

## GLOBALIZATION and POLITICAL CRISES: WHAT is HAPPENING in BRAZILIAN ECONOMY?

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### **Abstract**

*The position of developing countries in world trade has been rehandled within the new economic and political system that emerged after the Second World War. The organizations such as the IMF, the World Bank and the International Trade Organization, formalised by developed countries, has tried to steer the world policy and the world economy with liberal economic policies and free trade policies. Developing countries have been given specific roles and these countries have been intended to be seen as a means of sustainable economic growth for developed economies. Due to the ineffective IMF programs implemented in these countries which have not fully achieved their economic stability, the gap between developed countries and developing countries has increased in favour of developed countries. Developing countries that are unable to complete their industrialization and have no financial stability have become fragile with the effect of globalization. The Brazilian economy is one of the economies most affected by these global crises. In this study, the solution proposals of the problems of the Brazilian economy in the process of globalization and economic crisis are discussed.*

**Keywords:** Globalization, Brazilian Economy, Economic Crisis

### **Introduction**

Brazil, having a Gross National Product of 2.050 trillion USD, has a population of 207 million and the eighth place in the world economy according to the data in 2017. The country, which has a significant share in world trade especially with its free trade policy, has a very important labour force potential, natural resource wealth, agricultural product abundance and a lively economic structure (Worldbank, 2018). The standard of welfare

has increased significantly thanks to the steady increase in national income since the 1960s. It is not possible to say that the country's income distribution is fair enough, though. The country has an ever-increasing foreign trade volume with agricultural production, weapons industry, mining and other natural resources, especially oil.

Instability arises due to the lack of capital mobility, sufficient financial depth and political stability in the Brazilian economy as a result of globalization. Extremely rapid economic growth, especially in the last decade, has been hampered by the lack of a sound economic policy. The national product, which was 895 billion dollars in 2005, reached 2.6 trillion dollars in 2011, but declined to 1.8 trillion dollars in 2015 due to political and economic instability. After this date, the recovery process was in progress and the national income was over 2 trillion dollars according to the data in 2017 (Worldbank, 2018).

The main reason for these sharp cyclical fluctuations in the Brazilian economy is their failure to counter the financial crises arising from the global system. From this point of view, besides the economic growth brought by globalization and the advantages of development based on foreign trade, there are also some disadvantages of having a fragile economy.

### **Brazilian Economy: Is the Situation the Same as 200 Years Ago?**

Examining the political and economical situation in Brazil, it is evident that structural problems are constantly repeated, similar to the period when Brazil gained independence from Portugal. The main reason for this is that a politically and economically permanent and fixed structure cannot be established. Further to that, paliative solutions create a greater political and economic shocks each time. The rapid interaction and open economy caused by globalization does not provide an opportunity for the recovery of the fragile system.

The Brazilian economy, exporting raw materials worldwide and having foreign trade surpluses, is unable to demonstrate the expected performance in creating added value and adapting new technologies to the economy. The necessity of importing the technology that is required for the discovery of dependency and economic basic production resources in the field of technology is an obstacle to the creation of sufficient added value. Although the economy has a high potential for producing industrial intermediate goods and final

goods, allocating more time to the traditional agricultural economy is seen as the biggest obstacle to sustainable development. Brazil, having an important position in the production of ground coffee, sugar cane, grains and other mineral substances, remains incapable of converting this advantageous situation to economic gain. That is why, it is not able to sell the products it has in the world trade with their real values and create added value. As a result, the country does not have the potential to obtain the real share it needs to get from world trade.

Brazil is falling behind other developing countries in terms of technology transfer and the production of new technologies within the country in order to sustain economic development. This reveals the unsteady political and economic situation of Brazil, whose economic potential exceeds that of other developing countries.

One of the main structural problems of the Brazilian economy is the lack of high-tech production. Although it has a large number of different resources, it does not have the chance to get sufficient share of these resources in world trade. The main reason for this is the economic development models introduced after the Second World War. Due to the theories of dependence and the role of the country in the global economy, this traditional structure cannot be disrupted. However, trade policies, tariffs and customs walls, and the lack of structural regulations for import and export are among the major problems (Cardoso, 2009). In addition, bureaucracy, official system, inability to abandon primitive production techniques, inadequacies in logistics are among other problems.

