

Globalization impact in brazil

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GLOBALIZATION IN BRAZIL
HOW HAS GLOBALIZATION AFFECTED THE ECONOMIC, POLITICAL AND SOCIAL CONDITIONS IN BRAZIL?
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Executive summary
This thesis investigates the concept of globalization and its effects on the economic, political and social development in Brazil. For many years Brazil suffered from economic instability, high inflation and high levels of income inequalities and poverty. New reforms and opening up of domestic markets has had positive effects on Brazil in terms of stabilizing the economy. Globalization is a growing phenomenon and its effects on the world and people have been enormous. Trade liberalization has led to increased foreign direct investment inflows and it has also increased Brazil's international trade. During the era of globalization and economic growth, Brazil has received more power within international organizations and has become an important addition to international politics. But, even if the trade liberalization had positive effects on Brazil during the 1990s, inequality and poverty levels did not decline. This was due to the lack of functioning social policies. Governmental changes in the 21st century led to social reforms and by introducing new policies poverty levels were reduced. Today Brazil is experiencing a growing middle class and a further reduction of inequality levels. For globalization to have a positive effect on Brazil it must be controlled and the working economic reforms must be introduced. This happened during the mid 1990s and since the beginning of the 21st century

Brazil has experienced the benefits of globalization.

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Abbreviations BRIC: EU: FDI: IMF: OECD: UN: UNCTAD: WIR: WTO: Brazil, Russia, India and China

European Union Foreign Direct Investment International Monetary Fund
Organization for Economic Co-operation and Development United Nations
United Nations Conference on Trade And Development World Investment
Report World Trade Organization

1. Introduction 1.1 Background

Globalization is a complex phenomenon that has had enormous effects on the world economy and its people. Today, one is used to have shirts produced in Bangladesh, the coffee originates from Brazil and the camera is imported from Japan. A few decades ago the word “globalization” barely existed, but today it is a widely used expression and the effects of globalization is discussed in a great number of economic articles and journals. At one extreme, globalization is seen as a force that delivers economic prosperity to people around the world. At the other, globalization is blamed for making rich people richer and the poor poorer. Globalization is referred to as a process of interaction and integration among people and companies, and the process of globalization have effected the environment in different countries, the culture, the people and the political systems within the economy. Globalization also has a major effect on economic development. Policy and technological developments of the past decades have stimulated international trade and investments to that extent that many believe that the world has entered a new phase in its economic development. The current wave of globalization has been driven by policies that have opened up economies around the world and by technological developments during the past decades (World Commission on the Social Dimension of Globalization, 2004). Even if globalization in many situations has been referred to as something positive, the word globalization is a

deeply controversial term. Proponents of globalisation argue that it allows poor countries to develop economically and socially. Opponents, on the other hand, argue that globalization has benefited multinational corporations in the Western world at the expense of small, local firms and common people (de Soysa and Vadlamannati 2011). According to Kiggundu, globalization offers developing countries new opportunities and challenges such as economic, political and social development, but it also gives these countries an opportunity to reduce poverty and increase wages, and thereby adding wealth to the economy (Kiggundu, 2002). There are several different ways to measure and define globalization, but the most used measurement methods are to divide the effects of globalization into one economic, one political and one social dimension and thereby evaluate the effects (Dreher, 2006).

Globalization and internationalization are two words frequently used today. Boundaries become smaller and world trade and investments abroad are increasing. The world has become familiar with terms such as "emerging markets" and "BRIC-countries". Globalization has indeed provided more opportunities for countries and their people. But, obviously countries are facing challenges in the globalization process. Globalization generally refers to an increasing interaction across national boundaries that affect many aspects of life: economic, social, cultural and political. It is a process driven by international trade and investment and aided by information technology. This process has effects on the environment as well as on political systems, and on economic development in societies around the world. This process has speeded up dramatically in the last two decades as technological advances make it easier for people to travel, communicate,

and do business internationally (de Soysa Vadlamannati, 2011). It is hard to say when the globalization process in Brazil started, but what one can say is that it definitely has changed Brazil, economically, politically and socially. Brazil is the largest economy in South America, and is because of its size offering one of the most promising markets in the world (Brazil Country Brief). Brazil is, together with India and China, ranked as one of the countries that will offer the highest predicted development in the next 25 years. During the past decade, Brazil was number two of the emerging economies in the world receiving high levels of foreign direct investment. The Brazilian economy has faced some substantial changes in the past five decades. During these decades the economy also changed from being a strong state-oriented economy to a more market driven economic model. In the 1990's and in the early 2000's, many market-orientated reforms within trade liberalization and privatization were made. In the beginning of the 1990's, the country faced economic problems due to high inflation and an unstable economy. This was why the Real Plan was introduced in 1994. The plan aimed to avoid many of the problems with inflation and what it brought in terms of economic instability, and it was based on fiscal adjustment (Gouvea, 2004). In the past decades, Brazil also has attracted a large amount of foreign direct investment (hereafter denoted as FDI). For many years FDI was restricted to certain sectors and were highly regulated. In the 1990's, Brazil opened its doors to FDI inflow and the economy experienced an enormous growth in FDI (Baer and Rangel, 2001). When considering overall subjects for this thesis, the authors wanted to go in depth and look at the development of emerging markets as these are becoming more and

more important in the global economy. During the first years of the study program, the main focus was on Asia and the development of important economies such as China and India. Therefore, we wanted to focus on a different, but just as important region. South America, and in particular Brazil has shown to be an important player in the international economy, which makes it an interesting market to investigate.

1.2 Problem specification

The aim of this thesis is to investigate the effects globalization has had on Brazil in terms of economic, political and social development. This is a major task and it looks both at how globalization has affected the Brazilian economy and the role of Brazil in the world economy on one side, and the people of Brazil on the other. To do this one will have to look at many different aspects of the country and its role within the world. The specific and interesting episodes from the country's economic and political history to what role Brazil plays in the world economy, and also the importance of the Brazilian market in the world is worth noticing. What also falls under this theme is FDI in Brazil, since globalization often starts with the opening up of domestic markets to the global economy. How is the inflow of FDI in Brazil and how has it developed during the time of liberalization? By looking into the wave of FDI-inflow in Brazil during the past decades, it will be investigated how the economic dimension of globalization has affected the political and the social structure in the Brazilian economy. It is also interesting to look at how higher FDI-inflows in Brazil has affected the poverty and the income inequalities, i.e. if the economic dimension of globalization has helped Brazil to develop socially. Our research question is as follows: "By investigating the previous and current economical, political

and social conditions in Brazil, we want to find out how it has developed during the globalization, as well as what globalization has offered.”\n\n1.3 Delimitations Restrictions to this paper are necessary due to the scope of the paper and the limit of time. As the topic is very broad it has been necessary to narrow it down to a specific period of time. The thesis aims to investigate how the recent globalization process in Brazil has affected the economic, political and social structure in the country. At first a definition of globalization and how globalization has affected Brazil is necessary to set the outline of the thesis. It is also necessary with an overall background of Brazil in terms of historical, economical, political and social development. To be able to make a significant analysis of the globalization process 8\n\nin Brazil the time limit is important. Hence, the paper aims to take a look at the recent globalization process in Brazil, starting in the beginning of the 1990’s until today. The thesis aims to bring up the problems Brazil was facing in the beginning of the 1990’s, the introduction of the Real Plan, the political development during this period and the social structures in Brazil. In addition to this, the authors will make connections between the economic development and social development in the country, to see if there is a relationship between higher FDI-rates, which derived from a liberalization of the Brazilian market, and social conditions such as poverty and income distribution. Hence, the thesis aims to link economical, political and social development in Brazil and cannot be used for generalization to other countries. The limitation regarding the time period is necessary in this paper, but it might have dismissed different interesting topics that could have added value to our research.\n\n1.4 Methodology approach\n\nThis thesis

aims to explain how globalization has affected the economic, political and social structure in Brazil. The first objective is to explain and define important and commonly used terms such as economic, political and social globalization. Since a main part of the thesis is based on the economic history and development of Brazil, it is significant to define important terms. The thesis approaches the research question primarily with an explanatory approach. An explanatory study is best suited because the paper aims to understand how the globalization has affected the economical, political and social development in Brazil. The goal of explanatory research is to go beyond the traditional descriptive designs of the positivist approach to provide meaning as well as description. The purpose of explanatory research is broader than descriptive research; it is conducted to build theories and predict events. Objectives for explanatory research include explaining why some phenomenon occurred as well as interpreting a cause-and-effect relationship between two or more variables (McNabb, 2008:100). In this paper there will be conducted an analysis of the effect the globalization process has had on Brazil and how the country has developed during the past two decades. The research design has furthermore been of quantitative nature, using already existing research papers from organizations such as the United Nations (UN), the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF). In the collection of quantitative data such as FDI-rates, poverty rates and income distribution, The United Nations Conference on Trade and Development (UNCTAD) and the IMF websites have been helpful sources. The authors aim to use secondary data as the main source of information.

For this type of research approach the authors believe that using secondary data is sufficient for answering our research question. In this thesis the aim is to use existing theories and data to analyze. Most of the data has been collected through research and an extensive use of journal articles and reports from reliable sources. Hence, the authors are not aiming to explore new theories.

1.5 Literature review and previous research

The literature this thesis is based on has been gathered from various sources, which are considered recognized and reliable. The authors have used various literatures within the subject of international business. Specific literature about foreign direct investment and globalization has been used to get a broad understanding concerning the chosen subject. The authors have been aiming at finding as recent literature as possible to get reliable information. Inspiration from respected newspapers such as The Financial Times and The Economist has proven to be helpful when exploring the subject of globalization in Brazil. Within the subject of globalization, there seem to exist different literature and well-known and respected authors. One of these is Jagdish Baghwati, who is a professor of economics at Columbia University and known for his research within international trade. His book "In Defense of Globalization" (2004) has proven helpful in the research to get a better understanding of why globalization is positive for the world. Another important person within the liberal approach is Axel Dreher, a German economist known for the KOF Index of Globalization. This index measures mainly three dimensions of globalization; the economic, political and social dimension, which has been used as a measurement of globalization in this thesis. The literature is mainly specialist literature about globalization, both

pro and con. For the background part, literature about Brazilian history has been gathered from recognized sources such as Science Direct and Business Source Premier, which are recommended by the CBS library. The authors have also found books on Brazilian history and the development of the Brazilian economy to be reliable sources as they have been written by respected professors at well-known universities.

When analyzing income inequality and trade liberalization, a report written by Bergh and Nilsson has been very helpful. According to this article, there is a positive link between income inequality and trade liberalization, but only for certain types of reforms. These are trade liberalization, deregulation of product and labor markets and economic globalization such as inflow and outflow of FDI.

1.6 Structure This thesis consists of ten chapters. After a brief introduction where the problem is discussed and specified, the methodology approach and the delimitations are presented. Chapter two is mainly a globalization chapter where a definition of globalization is introduced. Since globalization can be measured in many different ways, a presentation of the measurements is made in section 2.2 to 2.5. In chapter three, the social development of Brazil will be assessed. In chapter four, the economic and political history of Brazil will be presented. Here, the authors will review the history of Brazils economic and political development with focus on the different plans such as The Real Plan and The Cruzado Plan, but also development in terms of economic growth such as GDP. In chapter five, the authors will evaluate Brazil as a BRIC-country, trying to get a better understanding of why Brazil has had such a strong growth the last decades and what this means to Brazil. In chapters 6 through 8 an analysis of how

Brazil has been affected by globalization in terms of economic, political and social aspects will be conducted, and a discussion on this will follow in chapter 9. In the last chapter there will be a conclusion on the findings.

Globalization

2.1 Definition of globalization

An extensive amount of research has been done within the field of describing globalization.

