export incentives for the reasons mentioned in Chapter V. Instant coffee and processed meat were subject to export tax and the only incentive was the flexible exchange rate policy together with flexible price. For cotton textiles and allied products, the extensive list of incentives applied. Yet at the receiving end, a number of tariff and non-tariff barriers emerged which made the impact of the incentives limited in substance.

By and large, apparently the rationale for selective and limited incentives offered to these commodities was on account of the limited market opportunities. Because of competition from within the identified market areas, tariff and non-tariff barriers were imposed in the countries to which Brazilian exports were targeted. That being so, the Brazilian approach during the period under review for promoting the exports of this category of commodities appears well-advised. It may be worthwhile for a country such as Brazil with a potential to exploit the indigenously available resources and labour for its export sector, to adopt a more intensive marketing intelligence that would provide opportunities for alternating different products depending upon demand potential. In fact, something like what Brazil did in the case of soybeans is a pointer, more appropriate for manufactured products.
Increasingly therefore, it is necessary for Brazil, having made its debut in the field of manufactures for exports and given its choice of "export-led growth" strategy, to carefully study market prospects for a variety of labour intensive and indigenous resource-oriented manufactured products for exports. The situational advantage of Brazil being proximate to the LAFTA offers bright prospects for Brazilian manufactures indigenously produced. This aspect has been analyzed by the writer in an earlier study (Regional Economic Integration - A Case Study of Brazil's Participation in LAFTA, 1965-70).

In short it can be said that the policy of export promotion in the context of manufactured goods augurs well. However, a more selective approach to bring greater benefits to the economy will be appropriate.

Frequently, the period of 1964-74 is described as the period of export-led growth. Certainly, the foundation for such a strategy was laid down in the Action Programme (1964-66). The policy was further reinforced and to some extent, refined in the subsequent years. Taking into consideration such variables as the gross domestic product (GDP), growth rate, per capita income and the rate of export expansion, it appears that the export sector seemed to have made a modest dent on the economy. During 1968-74, when the average growth rate of exports was 26 per cent, the GDP growth rate progressed favourably. As against this, when during 1975 and 1976, the average growth rate of exports showed 8.9 per cent and 16.7 per cent, the GDP growth rate also dropped to 4 per cent and 8.5 per cent.
respectively. Statistically speaking at least, there appears to be a clear correlation between export growth rates and GDP growth rates. It may even be possible to establish on the basis of available data for the period under review that for every 1 per cent rate of growth in GDP, there has been approximately 2 to 2.5 per cent growth rate in exports. Available studies relating to exports and their relation to GDP suggest that this rate of growth in Brazil is satisfactory (see J.E. Haring and J.F. Humphrey, "Simple Models of Trade Expansion", *Western Economic Journal*, Spring 1964, pp. 173-4).

At a disaggregated level, if one should relate the industrial growth rate with the export growth rate, one could establish a correlation between the two. A recent study \(\sim\) Pedro S. Malan and Regis Bonelli, "The Brazilian Economy in the Seventies: Old and New Developments", *World Development* (London), January-February 1977 \(\sim\) suggests that nearly a 5 per cent (of the total) industrial growth rate was due to exports of manufactured products for 1968. For the subsequent period the proportion reached 13.5 per cent for 1969 and 1970 and nearly 18 per cent in 1971. However, it was not uniform for all manufactured products. (For instance, in the case of textiles, food, clothing and footwear, it did not grow as rapidly as in the case of other manufactured products).

In case of industrially advanced countries such as West Germany and Japan or for that matter, smaller countries like Taiwan, South Korea, Hong Kong and Malaysia, it is often pointed out that their "export-led growth" strategy is on a sound basis
because of a high-export co-efficient, varying between 30 and 60. If the criteria of export co-efficient is applied to Brazil, one finds that it is still small (varying between 8 and 10 for the first half of 1970s). In other words, the export co-efficient as a variable does not suggest convincingly that the "export-led growth" strategy in Brazil, is as yet satisfactory. However, the export co-efficient criteria cannot be stretched for continental sized countries such as Brazil. The unutilized or under exploited domestic market caters to a large extent what an export market serves for countries such as Hong Kong, Singapore, Taiwan and South Korea.

Be that as it may, that there exists a critical link between the export sector and the overall economic development cannot be contested. This applies very much so for Brazil. While Brazil encountered a variety of problems during the period of 1964-67, important among them being high inflation and increasing unemployment resulting in shrinking domestic demand and slowing growth momentum, the only dynamic sector that way was the export sector. In the subsequent years when the export sector was further expanded with a variety of incentives and support, at least the country was well poised and prepared to derive the maximum advantages of a world boom situation. In the years ahead, Brazil with its decade-long experience in export promotion efforts would adopt appropriate promotional and corrective measures to derive additional benefits from the export sector for accelerating the pace of its development.