The Brazilian economy has not been able to eliminate the dependence on foreign trade. One of the main indicators of this is the share of foreign countries in the total economy. Countries such as China, USA, Argentina, Germany and the Netherlands have an important role in Brazil's foreign trade. A change in demand in these countries affects the Brazilian economy very rapidly and negatively. Diversification of foreign countries is required to reduce this dependence.

As can be seen in Table 1, the top ten economies of Brazil's main export partners in exports are China, United States, Argentina, Netherlands, Japan, Chile, Germany, India and Mexico. The share of these countries in foreign trade is also very high. The top ten countries with the highest transaction volume in the import of Brazil are China, United

States, Argentina, Germany, South Korea, Mexico, Italy, Japan, France and Chile. This shows us the necessity of diversifying Brazil's trade partners.

**Table 1: Trade Partnership in Exports and Imports**

Top 10 Export Countries		Top 10 Import Countries	
Country	Export U	Country	Import U
China	\$47,488,441	China	\$27,321,481
United States	\$27,147,721	United States	\$25,112,251
Argentina	\$17,618,811	Argentina	\$9,435,191
Netherlands	\$9,252,261	Germany	\$9,227,141
Japan	\$5,263,291	South Korea	\$5,239,961
Chile	\$5,031,361	Mexico	\$4,238,051
Germany	\$4,911,011	Italy	\$3,958,361
India	\$4,657,321	Japan	\$3,762,631
Mexico	\$4,514,101	France	\$3,726,931
Spain	\$3,840,181	Chile	\$3,452,611

<https://globaledge.msu.edu/countries/brazil/tradestats>

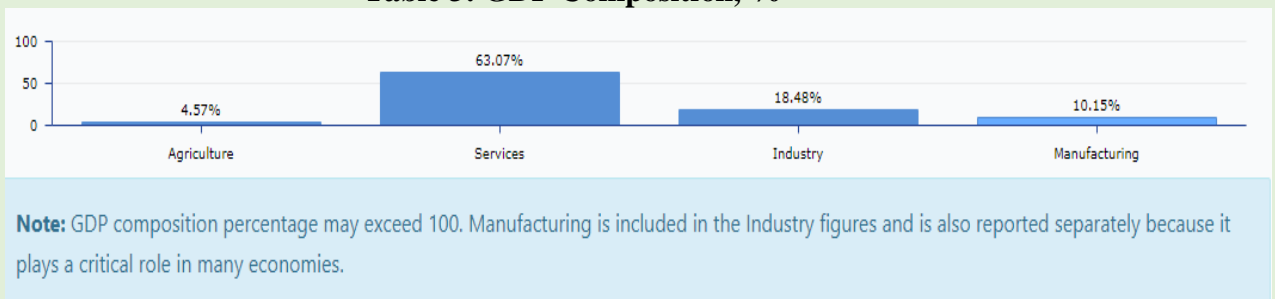
When examining the products that have the highest share in Brazil's foreign trade, it is seen that the raw material and energy resources in exports are at the front row. Imports are mostly industrial products with high added value. Given the world's energy and raw material needs, Brazil misses the opportunity to get a bigger share. On the other hand, with the development of the domestic industry, the possibility of purchasing less number of goods in imports will emerge. The Brazilian economy, having foreign trade surpluses, will have the opportunity to create more national investments and to create resources to eliminate the missing infrastructure of the country.