According to a report from the OECD the term “globalization” refers to the dynamic and multidimensional process of economic integration within a country and can be explained by the fact that national resources are becoming more and more internationally mobile. Furthermore, globalization has for a long time been used to describe the increasing internationalization of financial markets and the different markets of goods and services. There are mainly three forces that are contributing to the process of globalization and these are the liberalization of capital movements, the opening of global markets to trade and investment, and the increasing use of information and communication technologies. Governments and international organizations have also played a very important role in the globalization of the world economy. The WTO has for example helped with making global markets more open by reducing trade barriers such as tariffs through trade negotiations, while the IMF has worked to ensure a smooth international monetary system. Also the OECD has played an important role by liberalizing capital movements. The globalization in terms of trade in goods and services is opening up new and important markets in the world. In terms of financial markets, the increasing trade has triggered a growth in investments abroad and movements in capital over seas (OECD Handbook on Economic Globalization Indicators, 2005). As mentioned before, there are

many pros and cons to globalization. Authors such as Jagdish Bhagwati and Martin Wolf argue that globalization provides economic, political and social benefits for the people in the world. Free markets denote voluntary exchange and the allocation of goods according to supply and demand, where success and failure in the market is based on effort and talents. The ones that are skeptic to globalization fear that unfairness between people such as income inequalities and higher poverty rates will rise when the globalization process heats up. According to these people, globalization will hinder economic and social development in developing countries because it takes away the independence of governments to act in the people's interests (de Soysa and Vadlamannati, 2011). It seems appropriate to take a brief look at globalization versus internationalization. Although it seems like two quite similar concepts, there are important differences between globalization and internationalization. It can be said internationalization is a phenomenon that is older than globalization. It is important to note how globalization is different from internationalization. According to Daly, internationalization refers to the increasing importance of international trade, international relations, treaties, alliances, etc. Inter-national means between or among nations. The nation remains the basic unit, even as relations among nations become increasingly necessary and important (Daly, 1999). According to Petrella, "the internationalization of economy and society refers to the ensemble of flows of exchanges of raw materials, semi-finished and finished products and services, money, ideas and people between two or more nation-states". The most visible instruments that are used to measure and monitor the nature, scope and direction of internationalization is

and population movement statistics. In modern capitalism, internationalization took shape through the conquest of colonies and the rise of mercantilism. George Modelski used the term “globalization” in 1972 to refer explicitly to the European-lead expansion to gain control over the communities in the world and integrate these into one global trading system. The pattern and degree of internationalization has changes over the centuries as old powers have declined and new ones emerged with different interests and strategies (Petrella, 1996:63). Globalization is as mentioned a more recent phenomenon. Therefore, the forms and processes occurring are more difficult to capture in a single sentence. In short, globalization refers to the global economic integration of many formerly national economies into one global economy mainly by free trade and free capital mobility (Daly, 1999). Petrella lists some of the principal characteristics of globalization. He mentions that there is a globalization of financial markets and there is a transformation of consumption patterns into cultural products with worldwide consumer markets. There is globalization of financial markets and there is a diminished role of national governments in designing the rules for global governance (Petrella, 1996:64). The one factor that has changed more than others is about the effect of globalization. For example, the production of wealth in countries such as Germany, France, Japan or Costa Rica is no longer dependent upon the performance of their “local” firms in local technology, capital and labour markets, but instead on those firms which are increasingly part of global networks of financial and industrial corporations. They respond to strategic interests that are not bound to their own country’s national needs and they are even more dependent on technology designed,

produced and transformed everywhere in the world, on capital made available at the global and world level, which is confirmed by the fast growing globalization of financial and capital markets. They are also increasingly dependent on highly skilled labour, not necessarily trained in their own country (Petrella, 1996:68). One can say that internationalization is a predecessor to globalization. Internationalization seems like a Western phenomenon, the Western states were trading only with each other at some point and now the whole world is trading with each other. Globalization reaches wider than internationalization, and it also grasps a larger part of the world. More countries are involved in the global process it does not only include the more developed countries. Today globalization is hard to avoid and it affects people around the world on a daily basis.

According to economists David Dollar and Aart Kray, globalization has since 1980 contributed to a reduction in poverty as well as a reduction in global income inequality (Dollar and Kray, 2001). However, studies have shown that a number of people in different countries hold the view that the benefits and burdens of "the economic developments of the last few years" have not been shared fairly. In developed countries, those who have this view of unfairness are more likely to say that globalization is growing too quickly- especially in Germany, France, South Korea, Japan and Italy. In some developing countries, in contrast, those who perceive such unfairness are more likely to say that globalizations is proceeding too slowly. These countries include Turkey, Indonesia, The Philippines, Kenya, Brazil, Mexico and the Central America countries. When working on raising living standards throughout the world it is important to create a climate that enables

countries to realize maximum benefits from globalization (BBC World Service Poll). According to Wolf, liberal globalization is a movement in the direction of greater integration, as both natural and man made barriers to international economic exchange continue to fall. The increased impact of economic changes in one part of the world on what happens in the others is a natural and necessary consequence. In the question of the effect of globalization one has to consider what has happened within developing countries and high-income countries separately. Critics say that globalization only benefits the rich countries. An important term is capitalism and the relationship between capitalism, inequality and globalization. Does capitalism benefit all and does it lead to less inequality within societies?

When looking briefly at this the focus will be on Latin America as a region.

Figure 1. Liberal capitalism, inequality and welfare states.

Source: Schneider and Soskice, 2009

Capitalism is a social formation in which markets and commodity production are pervasive, including capital markets and labour markets. Capitalism is considered to be the most dynamic economic system in economic history. Its driving logic involves the expansion and diversification of multiple markets (Hodgson, 2003). Liberal capitalism has an impact on both the market distribution of income through labour markets, and on redistribution and the welfare state through the preferences of middle class voters, and business on the political system.

With capitalism comes a greater demand for skilled labour, which leads to a higher educated middle class. More middle class investment in the education system leads to inequality of education outcomes. This increase in education has had a major impact on labour. The focus is now on general skills, which

rewards general education. However, this penalizes those with low educational competences, which in turn will lead to a more inegalitarian income distribution. Liberal capitalism leads to weaker unions since the society becomes more individualistic and no one wants to share their wealth. The median voter from the middle-class does not want a welfare state because recipients of welfare state benefits are the poor. According to Schneider and Soskice, capitalism leads to demand for general skilled labour, which leads to increased inequalities and a minimal welfare state.

Keynes draws attention to the disadvantages for demand-led economic development as a result of great inequality in distribution. Too wide a distribution gap results in the rich increasingly saving up their income instead of spending it for investment purposes, while the poor lack sufficient income and thus also purchasing power. This will lead to a decline in the general demand for investment and consumer goods and thus growth will be limited (Eissel, 2008). Research has shown that capitalism does not benefit all. Inequality has increased among what the World Bank calls the “new globalizers”, its twenty-four countries with an aggregate population of close to three billion people (Wolf, 2004:167). According to the World Bank, the “new globalizers” have approximately doubled their ratio of trade to GDP. These countries include India and China. On the other hand, about 2 billion people live in developing countries that are trading less today than they did twenty years ago (Soubotina, 2004:84). It has been argued that trade helps growth and that the poor tend to share in equal proportions with the rich in any rise in subsequent incomes. It has also been argued on the contrary, that inequality rises initially with growth, before declining once again. The

evidence suggests modest widening in inequality in growing economies (Wolf, 2004:167,168). According to Leiva, three decades of neoliberal labour policies in Latin America have failed to deliver the promised results. Neoliberals sees the opening of the economy to international competition, deregulated labour markets and “labour flexibility” as a recipe for eliminating unemployment, poverty and inequality. This is seen differently in Latin America. The expansion of capital enabled by labour market flexibility is seen as the cause, not the solution to rising poverty, inequality and unemployment in the Latin American region (Leiva, 2006). Latin America is a continent with relatively high wages and a history of protection aimed at distributing income from the agricultural sector to the industrial working class. One would in these cases expect liberalization to create greater inequality (Wolf, 2004:168). Looking at Brazil in relation to capitalism it is clear that with so many poor people and a high level of inequality, capitalism will not benefit the people that are considered poor. The people that are not able to receive an education still rely on the welfare state. In the developing countries it take longer for the poor people to see how they can benefit from capitalism and globalization.

Globalization is reshaping how we have traditionally gone about studying the social world and human culture. It is evident that a field of globalization studies now is emerging across the disciplines. The globalization studies arose around sets of phenomena that drew researchers attention from the 1970s onwards. One of them was the emergence of a globalized economy that involved new systems of production, finance and consumption and worldwide economic integration. A second one was new transnational or global cultural patterns, practices and

flows, as well as the idea of “global cultures”. The third was global political processes, the rise of new transnational institutions and the spread of global governance and authority structures. A fourth one was the multidirectional movement of people around the world that involved new patterns of transnational migration, identities and communities. Finally, there is the phenomenon of new social hierarchies, forms of inequality and relations of domination around the world and in the global system as a whole (Robinson, 2007). The scholarly literature on the phenomena has spread, as have specific studies on the impact of globalization. The increasing literature on globalization reflects the enormity of the task of researching and theorizing the breadth, depth and pace of changes underway in human society in the early twenty-first century (Robinson, 2007). Since this paper is an analysis of how globalization has affected the economic, political and social conditions in Brazil, it is appropriate to review the perspectives and effects of globalization. According to McGrew there are four modes of analyzing globalization. These are defensive globalism, critical globalism, post-globalism and glocalism. In the view of defensive globalism, globalization is an existing and enduring condition that is changing societies around the world. The view can be divided into liberal and transformationalist perspectives. Globalization is generally seen, in the liberal view, as a benign process that has continuities with the past and historical changes. It is primarily economic in nature and leads to increasing integration through the market and technology. Liberal theorists Martin Wolf and Jagdish Bhagwati emphasize how globalization is re-structuring the world economy. As trade has become more open and there is now a transnationalization of

production, this creates a new world division of labour. This facilitates the rise of new economic powers such as China, India and Brazil. The liberals show awareness to the fact that there are problems associated with globalization, and they adopt the view that it can be made to function better (McGrew, 2007).

The transformationalist position is that globalization is unique in history and that it involves much more than economic changes. There are benefits to globalization, but there are also problems such as great inequality in and across societies (McGrew, 2007). Castells argues that economic globalization is associated with a divided world, as the gap between the rich and poor widens, whilst much of humanity remains on the margins or is excluded from its benefits (Castells, 2000). Critical globalism takes on a critical view of globalization because it is associated with the extension and transnationalization of power. Theorists say that a new globalized social formation is in the making, which, according to critical globalist theory, requires new ways of thinking about and acting in the world. Post-globalism says that globalization never occurred or that it is in decline or disappearing. Due to the fact that borders of nation-states are being reasserted, as is the case with the border of United States and Mexico, and nationalism is being revived, this can be seen as involving deglobalization. This view is under the impression that the whole idea of globalization has been "oversold" as a description of social reality, an explanation of social change and as an ideology of social progress.

Glocalism is the final mode of analysis. Holton argues that there is an interpenetration between the local and the global that has to be observed. He says that the global and the national or local may under certain

circumstances depend on each other (Holton, 2005). According to Brenner, global and local cannot simply be dissolved into one another due to the fact that they retain their distinctive forms (Brenner, 2004). Hence, the explanation of one needs an account of the other (McGrew, 2007). It is obvious from these modes of analysis that different theorists have different views on the impact of globalization and what its implications are.

2.2 Measuring globalization

There are many different ways to measure globalization and the effects of it. A proxy often used for globalization is trade openness, which can be measured as total trade of GDP, FDI and portfolio investments. However, trade openness can be influenced by location of a country and access to the sea, which is important to take into consideration. Many efforts have been made to measure and quantify globalization, but the most common ways of measuring it is to split globalization into economic, political and social dimensions. According to the KOF Index, developed by Axel Dreher, these three measures are used. The advantage of using Dreher's three dimensions for globalization is that it is the most comprehensive measure, not only taking the trade openness into consideration but also the political and social structure. By looking at Axel Dreher's index of globalization, we have decided to use the following as a measurement for globalization and the effects of it (see appendix 1). Economic globalization: This dimension consists of two dimensions, actual capital inflows that measure the extent to which a country is exposed to foreign capital and trade with the world including income payments to foreign nationals. The second part of the economic globalization consists of restrictions of capital and trade flows, which work as

obstacles to market access. Political globalization: Measures the degree of a country's political integration. For example it measures diplomatic relations with the rest of the world and international relations. Social globalization: Indicators on social globalization can be for example poverty, unemployment and income distribution. Taking Dreher's globalization index into consideration, we have decided to look at how the economic dimension of globalization has affected the political and social dimension. As proxy for economic globalization, we will look at FDI-inflows in Brazil from 1990 until today. After this, a review of the political landscape in Brazil will be made, telling us a little bit about what happened in Brazil during these years.

Furthermore, as proxies for social globalization we will use poverty rates and income distribution, as these two measurements can say a lot about how the people's welfare in Brazil has developed during the recent era of globalization.

