

Why Has Brazil Stopped Growing? Reverberation about the Brazilian Crisis

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Abstract

This short paper briefs about the influence of the Brazilian exports to China in the economy and also points out, according to some experts in the subject, some ways to get out of the economic recession. The data were collected from secondary sources. The results show not only a dependence on Brazilian exports to China, mainly commodities, but also a general dependence on Brazilian commodities export worldwide. The research identifies that political stability and fiscal adjustment are the first steps to start getting out of the present crisis.

Keywords: crisis, Brazilian commodities, export, China

1. Introduction

According to some authors (Prates, 2009; Firpo, 2015) Brazil is passively watching the Chinese demands reducing. The relationship (Brazil – China) replicates the relationship of dependency experienced by Brazil with the United States after the Second World War, where lots of money came from North America to Brazil, but with a difference: At that time, the investments came to develop and encourage entrepreneurship, and now, the money coming from China is not really headed for important investments, but basically for reserves and to afford social politics for the lowest classes (Siqueira, 2014). This decision, added to the absence of appropriate monetary and fiscal policies and lower growth rates in the trade balance, reveal that Brazil has entered into a process of deindustrialization, as shown in Nassif et al. (2014) research based on both descriptive statistics and econometric regressions.

Firpo (2015) suggests that the rapid decrease in Brazilian economic matches the unsteadiness of China's economy, although it has been much lower than the slowdown in other countries. The lower appetite of the Asian giant has made the price of commodities plummet. And, exporting mainly iron soybeans and oil, Brazilian exports had a thump in terms of traded values.

With such scenario, lots of Brazilians began to lose their jobs from 2013 on. The Institute of Applied Economic Research, IPEA (2013), indicated that trade and services had the most increased participation on the total employment over the last 20 years in the country. Recently, Agência Brazil (2016) says that the present unemployment percentage is over 10%.

One can comprehend, that the base for the Brazilian distribution of income and employment was the commodities valuations and the international liquidity excess in the 1990s and 2000, which increased the Chinese trade level internationally and also gave security in the international business (MEDEIROS & CINTRA, 2015). With the generous money coming from the commodities, the government filled the safes with international reserves, but failed to look at the industry.

So, in the period of the last greatest international retraction (2008 crisis), the international market began to slow down, but due to some positive public and economic policies, Brazil and China came, relatively, out of it well (Martine & Camargo, 2013).

Although many economists and journalists suggest that China is undergoing a severe recession, others suggest that what is happening is basically a redirection in its economic policy. China has tried to reduce the share of investment in the GDP and is now focusing on the domestic consumption market (Guthrie, 2012; Meng et al., 2013). On the other hand,

Brazil has not had a successful economic policy, either internal or external. So, with less demand for agricultural

products, and without a competitive industrial park, the country faced with a situation for which it was not prepared (Ueki, 2015; Carvalho et al., 2016).

So, this short paper aims to: A - Shortly expose the results of a study from Klafke et al., (2016), which reiterates the dependence of Brazil on its exports to China, and: B - Briefly identify alternatives to circumvent the current economic fatigue in Brazil. For this second purpose, academic articles were mostly searched on SCIELO Database.

2. Method

For the first part of this analysis (3.1), secondary data were obtained from Klafke et al., (2016) study, which aimed to indicate the effective occurrence of dependence economic development in Brazil from the Chinese economy. The paper analyzed the years of 2000 to 2013, which includes the end of the Liberal Government (until 2002) and the Workers' Party (PT), also called The Left Party. The following dimensions were considered: Gini Indicator, Brazilian Commodities Export to China, Brazilian Global Exports, Employed Population and the National Consumer Price Index (IPCA). For the authors' adopted model, multiple linear regression analysis was used with conventional tests to validate the template created, such as variance, Durbin Watson, significance of the parameters (r^2) and multicollinearity through the statistical software GRETL. Below is the model used to estimate the income distribution:

$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_p x_p + \epsilon_t$, where T is the observed period, Y is the explained variable (the dependent), β is the intercept and parameters and $(x_1 + x_2 + x_p \dots)$ are the explanatory variables (independent).

The hypothesis was that there was a strong relationship between Brazilian commodity exports to China and the Brazilian income distribution for the reference period.

For the second part of the analysis (3.2), academic articles were mostly searched on SCIELO Database from 2000 on, in order to comprehend the actual economic and political change in Brazil.