**Table 2: Export and Import Goods**

Top 10 Export Goods		Top 10 Import Goods	
HS Code	Export USD\$	HS Code	Import US\$
(12) Oil Seeds	\$26,008,459,597	(27) Oil & Mineral Fuels	\$21,551,084,000
(26) Ores	\$22,397,926,801	(85) Electrical Machinery	\$20,725,514,000
(27) Oil & Mineral Fuels	\$21,222,938,019	(84) Industrial Machinery	\$17,404,142,000
(87) Motor Vehicles & Parts	\$14,723,997,560	(87) Motor Vehicles & Parts	\$11,235,822,000
(02) Meat	\$13,953,384,309	(29) Organic Chemicals	\$8,436,445,000
(84) Industrial Machinery	\$13,848,540,412	(31) Fertilizers	\$7,327,555,000
(17) Sugar & Confectionery	\$11,566,378,243	(30) Pharmaceuticals	\$6,557,226,000
(72) Iron & Steel	\$10,761,291,460	(39) Plastics	\$6,533,384,000
(47) Wood Pulp	\$6,355,348,889	(90) Precision Instruments	\$4,858,624,000
(23) Animal Feeds	\$5,394,735,424	(38) Chemical Products	\$4,112,401,000

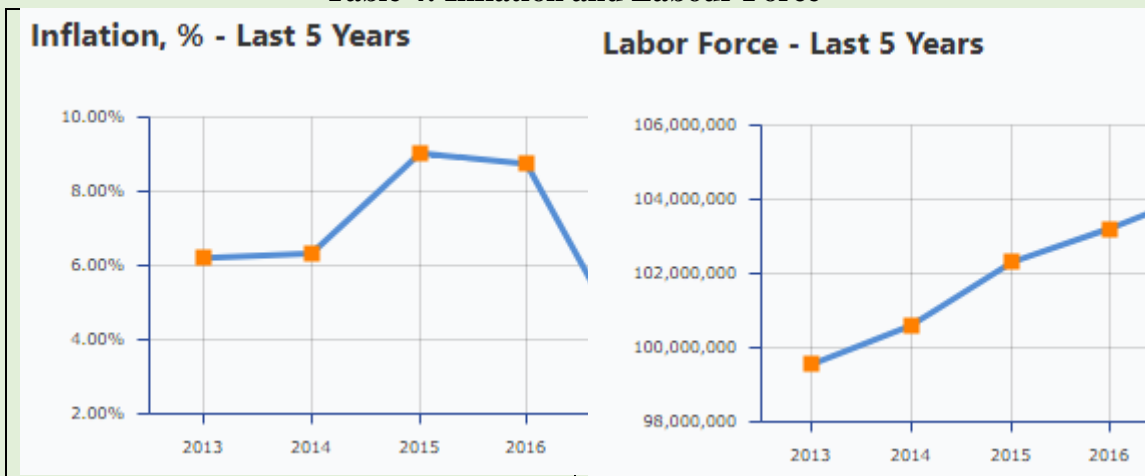
<https://globaledge.msu.edu/countries/brazil/tradestats>

**Table 3: GDP Composition, %**



<https://globaledge.msu.edu/countries/brazil/economy>

**Table 4: Inflation and Labour Force**



<https://globaledge.msu.edu/countries/brazil/economy>

## Conclusion

When the Brazilian economy is analysed in terms of real indicators, it has the potential to be at a better point than the current position. However, there are some reasons for this position in the economy. Some of these reasons are countercyclical causes and some are structural reasons. With globalization making the world a very small place, the circulation of goods and services and production factors has accelerated. However, capital movements are also quite rapid. The problems of Brazil, which has so much potential in the world economy but cannot reach the desired position, have to be addressed in this context. The first biggest problem is that Brazil needs stable policies as political and economic management. Secondly, the production structure needs to be strengthened to reduce the fluctuations caused by globalization. Thirdly, trade partners need to be diversified within the framework of free trade policy. Fourthly, goods with comparative advantage in international markets need to be produced in a way to create added value. In other words, the traditional mode of production needs to be abandoned. In order to stand out in the global competition, the main export sectors of the country should be supported. It should be ensured that a democratic constitution is made, income distribution justice is ensured, employment is increased, logistics sector is developed and service sector is modernized. Following these developments, the Brazilian economy will have the opportunity to have a lasting superiority in world trade as a strong economy dependent on real sector production.

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