2.3 The economic dimension of globalization

FDI remains a key element in the rapidly developing globalization process and it provides means for creating direct, stable and long-lasting links between economies. FDI can also serve as an important vehicle for local enterprise development, and it may also help improve the competitive position in the receiving economy. FDI encourages the transfer of technology and know-how between countries, and it provides an opportunity for the host economy to promote its products more widely in international markets. Additionally, FDI has a positive effect on the development of international trade (OECD Handbook on Economic Globalization Indicators, 2005). FDI plays an important and growing role in international business since it can provide a firm with new markets and marketing channels, access to new technology,

products, skills and financing, as well as cheaper production facilities. For a host country or foreign firm that receives the investment, it can provide a source of new technologies, processes, capital products and management skills, which in turn can provide a strong impetus to economic development (Graham and Spaulding, 2004). The United Nations Conference on Trade and Development (UNCTAD) has defined FDI as “an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor”. In cases of FDI, the investor’s purpose is to gain an effective voice in the management of the enterprise. The foreign entity or group of associated entities that makes the investment is termed the “direct investor”. Another important term is “direct investment enterprise”, which refers to the unincorporated or incorporated enterprise—a branch or subsidiary, respectively, in which direct investment is made. Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of the enterprise. The Balance of Payments Manual, which has been developed by the IMF, suggests a threshold of 10 percent of equity to ownership to qualify an investor as a foreign direct investor. This is the level of participation at or above which the direct investor is normally considered as having an effective say in the management of the enterprise involved. However, countries differ in the threshold value for foreign equity ownership, which is seen as evidence of a direct investment relationship. As mentioned it is suggested to be at 10 percent for FDI, for data on the operation of Transnational Corporations (TNC) it involves chosen ranges of between 10 and 50 percent. Countries that do not specify a threshold point rely entirely on other evidence. This

included the companies' own assessments as to whether the investing company has an effective voice in the foreign firm in which it has an equity stake. The quantitative impact of differences in the threshold value used is relatively small, owing to the large proportion of FDI, which is directed to the majority-owned foreign affiliates. It is necessary to define which capital flows between the enterprise and entities in other economies should be classified as FDI, once a direct investment enterprise has been identified. Only capital that is provided by the direct investor either directly or through other enterprises related to the investor should be classified as FDI, since the main feature of FDI is taken to be the lasting interest of a direct investor in an enterprise. Equity capital, the provision of long-term and short-term intra-company loans (between parent and affiliate enterprises) and the reinvestment of earnings are the forms of investment by the direct investor, which are classified as FDI. To get a deeper understanding for FDI one needs to understand the difference between FDI and other types of investments. Direct investors have different investment motives than investors in portfolio investments. Investors that invest in FDI intend to have a long-term relationship with the foreign company to enable them to have a significant influence on their management. Portfolio investors or other investors may also have a long-term outlook, but they have no intention of establishing a long-term relationship with the management of the foreign company in question. Portfolio investors either invest a relatively small amount in the voting shares of the foreign company or acquire other types of claims in the foreign company (UNCTAD, 2009). In the past decade, FDI has come to play a major role in the internationalization of business. New information

technology systems and decline in global communication costs have made management of foreign investments far easier than in the past. Proponents of foreign investment emphasize that the exchange of investment flows benefits both the home and host country (Graham and Spaulding, 2004).

2.4 The political dimension of globalization The political dimension of globalization is all about the political forces that shape the waves of globalization in a country. Political decisions such as openness to trade, income distribution and membership in international organizations are all things that might affect the way globalization hits a country and its people. According to Acemoglu and Yared, openness to globalization is the same as openness to trade, and how open a country chooses to be to foreign investments is mainly a decision that the government takes. This means that changes in the political atmosphere can change the whole process of globalization for a country. They also state that countries that are experiencing greater militarization and those countries witnessing greater militarization among their trading partners have seen smaller increases in trade over the past 20 years. This means that political changes and a strong military could be a reason for a smaller increase and exposure to the globalization. Political integration is a dimension of the globalization process that binds states together through bilateral contact and as members of international organizations. A higher participation from one country in global politics, closer the political ties between governments and lead to greater cooperation. The political integration within a country is definitely a reason for the welfare of the people of the state (Acemoglu and Yared, 2010). The political dimension of globalization has been discussed in the

globalization literature ever since globalization was “discovered”. The emphasis has been on the decline of the nationstate under the impact of global forces. When globalization increases, boundaries are becoming smaller and borders are erased. For some, the process of globalization has opened up new possibilities while globalization for others has lead to a loss of independence. One of the most common forms of political globalization is the worldwide spread of democracy. Democratic government exists in some form in most parts of the world and where it does not, as for example in China, there is a considerable demand for it by democratic movements. Since the collapse of the Soviet Union and the end of the communist regimes in Europe after 1991, democracy has become the universally acceptable form of government (Delanty and Rumford, 2007). Taking Dreher’s measurements of globalization into consideration, political globalization can be measured as a degree of a country’s political integration. To analyze the impact of it, one can analyze the political forces that have affected the growth in the country in question. Political globalization can also be measured by diplomatic relations with the rest of the world and international relations. Hence, a good way of assessing this way of globalization would be to look at a country’s integration with the rest of the world as for example membership in international organizations, but also to look at what forces that has been behind a country’s decision to open up its markets to trade (Dreher, 2006). According to the WTO Trade Policy Review, globalization is making all nations increasingly independent, which means that the world needs better global rules, policies and institutions that ensure that globalization does not lead to larger inequalities around the world. People

experience both opportunities and problems with an increasingly interconnected world, and the importance of politics and stable institutions is increasing. Policies within nations continue to be a key factor in determining whether or not countries and people benefit from globalization. According to the report, globalization leads to economic adjustment in all countries, both industrialized and developing. New economic opportunities emerge, but they may demand new skills and may also appear in new locations. Relocation of production between countries can destroy jobs in one place and create employment in others. Whole regions where production is concentrated in declining sectors suffer, while other sectors benefit from new opportunities. The whole role of the political dimension of globalization is that governments need to manage these changes in coordination with key actors to support adjustment and new opportunities and to protect citizens from insecurity. The challenges are especially important in many of the developing countries, where unstable institutions and infrastructure are key problems. The basis for good governance is a well-functioning democratic political system that ensures representative and honest governments that are responsive to the needs of the people, which means more than just holding of regular and free elections. It also involves respect for the human rights of the people, and involves basic civil rights such as freedom of expression. Financial liberalization exposes countries to greater risks of economic fluctuations, and can be especially devastating when a financial crisis occurs. This risk requires a strengthening of the role of the government in providing social protection for the people. At the same time as globalization create new jobs it can also relocate jobs, which mean that some

people get new jobs while other people lose theirs. This effect on employment emphasizes the need for stronger people that can only contribute and benefit from globalization if they are endowed with knowledge skills and values and with the capabilities and rights needed to pursue their basic needs. They need employment and incomes, and a healthy environment. These are the essential conditions that empower them to lead a self-determined, decent life, and to participate fully as citizens in their local, national and global communities. These goals, which are at the heart of the Millennium Declaration¹, can only be reached if national governments ensure a good education, basic infrastructure and the environment needed to create the institutional framework for it (World Commission on the Social Dimension of Globalization, 2004).

2.5 The social dimensions of globalization One can say that there are people that benefit from globalization while others do not. Globalization has by critics been called a global apartheid, with increasing inequalities and huge contrasts between those who benefit from it and those who do not. As an example of this, one can take Bill Gates, who earned 120 million USD per day in 1999 while 1.3 billion people still live on less than one USD per day. Another example is the industrial countries,

¹ The Millennium Declaration was adopted in 2000 by all 189 member states of the UN General Assembly. The Declaration sets out within a single framework the key challenges facing humanity at the threshold of the new millennium, outlines a response to these challenges, and establishes concrete measures for judging performance through a set of inter-related commitments, goals and targets on development, governance, peace, security and human rights.

(<http://www.undg.org/index.cfm?P=70>)\n\n23\n\nwhich have 88 percent of all Internet users while 2 billion people do not even have access to electricity. At the same time, it is important to remember that globalization provides opportunities for human development (The Social Dimensions of Globalization, 2000). The social dimension of globalization refers to the impact globalization has on the life of the people in the country. Concerns are often raised about the impact globalization has on employment, working conditions, income and social protection. The social dimension of globalization also includes security, culture and identity. These will however, not be assessed as measurements in this paper (International Labour Organization). There are no doubts that globalization brings potential for development and wealth creation. But there are many different views and perceptions among people as people are concerned about its economic and social impact. Some argue that the present model of globalization has created problems such as unemployment, inequality and poverty, while others argue that globalization helps to reduce these issues. These problems predated globalization of course, but it is clear that for globalization to be politically and economically sustainable, it must contribute to their reduction. Hence, the goal of globalization is what meets the needs of all people (International Labour Organization). While some people benefits from the waves of globalization, others suffer from it. Concerns about increasing income inequalities in the world have become more and more widespread over the past 20 years. Rising income inequality does not generate concern only in the high-income countries, but also in emerging markets where fast growth has led to concerns about growing income differences. To be able to

make an analysis of income distribution, inequalities and poverty, it is necessary to distinguish between these terms since they are often confused. According to Duncan, there is no doubt that between the richest and the poorest countries the gap in average incomes has been growing for the last decades. But, one must also consider that many of the poorest countries some decades ago, does not count as one of the poorest countries today. It is also important, according to him, that global welfare should be measured in terms of people, not countries. China and India together, for example, account for close to half of the world's population. Both countries have been increasing the per capita GDP very quickly in recent years, much faster than the high-income countries. Within developing countries, research has not been able to find any systematic relationship between economic growth and changes in income inequality. Within globalization and inequality, it is interesting to look at what role globalization played in 24\n\nchanges in income inequality. Most research on this issue has been concentrated in recent years on the changes in income inequality in the high-income countries. The focus has been on whether the widening wage gap in the US or the increasing unemployment in the EU is due to increased imports of labour-intensive goods from developing countries (Duncan, 2000). Poverty, on the other hand, as a public concern is now widely considered to be a multidimensional problem, whether it is at the global, national or community level. According to Lister, "how we define poverty is critical to political, policy and academic debates about the concept" (Lister, 2004:12). Three alternative conceptions of poverty have evolved as a basis for international and comparative work since the 1880s. The ideas of subsistence, basic

needs and relative deprivation is what they principally depend on. These ideas have influenced scientific practice as well as international and national policies for over 100 years (Chambers, 2006). The organization distinguishes between “absolute” and “overall” poverty. Absolute poverty has been defined as “a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health shelter, education and information. It depends not only on income but also on access to services.” Overall poverty is defined as “lack of income and productive resources to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments and social discrimination and exclusion. It is also characterized by lack of participation in decision-making and in civil social and cultural life.” Overall poverty occurs in all countries, and can be recognized as for example loss of lives as a result of economic recession, sudden poverty as a result of a war, poverty of lowwage workers and humans that fall outside of family support systems, social institutions and safety nets (Gordon, 2005). The UN agreed upon this definition in 1995, however, in 1998, the organization introduced a new definition that does not distinguish the different levels of poverty. The UN now has the following definition of poverty “Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and cloth a family, not having a school or clinic to go to, not having the land on which to grow ones food or a job to earn ones living, not having access to

credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation" (Gordon, 2005). As mentioned above, poverty can be divided into absolute and relative poverty. But, it can also be divided into new and old poverty. Old poverty is when people have a lack of food and basic services as medicine and education. New poverty is drug addiction, violence at home, family break down and environmental degradation. According to The Economist, the problems of new poverty are more complex than the problems of old poverty because they often occur in big, fast growing cities particularly in developing countries (The Economist). Poverty is a phenomenon that has to be understood as a painful reality experienced by millions of human beings and as a construction of competing conceptualizations, definitions and measures (Lister, 2004:36). What we see from the definitions is that people are in poverty when they are deprived of income and other resources needed to obtain the conditions of life that enable them to play the roles and participate in the relationships and customs of their society (Townsend, 2006). Income inequality is usually measured by the Gini coefficient; one of the most commonly used proxies of economic inequality. For a completely equal income distribution in which the whole population has the same income, the Gini coefficient will be 0, while a value of 1 indicates that all incomes in a country are concentrated to one single person (The World Bank).

3. Social development in Brazil 3.1 Overview

According to Maluf and Burlundy, Brazil can be classified as a "large middle income country". The condition of being a "large country" is an

important differentiating factor with implications in terms of socioeconomic patterns, international relations and institutional capacities. A country is usually considered large when it possesses a high population; from the economic viewpoint this factor is expressed in the size of the domestic market, which increases the possibility of diversification in the productive base. In addition to population, a second variable to consider is the country's geographic scale, a feature that is receiving increasing attention not only because of issues related to spatial distribution of people and infrastructure, but also the implications in terms of the availability of natural resources, regional diversity and the need for decentralized strategies, among other questions. Here, the classification "middle income" differentiates economically those countries grouped under the euphemism of "developing countries", where the income level clearly shows an intermediary condition between the developed countries and the other nations making up the periphery of the global economic system. It may be presumed that large middle-income countries possess a distinct institutional capacity across the various areas of public action (Maluf and Burlundy, 2007). Generally, the evolution of poverty, especially in Latin America, depends on three elements: the level of inequality, the variation in this level and the economy's rate of growth. Even if the country displays a more pronounced economic dynamism, which is measured by the GDP growth rate, the conversion of the latter into greater social equity depends on the existing level of inequality and the adoption of measures to reduce it. In Brazil, the persistence of absolute poverty is largely the result of the well-known inequality in the distribution of income. Poverty levels are more

sensitive to alterations in levels of inequality than the variations in economic growth (Maluf and Burlundy, 2007). A term that describes the social conditions in Brazil in quite a way is inequality. When looking at the social development of the country it is important to understand why Brazil has become such an unequal society even though it is such a large economy. To understand the current gap between the rich and poor in Brazil, one has to look at the socio-historical factors. According to a report by the World Bank written in the late 80s, Brazil has one of the most unequal distributions of national income in the world. Glaring disparities in the living standards, health status and educational attainment of different segments of its population have persisted despite several decades of remarkable economic growth (Bruns and McGreevey, 1988). This has not changed. According to Beghin, Brazil is still one of the most unequal nations in the world, although it is one of the wealthiest (Beghin, 2008). It has high levels of social spending compared to other developing countries, measured as a share of GNP and of total public spending (Hunter and Sugiyama, 2009). This year, Brazil was ranked as the eighth largest economy in the world, surpassing Italy (DR, 2011). Despite the size of the economy, the income distribution is unequal to such an extent that it can be compared to some of the poorest African countries such as Sierra Leone, Lesotho and Namibia (Beghin, 2008). In Brazil, the richest one percent of the population - less than 2 million people - have 13 percent of all household income. This percentage is similar to that of the poorest 50 percent, about 80 million Brazilians. This inequality results in poverty levels that are inconsistent with an economy the size of that of Brazil. Also, 30,3 percent of the population, 54 million people, are

considered poor, and within this group, 20 million people, 11,5 percent of the population, are ranked as extremely poor (Beghin, 2008). Brazil's high incidence of poverty, low educational achievement, and middling health indicators explain why it ranked 73th globally in overall human development in 2010 (UNDP, 2010).