3. Results and Discussions

3.1 Economic Dependence of Brazil in China

The growth and the development of the Chinese population have demanded more and more food, which was an opportunity for the Brazilian agricultural commodities (Wilkinson, 2010). Considering some economic variables, such as Employment, Inflation and Exports (independent variable), and Gini Index and GDP (dependent variable) Klafke et al, (2016) stated that the growth and development can be influenced by several variables. For their study, with a significance of 95%, their model was statistically adjusted for the purpose.

Table 1. Statistical results

R^2	0,977939	
Adjusted R-squared	0,971321	
F - Statistics (GL) (3,9)	F = 159,643	significance: p-value < 0,00001

Source: Klafke et. al (2016)

The results suggest (from 2000 to 2010) that the inequality of the national income began to reduce with Chinese growth, as mentioned before: more Chinese needing to eat, more demand for food; however, inequality decreased due to two main factors: Brazilian commodity exports to China and labor expansion. These factors explain 97% of the reduction of the Gini Index of Brazil. So, the exports to China were relevant to the development of the country. But, from the moment these recent changes occurred in China's economic structure, as well as the recent corruption scandals in the Brazilian politician and social programs (frauds), several indicators slowed down, and some got even worst, like the interest rate and unemployment rate (Medeiros & Cintra, 2015).

In addition, some other studies alerted about Brazil's economic dependence on China (Ferchen et. al,2013). These authors were not only concerned about the potential adverse effects of Chinese demand for raw materials, but also about the economic policies and incentives directed to the domestic production. Any downturn in the Chinese demand (imports) would have negative implications beyond the marginal effect on the Brazilian GDP growth (Ferchen et. al,2013).

The bad scenario can be expressed by numbers. According to Anderson (2016), between 2005 and 2011, Brazil's trade increased more than a third, as demand for raw materials from China and other parts of the world increased the value of its main exports. Then, by the end of 2011, the economy slowed down from a mediocre growth of 2.72% in 2011 to a mere 1% in 2012. In addition, the inflation was already exceeding 6% in April 2013.

In this sense, it is decisive to reorient the directions, with greater popular participation in the national public

debate, as well as the productive system change, stimulating the production of elaborated goods with greater technological dominance and not only focus in the commodities segment.

3.2 Alternatives to Circumvent the Current Economic Fatigue in Brazil

According to some authors (Feraboli, 2015; Carmelino and Possenti, 2015) Brazil faces a severe economic crisis, reflected in the recent downgrade of its credit note. With this downgrade, investors think twice before any direct investment to the country. So, for some economists, the first step is to take that confidence back. Others (Pereira, 2014; Andrade, 2016) go beyond, and do not “blame” the economy itself, but the Brazilian public administration. For them, the economic crisis has its counterpart with the political crisis; when several projects were approved by the Congress not supporting the fiscal adjustment. Pereira (2014) believes it is necessary to restore the political stability first, but with an impeachment process on the way, it does not seem feasible.

Other issues, such as high tax burdens, confused labor laws that imprison the relationship between companies and workers are among some problems the government needs to handle (Betcherman, 2014; De Moura & Barreira, 2015).

Some say, in order to accelerate the economy, a more robust growth in the services sector and not only in industrial activity would be required. But the current moment is of reducing government expenditures and also the household consumption (Pereira, 2014; Anderson, 2016).

As one can see, there is no miracle to handle a political or economic problem. The government needs to responsibly rebalance the public accounts and stop irresponsibly spending the public money.

4. Conclusion

Some of the products that most contributed to the increase in Brazil’s participation in the world trade were the agricultural commodities. Some people claim that the agribusiness should be given more attention by the government, that there should be incentives of various kinds to farmers, for example, arguing that agro business is crucial for the country's trade balance. Others, on the other hand, defend the industrialization as the path to growth and economic and social development.

The industrialization process, which began in the mid-twentieth century and intensified at the end of the 50s decade with the arrival of more multinationals, changed the composition of demand, income sharing and labor structure (Tregenna 2008). The same industrialization provided not only a constant movement toward innovation and technological improvement, but also facilitated the advancement of the country’s welfare and improved the economic indicators such as unemployment and inflation (Bastos 2000).

The fact is, government and professional associations should work together to establish guidelines that facilitate the sustainability of business in the country, doesn’t matter if it is in the agro or industrial business. It is necessary that public policies focus on these segments, not only by encouraging the presence of such industries, but also by making domestic segments more competitive, offering more credit lines and by investing in R&D.

In political terms, corruption control and fiscal adjustment is inevitable to bring confidence to investors.

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