3.2 A historical perspective

The main reason why so many Brazilian families are living in poverty is not a general lack of resources, but rather their distribution. Inequalities and poverty in contemporary democracies result from tensions between the ethical requirements related to "rights" and the imperative of economic efficacy; between the legal order that promises equality and the reality of exclusion brought about by the exercise of power. Back in time, in many western countries, there came a time when social disparities were so extreme that society mobilized governmental mechanisms. Public policies, and changes in the tax system forced some degree of redistribution to eliminate the most extreme forms of poverty and inequality. No efforts have been made to promote the inclusion of the poorest segments of the population in Brazil, whether as a colony, empire or republic. Throughout the 20th century Brazil developed with a significant number of extremely poor people. Development experts have described this development model as a "conservative modernization" model, describing a situation that produces significant changes in the economy without breaking the established economic social order or by breaking it only very slowly. From the social point of view, one can say that there has been a lack of regulation in the labour market; more than half of the population does not enjoy labour rights (Beghin, 2008). In 2003, the then president Luiz Ignacio "Lula" da Silva managed to implement

a major change in the social security system. The social security system had been one of the leading causes of Brazil's fiscal vulnerability. The new reforms raised the minimum retirement age for all civil servants and required civil servants to contribute to the social security system if their income exceeded a minimum amount. Within this reform there were cost-cutting measures, it limited the pension benefits paid to widows and orphans of civil servants and capped civil servants wages and retirement earnings (Roett, 2010:112). Low schooling levels is also an issue. It has not been given priority to ensure universal access to education to sustain development. The illiteracy rate in Brazil was in 2008 10,2 percent. The average number of years of schooling of the population aged fifteen and over was in 2008 7,2, when, legally, it should be at least eight years. These indicators have improved during the recent years, but still the quality of education leaves much to be desired. In the rural areas the conservative approach can be felt through agribusiness, which strengthens the economic power of large landowners and neglects the unskilled wage-earning labour force and the mass of small farmers not linked to the prevailing agricultural model. The exclusion process can also be felt in large cities. Significant segments of the population are forced to live without access to appropriate housing and basic public services that are necessary for a decent life such as sanitation, education, health, sports and transportation (Beghin, 2008). Fortunately, Brazil has been experiencing improvements in recent years in poverty reduction and income inequalities. Since the start of the 1990s, there have been two moments when income inequalities were reduced significantly: between 1992 and 1994, and between 2003 and 2005. The first

period was due to the immediate impact of the interruption of high inflation, while the more recent decrease reflected a modest growth in employment level, readjustments to the real value of the minimum wage and the effect of pension and welfare programs (Maluf and Burlundy, 2007). In 2007, data revealed that the level of inequality in the distribution of labour income was the lowest in 30 years (Beghin, 2008). Between 2001 and 2009, the income growth of the poorest 10 percent of the population was 7 percent per year, while that of the richest was 1,7 percent. The GINI coefficient² dropped from 0,596 to 0,54 in this period (The World Bank, 2011, Brazil- Country Brief).

The income of the poorest 70 percent grew, while that of the richest 10 percent dropped between 2001 and 2004. Poverty and extreme poverty levels did not decrease until 2003 due to the weak performance of the Brazilian economy (Beghin, 2008). Between 2003 and 2004, the income of poor Brazilians has grown seven times as much as the income of rich Brazilians. During that time poverty has fallen from 22 percent of the population to 7 percent (Rosenberg, 2011). Since 2004, all population segments have been earning a higher income, but the increase was higher for the lowest-income segments (Beghin, 2008).

² The GINI-coefficient is the most commonly used measure of inequality. The coefficient varies between 0, which reflects complete equality and 1, which indicates complete inequality (one person has all the income or consumption, all others have none) (The World Bank-Measuring Inequality)

3.3 Social Security Development

Brazil has during the last decades had a lagging social development, which not only undermines the establishment of a stable social and political system it also threatens the longterm productivity growth of the

economy. This is most obvious for education, which is a great source of growth in developing countries, where the returns to education are high. Economic progress will be increasingly achieved primarily through the creativity and innovation of an educated labour force (Bruns and McGreevey, 1988). Low social spending is not the reason for Brazil's low social welfare performance. Their spending is not lower than in other middleincome developing countries such as Mexico for example. Brazil has for several decades had a comparable or higher share of central government expenditure and national product to social sectors. Total social sector expenditures was in 1985 9,3 percent of GDP in Brazil, but only 6,4 percent in Mexico. However, Brazil has achieved less than other countries with its social sector expenditure. Bruns and McGreevey argue that Brazils geographic dispersion makes the nationwide delivery of social services inherently more costly than in smaller countries. A second argument is that socio-cultural and climatic factors, which have contributed to the persistent poverty of the Northeast may have created more intractable social development problems than those faced by other countries. However, when they examine the social expenditure patterns in Brazil, they see that the inefficient and mistargeted use of public resources is the reason. Distortions in what kind of social services the public sector finances, who benefits from these services and how funds are raised and transferred, have been major constraints on Brazils rate of social progress. Given the social security systems design, pension income increases overall inequality in Brazil. Pensions have been the privilege of formal sector workers, civil servants, the military, and assorted middle-class elements, whose capacity to resist

reforms has proven considerable. Many people labour in menial jobs that do not provide for security in old age. Social security constitutes the single most expensive and regressive form of social spending, despite a non-contributory pension track that keeps roughly 8 million rural Brazilians from falling into utter destitution (Bruns and McGreevey, 1988). According to Hunter and Sugiyama, in 2004, social security accounted for roughly half of all social spending and took up approximately 36 percent of total expenditures. The majority of social security financing goes toward old age pensions.

Severance payments, disability, and unemployment insurance lag far behind in terms of the portion of social security expenditures they make up (Hunter and Sugiyama, 2009).

The government that took office in March 1985 brought social welfare issues to the forefront of the political agenda.

Delegates to the constitutional assembly of 1987-88 enshrined in a new charter social rights that reflected a broad understanding of citizenship.

Rights to housing, health care, employment and education were included (Hunter and Sugiyama, 2009). The federal government proposed in 1987,

average annual increase in federal social spending of more than 10 percent through 1991. The largest increases were proposed for the housing,

water/sanitation, and food and nutrition subsectors. In the mid 1980s, public social expenditure in Brazil was divided almost equally between federal

government outlays and spending by the 23 states and more than 4000

municipalities. In 1986, total social spending by all three levels of

government reached an estimated USD 47 billion, which was about 18

percent of GDP (Bruns and McGreevey, 1988). Out of this, about 43 percent went to pensions, 23 percent to education, 17 percent to housing, 12 percent

to health care and 5 percent to other programs (McGuire, 2001). Over 50 percent of this spending for social security and health insurance, was financed by payroll taxes paid by workers and employers (Bruns and McGreevey, 1988). By 1995, social spending at these three levels of government had risen to 21 percent of GDP, 48 percent going to pensions, 21 percent to education, 16 percent to health care, 5 percent to housing and 10 percent to other programs (McGuire, 2001). During the 1990s, the social protection system in Brazil developed. There was an expanded coverage and revalorization of welfare programs, which had a significant impact on reducing social inequality and improving the nutrition and food security of families. There was a slight recovery in the level of employment, and adjustments were made to the real value of the minimum wage to which pension and welfare benefits are linked (Maluf and Burlundy, 2007). The minimum wage is the parameter that is commonly used to measure poverty in Brazil, where poor families are those with a per capita monthly income below half of the minimum wage and families in extreme poverty are those with a per capita monthly income below one quarter of the minimum wage (Maluf and Burlundy, 2007). Brazil experienced a peak poverty rate at 36 percent of the population in 1992-93. This was associated with high inflation and macroeconomic volatility. The rate declined to 30 percent by 1996 in the context of the Real Plan. There was a stable rate of 28-30 percent from 1996-2001. According to the World Bank, the rural poverty rate has fallen (The World Bank, 2003). Poverty and extreme poverty has declined in Brazil during the recent years. From 2001 to 2005 there was a 31,5 percent reduction in the proportion of extremely poor people and the proportion

of poor people fell by 17,5 percent (Maluf and Burlundy, 2007).

3.4 Rural vs. urban areas

In the rural areas of the country, a small number of large landowners coexist with millions of small landowners, landless workers and rural workers living in precarious conditions. The large farmers are owners of unused land and they are large rural entrepreneurs, who monopolize most rural areas in the country. Starting from an existing high level, land inequalities are becoming yet more pronounced. The GINI index for land ownership rose from 0,827 in 1960 to 0,856 today. The percentage of the total area occupied by the 10 percent largest properties is about 78 percent. It can also be observed a large gap between the rich and poor in the urban areas, where 80 percent of the Brazilian population lives today. The living conditions for a significant percentage of the urban population are inadequate, without access or with only precarious access to housing, infrastructure, public health, education, culture and transportation services among others. Access to housing remains unequal from the regional point of view. Housing conditions in 31,8 percent of households in the southern region and 26,7 percent in the southeast region are inadequate. In the mid-west region 59,7 percent and in the northeast region, 53,5 percent of households are inadequate. In the northern region the percentage rises to 70,1 percent. The housing deficit is also a serious problem, it was in 2007 estimated at 7,9 million units with 90,3 percent of this deficit affecting families with an income of less than 3 minimum wages a month, these are considered poor (Benghin, 2008). A rural pension scheme for family farmers was created in 1988. It provides a monthly benefit equivalent to the minimum wage to all women over 55 years old and all men over 60 years

old, irrespective of their past social security contributions. The rural pension program began to suffer funding problems after an extension to its coverage between 1992 and 1994, and the pressure affected the public pension system as a whole. In spite of this, it was revealed that the program had a positive impact on the living conditions of rural families, including their capacity to invest in agricultural activity (Benghin, 2008).

3.5 Bolsa Familia

Bolsa Familia was created in October 2003 and it was a direct descendent of programs designed in the aftermath of the 1999 Brazilian macroeconomic crisis and was gradually implemented during the last years of the Cardoso administration. President Lula integrated the 32 different programmes under the name Bolsa Familia and scaled them up (OECD, 2010). The project builds upon Bolsa Escola (School Cash Transfer), Bolsa Alimentacao (Nutrition Cash Transfer), Cartao Alimentacao (Food Transfer Program) and Auxilio Gas (Cooking Gas compensation) (The World Bank, 2009). The two main objectives of the program are to reduce Brazil's current poverty and inequality by means of direct monetary transfers to poor families, and to reduce future poverty and inequality. This will be done through incentives for poor families to build their own human capital (Lindert). The four subprograms of Bolsa Familia provide educational stipends, maternal nutrition, food supplements and a domestic gas subsidy (Roett, 2010:112). The number of Bolsa Familia beneficiaries was doubled from 6,5 million families to 11 million from 2004 to 2006. This is nearly 25 percent of the Brazilian population (OECD, 2010). Families with a per capita income below BRL 50 per month are entitled to a monetary transfer of BRL 50 plus a transfer of BRL 15 for children, up to a maximum of three children,

subject to specific conditions depending on the children's age. Families with incomes between BRL 50 and 100 were entitled only to the conditional part of the monetary transfers. The mother was elected as the main beneficiary of the transfer in 91 percent of the cases. This strategy relies on the assumption that mothers better direct the resources to reduce the intra-household inequalities in both opportunities and results. The program has shown its ability to reach the poorest with monetary and non-monetary transfers (OECD, 2010). In 2007, non-contributory social security spending was split from the rest of the social security accounts. This allows better comparisons between the opportunity costs of different income policies. Bolsa Familia reaches nearly 25 percent of the Brazilian population and costs less than 0,4 percent of Brazilian GDP, whereas more than 12 percent of GDP is spent on social security and other social assistance payments (OECD, 2010). The World Bank is involved in this project, however their financial contribution is relatively small (USD 520,2 million, or about 8 percent of total conditional cash transfers under the program). With the Banks help, the Brazilian authorities can carry out and improve the effectiveness and efficiency of the program over the course of the project period, and the World Bank loan also help to ensure that the program receives priority and is protected from possible budget cuts during the project period (The World Bank, 2004). There has been no systematic evaluation of Bolsa Familia's success, but the program has been partially credited with a decline in extreme poverty, slight improvements in income inequalities and higher school enrolment among young children (Roett, 2010:113).

3.6 Social participation

The idea of ensuring the participation of individuals in public

decisions, enabling them to discuss and deliberate on collective issues affecting their lives, has always been one of the key elements of democracy and politics. When still being an authoritarian state, the military regime was pressured by the society to promote a gradual political liberalization process in the early 1980s. This made it possible for the Workers Party and Central Unica dos Trabalhadores (CUT, the largest trade union in Brazil), to be established in 1980 and 1983, respectively. These two events are landmarks in Brazil's re-democratization process and contributed to promote more radical changes in Brazilian society (Ciconello, 2008). Brazil became a democracy in 1985, and the federal constitution of 1988 established a democratic rule-of-law state in Brazil. It introduced a set of principles and guidelines to ensure the participation of citizens in the design, implementation and social control of public policies that later on were regulated and implemented in different institutional mechanisms at the three levels of the federation (federal, state, and municipal levels). The constitution recognized new responsibilities to be taken on by civil-society organizations within the Brazilian political system (Ciconello, 2008). The two main mechanisms for collective deliberations, based on the constitutional guidelines of ensuring the participation of citizens in defining public policies, are the public policy councils and the conferences (Ciconello, 2008).

3.7 Public policy councils

These councils were created for the purpose of implementing the participatory ideals provided for in the federal constitution. This allowed the Brazilian population to participate more intensely in the definition, implementation and social control of public policies. The governmental decisions, which had previously been restricted to members of

the executive branch and public managers, began to be shared with civil society. One of the first public policies to be fully redefined by the new participatory approach was the health policy. The Unified Health System (SUS) was created to link all public and universal health-care services at the federal, state and municipal level. The council has many different legal responsibilities, which include defining strategies and priorities for the health policy and approving public funds earmarked for implementing governmental programs and actions. In addition to this, the council has to ensure social control of this policy by monitoring and evaluating governmental actions (Ciconello, 2008). Social movements has since the 1990s focused their efforts on building and defending universal public policies that could ensure rights through the creation of decentralized and participatory systems in the policy-making arena. As a result of this, thousands of different councils has been created throughout the country and there has been regulation and structuring of public policies. In 2007, there were 35 national councils with civil-society representatives in the federal public administration. These councils rely on the participation of more than 400 organizations representing different segments of civil society. 31 percent of these councils are Non-Government Organizations (NGO) focused on defending human rights; 23 percent are organizations representing the interests of employers or corporations; 14 percent are linked to rural and environmental social movements; 14 percent are urban union organizations; 8 percent are urban grassroots movements; and 10 percent are other movements (religious, cultural, educational movements, etc.) (Ciconello, 2008).

3.8 Conferences

The public policy conferences are

held at regular intervals, bringing together thousands of people from all over the country. These conferences constitute a process that begins in the municipalities, where the participants discuss policy proposals and elect delegates to attend state conferences and the national conference.

Participants of the conferences can contribute to creating policy agendas and priorities that will influence public policies to be implemented in future periods. The number of conferences held throughout the country has increased remarkably during the past 8 years. This is a result of the greater stimulus provided by the federal administration to this participatory arrangement (Ciconello, 2008). Social participation has not only been integrated into Brazil's current democratic model, it has also produced many results, particularly in terms of expanding the social rights of the Brazilian population. Any citizen has free-of-charge access to health-care services, the population living in poverty receives cash transfers from the state through a set of programs and actions, such as the Bolsa Familia, and these interventions have contributed to fighting poverty and reducing social inequalities in the country. An increase in minimum wage has also diminished the gap between the rich and the poor (Ciconello, 2008). By looking at this it seems that Brazil is on the right track when it comes to improving the social conditions for the poorer people in the country.

Although Brazil is a rich country it is obvious that it has been and still is struggling with inequality and poverty, even though it has diminished during the past decade. New government regulations and social participation has given the people better access to social benefits, and it seems clear that reducing poverty and making the country more equal is a priority for the

Brazilian government.

4. The economic and political history of Brazil

The economic policies in a country is determined and introduced by the government. Therefore, the political and economic history in this thesis will be discussed simultaneously and be linked, since the one depends on the other. During the 1990s, when a new president or finance minister took over, he would introduce new reforms and make new plans as to how to strengthen and stabilize the economy.

4.1 Before democracy Brazil started in 1500 as a colonial enterprise of the Portuguese empire. The country expanded using slave labour force for the production of sugar, gold and coffee for international markets. Administrative cities, trade and military outposts were established along the coast to handle the colonial interests, and a population of mixed blood, impoverished freemen grew at the shadows of the export economy. Political independence in the early 18th was a direct consequence of the Napoleonic wars (Schwartzman, 2003). The Portuguese lost power of Brazil in 1822 (Hudson, 1997). The new Brazil relied on England for international recognition and on the Rotschild bankers to finance its Imperial government, which fell at the end of the century when Britain decided to stop the international slave trade. Brazil was hit by the depression in 1929, and its economy was reorganized to participate in the military efforts of the Second World War. Since then, it benefited or suffered the impacts of the expansion of international trade, the cold war and the industrial and technological revolutions of the late 20th century (Schwartzman, 2003). Brazil has a long political history. The country was a Portuguese colony from 1500 to 1822. Brazil blossomed during the 1920, but was hit by the great depression in 1929. The army took over power in 1964

and other political parties except for two were banned. The media was also strictly controlled. However, during the 1960 and 1970s, Brazil experienced rapid growth, but it was not very beneficial since inflation was very high and many people still very poor (Lambert, 2011). The administration led by President Medici began to build the Trans-Amazonian Highway through the Northern rain forests, and dammed the Rio Parana, creating the world's largest hydroelectric dam at Itaipu. From 1964 to 1974, the military-civil technocratic alliance took shape as the economy boomed, reaching annual GDP growth rates of 12 percent. However, this was also the darkest days of the dictatorship. At this time it looked as though Brazil's dreams of full industrialization and great-power status were possible, but sadly in those years criticism and labour unrest were suppressed with arrests, torture and censorship (U.S Library of Congress- The Military Republic 1964-85). In the early 1980s, the army ended censorship and let political parties reform. It was decided, however, that the next president would not be elected by the people, but by an "electoral college", which was made up of senators and congressmen. The army was hoping that the president that was elected was favourable to them. It did not turn out that way (Lambert, 2011). Instead a respected politician from Minas Gerais was elected (Roett, 2010:72).

4.2 1985--1992 - Years of instability After being under a military regime

Tancredo Neves from the Brazilian Democratic Movement Party (PMDB) was elected president in January 1985. Unfortunately he was taken ill the night before the inauguration and he died in April the same year (Roett, 2010:72). Vice president, Jose Sarney was not very popular and he inherited a complicated situation. His administration was pressured to make immediate

structural changes in both the political and economical spheres (Roett, 2010:73). In May 1985, the president signed and the congress approved a series of measures aimed at reviving democratic political institutions. Direct presidential elections were restored and all political parties that met the minimal registration requirements were legalized. At this time, the PMDP was the major party. The Sarney administration faced many challenges. One of them was the large foreign debt Brazil had at this time. Their \$95 billion debt was the largest in the world (Roett, 1985:76). In 1984, the economy had begun to improve, the balance of payments was positive and the trade balance had reached \$13,1 billion. Also, the foreign trade position was supported by a strong foreign exchange reserve position. Brazil did not go to the IMF, instead the government decided to open discussion with the commercial banks that held about \$35 billion of Brazilian loans that would fall due between 1985 and 1989. An agreement was reached in 1985 (Roett, 2010:77).

4.2.1 The Cruzado Plan

Brazil had a hard time controlling inflation. In 1985, the inflation rate was 222 percent. President Sarney introduced the Cruzado Plan in 1986. The basic elements of the program included a radical monetary reform (Roett, 2010:79). The cruzeiro³ (Cz\$1 being equal to Cr\$1000) was replaced with a new currency, the cruzado; indexation was abolished. The government clearly indicated that it intended to keep it fixed indefinitely at Cz\$13,84 to the U.S. dollar (Roett, 2010:80). A one-year freeze on mortgage rates and rents and an indefinite freeze on prices were decided. An important aspect of the plan was the wage freeze following a readjustment that set new real wages at an average of the previous six months plus 8 percent, and set the minimum wage at 15

percent. Thereafter, a sliding scale would automatically adjust wages whenever inflation reached 20 percent from the previous adjustment or from annual base dates for specific categories. Workers were free to bargain with employers over further wage increases and an unemployment benefit was established wherein recipients would have to have a minimum employment record and contribute to the social security system. The plan was an immediate winner with the public, inflation was tamed and prices were stable for the first time in decades (Roett, 2010:79). However, the plans authors knew that the price freeze had to be short lived so that prices could once again help to allocate resources. Consumers went on a buying spree since prices were frozen and foreign travel increased immediately (Roett, 2010:80). However, by July 1986, measures to reduce consumption and increase investment were taken. It was decided by the government to tax cars and foreign travel, which were items that were very popular with the middle class. The government hesitated to lift the price freeze due to the upcoming election. The election in 1986 gave the PMDB a massive victory. Shortly after the results were published Crusado II was announced. Prices were realigned for "middle-class" consumer goods and taxed on these goods were increased. New tax incentives for savers were introduced and crawling-peg exchange rate devaluation was reinstated. The goal was to dampen the consumption expenditures, but the price increases tended to divert consumption expenditures rather than to stimulate savings. Inflation revived and the inflationary expectations reemerged (Roett, 2010:81). The Finance minister left office in April 1987 and was replaced by Luiz Carlos Bresser-Pereira who introduced a new plan.

3 The cruzeiro was the currency of

Brazil from 1942 to 1986, and again from 1990 to 1993

(<http://www.mapsofworld.com/brazil/brazil-currency.html>)\n\n38\n\n4.2.2 The

Bresser Plan\n\nThe Bresser Plan adopted new price and wage freezes with caps to be readjusted every three months. The trigger mechanism for automatic wage increases was cancelled as this had targeted interest rates above inflation to limit the overheating of the economy. Through a series of mini-devaluations the exchange rate was kept in check (Roett, 2010:82).

Due to an absence of fiscal discipline the Bresser Plan failed. In December 1987, Bresser resigned and in January 1988 the “Rice and Beans” policy was introduced. This was a modest effort by the new minister of finance, Mailson da Nobrega, to control prices and public spending. However, the economy was again in crisis by mid-1988 with inflation running at 81 percent a month by March 1990. GDP was growing at barely over 1 percent and

unemployment was on the rise. The government was desperate for a

turnaround at this point and yet another currency was introduced. The

“cruzado novo” was introduced as part of the January 1989 Summer Plan.

Unfortunately this did not make much change for the economic situation.

There was a new price and wage freeze, indexation was abolished, except for savings deposit accounts. There was made an attempt to restrain

monetary and credit expansion and devaluation of the exchange rate (Roett, 2010:82). At this point the credibility of the government had disappeared

and the economy remained in disarray. It looked as though the Sarney

government was coming to an end. The first direct presidential election in

almost thirty years was held in 1989. The electorate turned strongly against

the PMDB. The party that was once viewed as the driving force behind the

transition from military rule to democratic government, the party was now associated with the mismanagement and failure of the Sarney administration (Roett, 2010:83). Fernando Collor de Mello, from the National Reconstruction Party (PRN) took office in March 1990 (Roett, 2010:84). He wanted to modernize the national economy (Roett, 2010:83). He announced plans to open up the economy through trade liberalization, privatization of state-owned companies, and a stronger focus on foreign investment. As the country was facing hyperinflation, the government immediately introduced a new anti-inflation program. A new currency was introduced a tax on financial transactions was charged on the stock of financial assets, on transactions in gold and stocks, and on withdrawals from savings accounts. Initial price and wage freeze was decided upon and various types of fiscal incentives were eliminated. Administrative measures were introduced to reduce tax evasion, taxes were indexed and public service prices were increased. The exchange rate was liberalized, various federal government agencies were to be closed and 360 000 public sector workers were to be dismissed (Roett, 2010:85). However, the freezing of assets lead to a pronounced fall in economic activities. There was a fear of recession and political pressure from various groups in society. Collors program had little popular support, in part because it was confusing and in part because it failed so quickly. Due to the inability to control inflation and the unpopularity of the general goals of the program, lead to the announcement of Collor II in 1991. The important aspect of this plan was that it in addition to repeating some of the measures of the first plan, it emphasized better management of cash flow and tightening of the budgets of state enterprises. Neither of the two plans

managed to kill inflation or deal with the fiscal in the budget. The government's economic team was replaced in May 1991 and a new finance minister took office. Marcilio Marques Moreiras program was one of relatively orthodox measures to control inflation and continue the privatization of state companies (Roett, 2010:85). However, public spending continued and cash inflows were lower than expected. Collor was accused of involvement in an influence-peddling scheme in May 1992, and gradually the public turned against him. He was impeached and driven from office later that year.

4.2.3 GDP growth During these years with high inflation and fiscal instability, Brazil experienced both positive and negative GDP growth. In 1985 and 1986 when there just had been a change of regime, the country experienced high growth of 7,9 percent and 8 percent, respectively. In 1987, after the failure of the Bresser Plan and lack of fiscal discipline, annual growth fell to 3,6 percent and Brazil experienced a negative growth of -1,0 percent the following year. In 1989 the growth was positive again with 3,3 percent, only to fall again in 1990, when it was -4,3 percent. At this time inflation was again very high. In 1991, growth again became positive, rising to 1,5 percent (The World Bank Data).

4.3 1992--2002 4.3.1 The Real Plan Itamar Franco succeeded Collor in office and Fernando Henrique Cardoso became finance minister in May 1993. He and his team set out to undo the damage of the last decade. The Real Plan that was announced in December 1993 had three elements: the introduction of an equilibrium budget that congress approved relatively quickly, a process of general indexation of prices and the introduction of a new currency that would be pegged to the U.S. dollar (Roett, 2010:86) Monetary policy was tightened and there was an

initial freeze of public sector prices (Clements, 1997). The plan was implemented in July 1994 and to date the most successful of its economic stabilization programs to end inflation. By late 1996, inflation by some measures approached an annual rate of less than 20 percent, which was a remarkable achievement in this economy. In fact, the new currency appreciated against the dollar in the months after its creation. The design and implementation of the plan distinguished it from the earlier plans. This may explain some of its success in its first years. It did not depend on a general price and wage freeze to stop inflation, unlike the earlier plans. The de-indexation of the economy was at the heart of the new plan and this was accomplished in part by converting salaries and a number of other prices in the months preceding the implementation of the Real Plan into Real Value Units (URVs) (U.S Library of Congress- The Real Plan). The URV was tied to the U.S. dollar in a one-to-one basis. Depending on the prevailing rate of inflation, the URVs quotation in the local currency rose daily, accompanying the exchange rate (Roett, 2010:87). Annual inflation fell and by 1998 it was down on less than 5 percent. GDP growth was strong, averaging 4 percent a year from 1994 to 1997, compared to flat or declining output in the previous five years, and investment climbed above 16 percent of GDP after stagnating for more than a decade (Roett, 2010:88). Some observers saw the Real Plan as a form of “dollarization” of the Brazilian economy, in which prices and wages that before had been indexed to inflation now were linked to a foreign currency. However, there was a significant difference between the approach of Brazil and that of countries like Argentina, which tried to stabilize the value of their currencies through a formal and legal link to the dollar. Such a

commitment was not made by Brazil, and despite the stability of the real against the U.S. dollar throughout the first year and a half of the plan, there was a widespread expectation that the real would eventually depreciate. With the expectations of an eventual depreciation of the currency, coupled with the short-term stability of the exchange rate and greater mobility of financial capital between Brazil and world financial markets led to a strong appreciation of the real and painfully high domestic real interest rates. Lenders required interest rates that would protect them against a possible depreciation, and with prices stable or even falling for some products, borrowers could no longer repay in currency that had lost its value through inflation (U.S Library of Congress The Real Plan) 41

The success of the Real Plan and the international enthusiasm for it, led to the resumption of large-scale flows to Brazil. This permitted the government to maintain its policy of approximate exchange-rate stability. High level of capital flows to Brazil more than financed the high level of imports stimulated by the resumption of economic growth, which led to a sharp increase in the country's foreign currency reserves. The strong real lead to a fall in inflation and this again led to important changes in income flows within the Brazilian economy. A large financial sector had been produced after decades of inflation and this flourished in part through the spread between borrowings and lending rates in a high-inflation environment. A number of financial intermediaries came under severe pressure with the fall in this revenue, despite the high real interest rates. Also, income distribution in Brazil was affected by the fall in inflation. Lower-income groups benefited significantly from the Real Plan. This was due to the fact that they had borne a large

share of the inflationary burden because of their relatively limited access to fully indexed savings opportunities and to the tendency of minimum salaries and other nominal wages to lag behind inflation. Sales of consumer durables, increased significantly in the months following its implementation. This led the government to attempt to restrict consumption and reward saving in 1995 (U.S. Library of Congress: The Real Plan). The success of the Real Plan in its first years strengthened the political support that the government needed to attack the underlying fiscal disequilibrium. The operational budget of the federal government in 1995, was significantly smaller than it had been in earlier years. Further progress in reducing the pressures on the finances of the country's public sector rested on the rates of the first year of the Real Plan, but also on the support of Congress for the fiscal reforms proposed by the Cardoso government (U.S. Library of Congress: The Real Plan). The success of the Real Plan led to the resignation of Cardoso as finance minister. He declared that he would be a candidate for president. The other leading presidential candidate was Luiz Inacio (Lula) da Silva. Lula and the Workers Party called for aggressive social reforms and the denouncing of the Real Plan. However, given the success of the Real Plan, Lula and his party were increasingly seen as part of the past rather than the future (Roett, 2010:89). The election of Cardoso as president in 1995 constituted a critical juncture in Brazilian history. The success of the plan gave Cardoso and his associates the opportunity to move forward with a program to open the economy to international trade and capital movements. He was also in the position to widespread liberalization of the economy and to make it increasingly competitive (Roett, 2010:90). With Cardoso as president came

many political changes that in turn affected the Brazilian economy. Cardoso held a relatively strong hand at the outset of his administration. The Real Plan was very popular. Unemployment was low, and inflation rate was less than 1 percent (Roett, 2010:91). Cardoso wanted to introduce different reforms in the beginning of his term as president. One his administrations top priorities was downsizing the public sector and reducing the number of costly and often inefficient state companies. Programs of privatization had been introduced by earlier administrations, but there had been high resistance to these efforts. However, with the success of each privatization, the process gained support and under the Cardoso administration, the speed of privatization increased. Between October 1991 and December 2005, more than 120 state enterprises were sold, which generated \$87 billion in proceeds, and \$ 18 billion in debt was transferred to the private sector. This revenue stream helped the government to ward off a serious fiscal crisis during Cardoso's first term (Roett, 2010:92).

4.3.2 A change in the economy

Cardoso wanted to a higher degree to move away from the past. The aspects of his program required amendments to the constitution. The goal of these measures was to weaken state-held monopolies in critical sectors and introduce private and foreign competition. Within the energy sector, the government wanted to allow foreign-owned companies to invest in oil extraction and it was proposed that both foreign and Brazilian companies be allowed to distribute natural gas to household and industry. This had been a task reserved for the stateowned oil giant, Petrobras. Also in telecommunication, the only company that had been able to provide telephone and data transmission under license from the federal government

was the state-owned Telebras. The new administration sought to promote competition and modernization by allowing both Brazilian and foreign companies to provide these services (Roett, 2010:92). Another proposed amendment allowed foreign companies to compete in coastal shipping, which was an activity placed off-limits for foreign firms by the constitution. All of these reforms were passed and this was viewed as revolutionary. The Brazilian economy was at this time closed and very protectionist. The Cardoso government called for a gradual opening, more competition and new investment. They wanted to begin fiscal reform by reorganizing the tax system and reforming social security (Roett, 2010:93).

4.3.3 Fiscal Responsibility Law

In 1995, the Cardoso government decided to attack the fiscal problem by seeking approval of a Fiscal Responsibility Law (LRF). This is today one of the most important initiatives of the Cardoso government. The fiscal laxity has been a serious weakness in how to govern Brazil for decades. All levels of the state bureaucracy overspent and expected the federal government to cover this irresponsible behaviour either by printing money or issuing public bonds. Both were sources of indebtedness and inflation. The LRF was approved in May 2000 and it strengthened fiscal institutions and established a broad framework of fiscal planning, execution and transparency at the federal state, and municipal levels. Presentation of fiscal administration reports at four-months interval, with a detailed account of budget execution and compliance with the LRF provisions was required by the LRF. The LRF also set ceilings in terms of expenditure. Ceilings were set on personnel spending-inclusive of pensions and payments to subcontractors-at 50 percent of federal government

spending and 60 percent of state and local government spending (Roett, 2010:93). Strict penalties were introduced for public officials who violated the provision of the law or engaged in other proscribed fiscal actions as legislated in the Fiscal Crimes Law (Roett, 2010:94). Regarding the issue of public debt, the LRF and complementary legislation set a ceiling of 120 percent of current revenue at the national and state levels. If this ceiling were breached, the debt would have to be brought back within the ceiling over the following twelve months and no form of borrowing would be permitted until that happened. There was also a provision stating that net borrowing could not exceed the volume of capital spending. Loans between the national state and municipal governments were outlawed. Additionally, the LRF contained two escape clauses that would suspend the application of the debt ceiling. The first escape clause would apply in the case of a Congress-declared state of national calamity or state of siege. The second one would apply in the case of economic recession, which was defined as a growth rate of less than 1 percent of GDP over a period of one year. In the case of economic recession, the period for redressing a breach in the debt ceiling would be doubled over two years. These escape clauses would also apply to the limits on personnel spending (Roett, 2010:94).

Even though these reforms were introduced and welcomed by the society, the issue that remained unsolved was the need for deeper structural fiscal reform. Unfortunately it was not possible for Cardoso to build a congressional coalition to undertake such necessary reforms as reducing the public sector payroll. Public sector jobs were one of the lifelines of the Brazilian politics, and public employees were organized and so the Congress refused to act.

The number of public employees was high and real wages continued to climb, a problem that was only worsened after the decision to raise the minimum wage in 1995. Due to the government failing in the attempt to reform the civil service pension system, pension expenditures climbed from 35 to 43 percent of total public sector personnel expenditures between the end of 1992 and the late 1990s. It seemed that the lack of government intervening and introducing reforms were contributing to Brazil's fiscal problems. The deficit in the social security system and the government's need to save failed banks were important factors that led to fiscal problems. A drastic reduction in federal and state spending was essential in all of these areas, but without Congress to make the decisions nothing could be changed (Roett, 2010:94). Due to the government's decision to seek an amendment to the constitution to allow the president to run for a second term, the cause of fiscal reform was weakened. This opened a complicated process of providing inducements or "bribes" as some would say, to members of congress in exchange for their support of the amendment. It was approved in 1997 at a very high fiscal cost since special interests at the state and local level had to be accommodated; unnecessary projects were funded for local political purposes (Roett, 2010:95).

4.3.4 Challenges from the outside

The government was also confronted with external shocks that made it even more difficult to govern. The Mexican peso crisis in 1994-1995 was one of them. In Mexico there was a fall in capital inflows, a devaluation of the peso to the edge of its intervention band and a large loss of foreign exchange reserves in the spring of 1994. Despite allowing interest rates on short-term peso-denominated debt to rise, which assisted in momentarily reducing

pressure on the peso, credit from the Bank of Mexico to the financial system, and from banks to the private sector, was allowed to expand (Roett, 2010:95). The causes of the crisis were emerging around a variety of factors. One of them was the current account deficit, which grew to almost 8 percent of GDP in 1993 and 1994, as well as the fact that an important part of this deficit was funded by relatively short-term capital inflows. Also, the Mexican authorities commitment to a relatively fixed exchange rate, and the fact that a somewhat over-valued exchange rate was welcomed by a government, strongly committed to reducing inflation very quickly. In addition to this, the government pursued a rather lax monetary policy in 1994, as reserves fell sharply (Griffith-Jones, 1997). Due to the devaluation of the currency, Mexico inadvertently initiated what Latin America called the "tequila effect". The peso devaluation rippled through the financial markets of emerging economies with unexpected intensity. Investors lost the optimism they had about Latin American countries, and the stock markets in Chile, Argentina and Brazil were hit hard (Zarazaga, 1995). All these countries were vulnerable to contagion from the crisis. Brazil had an overvalued currency, weak financial position and a large account deficit. However, Brazilian authorities moved quickly to devalue the real. In the spring of 1995, the central bank adopted a crawling band, which means that the real was allowed to appreciate or depreciate against the U.S. dollar within a predetermined range. This increased the flexibility of the exchange rate regime, while maintaining an anchor for inflationary expectations. The exchange rate depreciated 13,9 percent in 1995, 7,1 percent in 1996, 7,3 percent in 1997 and 8,3 percent in 1998. The real was also supported by the

decision to raise interest rates. As a result of these policies, inflation remained under control from 1995 to 1998, despite the inability of the government to implement fiscal reform (Roett, 2010:96). In the wake of the Mexican peso crisis, Brazil benefited from very positive global financial trends, including interest rates favorable to emerging markets and domestic macroeconomic conditions attractive to foreign capital flows. In addition to this, interest rates were declining. However, the country's economic health remained fragile as the Asian financial crisis in 1997 and the Russian collapse in 1998 made dramatically clear. In Asia, the crisis began when the government of Thailand devalued the baht in July 1997, allowing the currency to float. The decision to devalue quickly spread to the region and then to emerging markets around the world. Brazil was vulnerable due to their overvalued currency and growing current account deficit. This was also the case for many emerging-market economies. They had a common trait as to rely on overvalued currencies in order to promote industrial development and stabilize prices at the same time (Roett, 2010:97). Nearly \$8 billion of Brazil's foreign exchange reserves disappeared in October 1997 in the wake of the financial crisis. Interest rates were raised from 19 to 43 percent and fiscal policy was tightened. This tightening stopped the outflow of reserves and induced a resumption of capital inflows. There was also a steady rise in international reserves from November 1997 to April 1998, reaching a record high of \$75 billion. In addition to this, interest rates fell each month until they by August were lower than before the crisis. Market pressures on Brazil intensified in the summer of 1998, following Russia's default (Roett, 2010:98). Russia was forced to default on its sovereign debt, devalue the

ruble and declare a suspension by commercial banks to foreign creditors (Chiodo and Owyang, 2002). In Brazil, the impact on the exchange market was extreme. The excess demand for dollars in the foreign exchange market was 11.8 and 18.9 billion dollars in August and September. The loss of reserves during these months was substantial and reflected a widespread loss of investor confidence on the Brazilian real, which came shortly after the collapse of the Russian ruble (Baig and Goldfajn, 2000). Interest rates were doubled by the Central Bank in early September to 42 percent and the government promised to tackle fiscal deficits. However, both of these measures failed, and reserves fell from \$75 billion in August 1998 to less than \$35 billion in January 1999. Portfolio investment flows became negative and interest rates were raised to a new high to encourage investors to remain in Brazil, reaching levels of close to 50 percent in annualized real terms in September 1998 (Roett, 2010:98). Even though there was an economic chaos going on, Cardoso won a second term as president in October 1998. This time he was also up against Lula. Cardoso was elected in the first round with 53,1 percent of the votes cast, and Lula received 31,7 percent. However, the election for the Chamber of Deputies, which is critical for approving legislation submitted by the president, showed that building a coalition could become a challenge. Cardoso's party won the largest number of votes, 17,5 percent; the allied PFL polled 17,3 percent, the Brazilian Democratic Movement Party (PMDB) took 15,2 percent; and Lulas PT received 13,2 percent. The rest were spread across ten or eleven small regional or personalist. Cardoso would face the demanding task of gathering a support group through bargaining over every piece of draft legislation,

while a majority president. The results in the Senate were similar, Cardoso's party received 18,8 percent; the PMDB 17,9 percent; the PT 15,9 percent and the PFL 15,6 percent parties (Roett, 2010:99). However, the results from State governorship elections gave Cardoso stronger support. Of the twenty-seven governors elected in 1998, nineteen belonged to the president's coalition. Cardoso's victory was in large part due to the voter's perception that the economy had been well managed in his first term, despite the challenges. Under his leadership, inflation had fallen to single digits, annual growth had been above 3 percent on average, annual private consumption had risen around 5 percent on average in nominal terms, and inward direct investment flows had gone from well under \$5 billion to \$30 billion between 1998 and 2002. Following his victory, Cardoso wanted to capitalize on his popularity by pressuring Congress to pass amendments to the constitution that would raise taxes on retirees pensions contributions and increase and make a permanent special tax on financial transactions. Both measures were intended to strengthen the government's fiscal position. However, the government was unable to guide its proposals through the much difficult and complicated amendment process, which required each of the two houses of Congress to vote twice to approve and amendment, with a three-fifths majority in favor each time. At this time, in the light of the Russian default and the Asian financial crisis, the international financial community wanted to find a way to protect the Brazilian economy. Due to these two crises there were expectations that Brazil might default because of its controversial policy of maintaining its crawling peg, despite the perception in the market that the real was overvalued. However, according

to the IMF, Brazilians thought that any overvaluation was modest and feared that making any changes would reignite inflation. The IMF and the World Bank put together a package of \$41,5 billion in November 1998, in an effort to support the real. This package included over \$18 billion in IMF loans, \$4,5 billion each from the World Bank and Inter-American Development Bank and \$14,5 billion in bilateral credits from 20 governments and central banks, provided through the Bank for International Settlements, based in Basle. The U.S. was the largest contributor to the bilateral financing, with \$5 billion from the Exchange Stabilization Fund. This program was “preventative”, meaning that it was meant to anticipate and head off potential threats (Flynn, 1999). The package allowed Brazil to maintain its existing exchange rate regime but required the government to run a substantial primary fiscal surplus until 2001, as the primary goal was to stabilize the ratio of net public debt to GDP at 47 percent by 2000 and bring it down thereafter (Roett, 2010:100,101). Reluctantly, Congress supported the first set of fiscal adjustment measures demanded under the IMF plan. This included a decrease from 80 to 60 percent in the share of its revenue that the federal government transferred to the states and a fine on states and municipalities that spent more than 60 percent of net revenue on their payroll bills. Even though the program was generally welcomed, it provoked some anxiety. There was no involvement of the private sector and no change in exchange rate policy (Flynn, 1999). In December 1998, Congress rejected the government’s proposal for social security reform, which would have increased taxes on higher-paid civil service pensioners. This was a setback viewed negatively by investors and capital outflows accelerated at the end of the year. So by mid-January

1999 the financial authorities conceded defeat and the government allowed the exchange rate to float. The real fell 40 percent over the next two months. But the credibility to the central bank and investor confidence was restored when Arminio Fraga was appointed central bank governor. Fraga, an experienced investment banker, was able to begin reducing interest rates from their high of 45 percent in small increments, which helped restore confidence in the management of the economy (Roett, 2010:101). Keeping inflation at a stable level was now a priority for the central bank. The central bank adopted an inflation targeting strategy where commitment to stability became the primary goal of monetary policy (Roett, 2010:102). The government also took measures to produce the primary budget surplus required by the IMF. They agreed to achieve a surplus of 3,1 percent of GDP. Taxes were raised for higher-income earners. As mentioned earlier, average GDP growth from 1994 to 1997 was around 4 percent, the economy was doing well, much due to the Real Plan. During the more turbulent years 1998 and 1999, growth was 0,0 percent and 0,3 percent, respectively (World Bank). The budget situation was tight and interest rates were high, this led to a limited economic growth during these years (Roett, 2010:102).

Cardoso's second terms as president ended in 2002, when Lula was elected. Looking back at his time in office it is obvious that this decade has been a challenging one. The authorities were forced to maintain a very high real interest rate and limit public spending to preserve international capital flows and secure the stability of the currency. High interest rates resulted in low inflation but increased the cost of public sector debt and depressed business investment. New taxes were also introduced; they increased the burden of

an already inefficient tax system in order to generate new government revenues. Obviously these new taxes increased government revenues, but at the cost of discouraging formal sector employment and weakening domestic business investment. These years with Cardoso in office were years when the fighting of inflation had a high priority, and trumped all other considerations. This led to an increase in unemployment, a decline in consumption and a devaluation of the currency (Roett, 2010:107). A new round of reforms was now needed to transform Brazil into a BRIC country.

4.4 Governmental change

Brazil was desperately in need for a change in the beginning of the last decade. The election of Luis Inacio "Lula" da Silva strongly reflected this. There was not only a need for economic change, there was also a desire for social and political transformation after more than a decade of neo-liberal experiments (Bianchi and Braga, 2005). However, the presidential campaign that started in 2001 saw the juxtaposition of two very different candidates. Jose Serra was a former minister of health and close colleague of president Cardoso and Lula was still the leader of the PT coalition. Sierras link to Cardoso and the unpopular "Washington consensus", somewhat handicapped his campaign. The consensus, which was a strategy for economic modernization formulated in the 1980s, called for reducing fiscal imbalances and inflation, opening the economy to international trade, undertaking deregulation, developing domestic capital markets, and privatizing state-owned enterprises (Roett, 2010:103). This was a market-oriented neoliberal reform that Lula explicitly campaigned against. It had not worked well under Cardoso's regime, so Lula therefore wanted to choose a different approach (Roett, 2010:104). Lula is a

Northeastern migrant who fled the hunger that overran his native town of Garanhuns, together with his mother and seven siblings. He is a unionist who in the late seventies inscribed his name forever in the history of Brazil. For many, voting for him was an exercise in recreating social identity and of creating political consciousness (Bianchi and Braga, 2005). In early 2003 when Lula took office, Brazil's economic situation was delicate. Growth was low, foreign reserves had fallen below \$40 billion and its external debt was now more than 45 percent of the country's GDP. Lula's team wanted to strengthen the government's commitment to maintaining fiscal responsibility and a budget surplus (Roett, 2010:110). There was a growing moderation within the workers party, and other political parties made a move to the center. The conservative parties in Congress allied with Lula to support a rather unorthodox economic agenda. The government tightly controlled expenditures, and revenues rose sharply as a result of greater enforcement and collection. The most important commitment for the government was to pursue the tough fiscal targets mandated by the IMF. The primary surplus target (i.e. the balance of revenues and non-debt related expenditures) was raised from 3,75 percent to 4,25 percent of GDP. The primary surplus reached 5,16 percent in September 2005 (Amman, 2005). Tax income increased in 2003-2004, reaching 36 percent of GDP by 2004 (Roett, 2010:111). GDP growth was in 2004, 5.2 percent, which was the best economic performance for more than a decade. Industrial production, having stagnated in recent years, rose sharply in 2004, by 8,3 percent. Unemployment fell to 9,6 percent in the six major metropolitan regions, which was the lowest figure in three years. Inflation had been high between

2000 and 2003. In 2001 it was 7,5 percent, in 2002 it was 10,2 percent and in 2003, which was Lula's first years, it was up at 12,8 percent. For Lula, the fight against inflation was a top priority and he used high interest rates to control it. The Selic base rate, set by Copom, the monetary Policy Committee, was kept high, despite many protests. Lula announced towards the end of 2004 that the current rate of 16,7 percent would be raised further, which it was. There were concerns over inflationary pressures in March 2005, and the rate was raised for the seventh consecutive time to 19,5 percent, which was the highest rate since September 2003. By December 2004, inflation for the year was calculated to be 7,54 percent, near to the rate of 7,5 percent in 2001, and close to the upper limit target set by the Central Bank, at 8 percent (Flynn, 2005). The balance of payments improved steadily. Trade surplus increased from \$2,6 billion in 2001 to \$46,1 billion in 2006, largely due to strong export growth. Also, the current account moved from a deficit to a surplus in 2003, reaching \$13,5 billion in 2006 (Roett, 2010:114). In December 2003, the Lula administration succeeded in revising the tax code. State based taxes were unified, which reduced the number of tax rates from forty-four state taxes to five national rates. The financial transaction rate, which was a federal tax on financial transactions, which had only been temporary, was now made permanent. A great deal more had to be done to rationalize the chaotic system of taxation, but the ability of the government to begin the process was noted abroad by investors and the rating agencies (Roett, 2010:112). Due to the now more healthy performance of the economy, Lula decided that Brazil would not renew its agreement with the IMF, due to end on March 31st, 2005. Brazil ended its

links to the IMF, which had been maintained since 1998 (Flynn, 2006). Lula's desire to keep a grip on inflation through tight monetary and fiscal policy has had important implications for Brazil's recent growth performance. The new government was in 2003 obliged to maintain base rates above 20 percent, the objective was to defend the external value of the Real and assuage the concerns of international investors. As a consequence, GDP rose only by half a percentage point in 2003, which was the worst growth performance since 1992. However, the government was able to lower interest rates by around four percentage points with the result that growth accelerated much more strongly in 2004. Due to the emergence of price pressures, the government was forced to tighten monetary policy. This led to a slowdown in 2005 in the third and fourth quarters which brought down overall GDP growth to 2,9 percent in 2005. But the economy picked up, and in 2006 there was a growth of 3,7 percent. Growth in personal consumption expenditures and renewed investor confidence led to increased business investment spending, due to a series of interest rate cuts from September 2005. This also boosted GDP growth. Although steady appreciation of the Brazilian real took a toll on exports of consumer goods such as shoes, textiles and automobiles, solid global economic growth continued to stimulate demand for Brazil's agricultural and industrial exports. The high global economic growth and favorable commodity prices have helped generate healthy trade and current account surpluses. In Lula's second term as president, Brazil's economy continued to expand. Exports tripled on rising world demand for soybeans, iron, ore, beef and cars. In 2007, the president launched the The Program for the Acceleration of Growth (PAC) as a central

component of Brazil's development strategy. This program calls for the government to raise average GDP growth to 5 percent per year. The main driver is increased public and private sector investment in infrastructure (Prado, 2007). The PAC is an innovative approach to improving the lives of the most disadvantaged- those living in favelas. Rather than using the improvement of the favelas' environment as one aspect of a larger social program, the usually modest infrastructural projects involved in rebuilding the slum communities are intended to be the catalysts for social change (Schaller, 2008). When launched, the program called for investments of USD 349 billion, of which 63.3 percent has been applied by March 2010. Only 50 percent of the program was completed by April, 2010 (Olson, 2010). Brazil launched phase two of the program in 2010, announcing estimated investments of USD 526 billion in the period 2011-2014 (Loudiyi, 2010). Brazil became a net foreign creditor for the first time in January 2008, as international reserves grew to a record \$180,3 billion by the end of 2007, up from \$49,3 in 2003. Also in 2008, Brazil's investment-grade status was elevated. The investment grade rating gave Brazil access to a larger and more diverse set of institutional investors who were precluded from investing in countries with lower ratings. That the status was elevated signaled financial stability and consolidation in the country (Roett, 2010:116). In April 2008, Standard and Poor's was the first rating agency to designate Brazil as one of fourteen sovereign states with investment-grade rating (BBB or higher⁴) for its foreign currency debt (Roett, 2010:117,118). It is clear that the Brazilian economic policy and performance hinge around the level of interest rates. This is the most important instrument of inflation control and,

partly for this reason, interest rates are the most important reason for the chronic underperformance of the economy and the main explanatory factor for the expansion of the domestic public debt since 1992 (Mollo and Saad-Filho, 2006). It is obvious that under the Lula administration, the state has played a prominent role in the Brazilian economy. State intervention in the economy has been extensive through the government's management of economic policies and its growing reach in key sectors. Fiscal policy has been expansive and supports a state-led development model. As previously mentioned, Brazil opened the economy to private investors and privatized state-owned companies under the Cardoso administration, but due to the Workers party opposition towards privatization, the Lula administration shelved many of the initiatives previously undertaken by Cardoso to privatize many state-owned enterprises (The Economist Intelligence Unit Ltd, 2010). It seems that a mixture of a more open economy during the 1990s and an economy with fiscal expansion, which can be looked at as a welfare state has made the macroeconomic environment in Brazil more stable and this has led to Brazil being classified as a "BRICcountry."

5.1 Origins of the term The BRIC countries are Brazil, Russia, India and China. These countries were identified in 2001 in a Goldman Sachs report (O'Neill, 2001). Two years later, a new report from Goldman Sachs stated that over the next 50 years these four countries could become a much larger force in the world economy (Wilson and Purushothaman, 2003). The paper by O'Neill received attention because he forecasted that the growth in the BRIC countries would, in aggregate, surpass the growth of the G7 advanced economies (Frankenstein, 2010). Although the Goldman Sachs report did not

address the geopolitical and foreign policy aspects of the world after the Cold War, it gave us another side of the prism. While the United States appeared to

BBB- Adequate capacity to meet financial commitments, but more subject to adverse economic conditions (<http://www.standardandpoors.com/ratings/definitions-and-faqs/en/us>).

be the unqualified “winner” from the fall of communism, the new economic order that was emerging in the 1990s had profound political, social and cultural implications. The new players were emerging and a new generation of leaders appeared in each of the four countries. These countries were not and could not be members of the G-7. But they were going to gain influence and international presence (Roett, 2010:4-5). The interplay between the BRIC economies and the G-7 is viewed by the investment community as a critical aspect of globalization and interdependence. (Cheng et. al, 2007). In this section an investigation of the BRIC countries will be conducted, and in particular the role of Brazil in this group and how the country is doing compared to the three other emerging market economies. The BRICs share some important characteristics yet differ greatly on others. Their greatest commonalities lie in the scale of their geographic and human resources. However, they, maybe expect for Russia, remain dual economies and dual societies, with small wealthy urban elites presiding over large rural populations. One can say that their greatest differences lie in their politics; India and Brazil are democracies, Russia a semi-democracy overlaid by a crypto autocracy and China remains a one-party authoritarian state (Frankenstein, 2010). The BRICs have slowly gained greater influence over the international decision making process, which has been dominated by the

major industrial countries-the G7- since the end of the Second World War. There have been important points of convergence on broad issues since the start of the 21st century. These issues includes a new global trade regime, a new financial architecture and an expanded role of the BRIC countries in the workings of the multilateral financial institutions such as the International Monetary Fund (IMF) and the World Bank (Roett, 2010:3). While China's growth depends on the export of manufactured goods to the US and Europe, Brazil focuses on agricultural exports. Russia sells oil, natural gas and other natural resources abroad, while India's growth has been based largely on its domestic market (Roett, 2010:13). The BRICs are geopolitically and economically unique. There is an appealing symmetry in the fact that Russia and Brazil have an abundance of the raw materials that China and India need to grow and improve their infrastructure (Koch, 2011). It is interesting to see that China has taken over as Brazils main trading partner (Moore, 2009). In 2010, China also became Russians main trading partner (Russia Briefing, 2010). That these BRIC countries have a counterpart as their main trading partner reduces their dependency on the developing countries (Koch, 2011).

54\n\n5.2 The development and growth stages Up to the most recent financial crisis in 2008, the BRICs have certainly lived up to their promise. Their rapid growth rate of economic development, huge developmental potential has attracted a large amount of foreign direct investment (FDI). In 2006, the inward Foreign Direct Investment (FDI) of the BRICs accounted for one third of the total amount of FDI in developing countries. China is by far the leading emerging market destination of FDI, the country received \$67.3 billion FDI inflows in 2006, followed by Russia, which received \$48.9 billion FDI in

2007, in fact an increase of 70,3 % from the previous year. Brazil comes in as number three, however, the country increased the inward FDI, going from \$18.8 billion in 2006, to 37.4 billion in 2007. India has lagged behind in the BRIC group the country only attracted \$15.3 billion inward FDI in 2006 (Wan, 2010). Inward FDI to the BRICs have been distributed to different industries. In China and Russia it has mainly centered around the secondary industry, while in Brazil and India the focus has been on the tertiary industry. The Service industry has been the favourite for inward FDI in Brazil due to its special openness policy. It is legal for foreign investors to hold stock shares in manufacturing industry as well as invest in resource exploitation and infrastructure construction. The financial sector, transport and telecommunications in particular, have attracted huge amount of inward FDI. In Russia, fuel industry and metalwork industry has been the main recipient, while in India software, the financial sector and consulting sector have had incredible development over the years due to inward FDI. In China, there have been great investments in the manufacturing industry, but the service sector has also developed significantly (Wan, 2010). Brazil and China were the BRIC countries that experienced sustained growth and inward FDI in the period from 1992-1998. Inward FDI to Brazil rose from 2.06 billion in 1992 to 28.86 billion in 1998. In China, inward FDI jumped from 11 billion to 45.46 billion in the same period. Russia had in this period major fluctuation in inward FDI due to its unstable political systems, and India's inflow of FDI contributed little to the overall BRICs due to its small overall scale. The growth decreased and was brought to stagnation in the period from 1998-2003. Due to the weak American economy and the Asian Financial crisis

in 1997, the world growth rate decreased and so did FDI around the world. In Brazil, inward FDI had maintained fairly high growth rate until 2000 but dropped tremendously since 2001 due to Argentina financial crisis. In China, inward FDI declined in the beginning of this period, but increased 55% slowly afterwards. The high and rapid growth rate for the BRICs started in 2003 and continued until 2006. China has become the major recipient of inward FDI, accounting for 20 % of that of developing countries. Inward FDI in Russia has surpassed that of Brazil, which was at this time the laggard of the BRICs. Even India has experienced rapid growth in this period (Wan, 2010). With the rapid growth these four countries were experiencing, they began to expect greater respect and higher levels of inclusion in the international policymaking process. The BRICs have confronted the industrial countries on a wide range of issues. One of the critical issues was on world trade. When the new round on trade discussions were launched in Doha, Qatar in 2001 the goal was to launch talks on development, to open markets in agriculture, manufacturing, and services, and to finish the DOHA Development Round of negotiations by January 2005. In these discussions, the BRIC countries, Brazil in particular, emerged as the key spokesmen and alternative policy formulators for the developing world. The first two years of talk went relatively well, however, in 2003 the developing countries saw the US-EU agricultural proposal as demeaning and created the Bloc of G20 countries, which was a group of developing countries that stood together in the further trade negotiations (Roett, 2010:138). Further negotiations did not reach any result and it has become clear that future trade talks will require open negotiations between the BRICs and their allies and not with the US

and the EU (Roett, 2010:10).

5.3 Obstacles and financial crises for the BRICs

It has indeed been challenging for these four countries to receive status as rapidly growing economies. The 1990s was the rise of the Asian Tigers, in particular the rise of Japan, and much was made of a new model of economic growth and development. Phase one of the rapid growth collapsed in 1997 with the Asian financial crisis and ended in 1999 with the collapse of the Brazilian currency, and Brazil was the Latin American country most affected by the financial crisis (Roett, 2010: 5). The various crises created a legitimacy issue for the G-7 and their institutions. The developing countries became dubious about the leadership of the West, its multilateral financial institutions, holdovers from the end of World War 2 and the argument of “raw” market-driven development. It was viewed with growing skepticism by the developing countries that peace, democracy and free markets would dominate the century. As the global recovery began in the late 1990s/nearly 2000s, recovering countries looked to their own models for growth, and the BRIC countries were the ones taking the lead (Roett, 2010:6).

In India, the then finance minister Singh opened a process of reform and liberalization that continues today. In China, market forces were allowed into agriculture in the 1970s and that decision unleashed the phenomenon that is China today. In Russia, President Putin in 2002 created a new semi-authoritarian state that restored the country’s confidence and opened a period of relative economic stability. In Brazil, after decades of poor economic management, a turning point took place in 1993-94. The Finance Minister gathered a team of young reformers and introduced a new economic and financial program that promised to control inflation and prepare the country for economic growth.

The Real Plan was an immediate success (Roett, 2010:6). The analysis had a key assumption that the BRICs would maintain growth supportive policies that included sound macroeconomic policies and a stable macroeconomic background, strong and stable political institutions, openness and high levels of education. However, there was in 2003 a caution regarding Brazil's prospects. Compared to China and the other Asian economies, Brazil was much less open to trade, investment and savings were lower and public and foreign debt were much higher. Regarding trade, the tradable goods sector in China was almost eight times larger than that in Brazil, when measured by imports plus exports. At that time, savings and investment ratios in Brazil were around 18-19 percent of GDP, compared to an investment rate of 36 percent of GDP in China and an Asian average of around 30 percent. Also, China's net foreign and public debt was significantly smaller (Roett, 2010:7). The Goldman Sachs report from 2005 said that between 2000 and 2005, the BRICs contributed roughly 28 percent of global growth in US dollar terms and 55 percent in purchasing power parity terms. In 2005, the group had doubled its 2001 level of global trade, which was now close to 15 percent. Also, trade among the BRICS had accelerated with intra-BRICs trade going from 5 percent in 2000 to reaching nearly 8 percent of their total trade in 2005. It seemed now that the BRICs were clearly playing an important role in global financial developments. Recent estimates indicate that the BRICs hold more than 30 percent of world currency reserves and real exchange rates have appreciated in each country over the last few years (Roett, 2010:8).

Regarding the most recent financial crisis, the developing countries were not as strongly affected as the developed countries. According to a report

from Financial Times, the BRICs showed a positive stock market performance (Oakley and Waldmeir, 2009). The resilient domestic demand of emerging markets, especially the BRICs, would become a key driver for the export-driven economic recovery on industrial countries over the next few years (Roett, 2010:11). The George W. Bush administration in Washington were pressured by its EU allies to expand the decision making framework from the traditional G-7 to the G-20, a group that would include the largest economies in the world. The BRICs played an active role in the meetings and they were eager to strengthening transparency and accountability, promoting integrity in financial markets and reforming international financial institutions (Roett, 2010:11). The BRICs issued their own declaration with their vision for how the world leaders should respond to the crisis. They called for reform of the IMF as well improved information sharing from the industrial countries. At a meeting in September 2009, one of the most important outcomes for the BRIC countries was the agreement to modernize the infrastructure of global economic cooperation. At least 5 percent of the IMF quotas would shift from “overrepresented” countries to “underrepresented” ones, in order to reflect the relative weights of emerging markets in the world economy. In addition to this, there would be a 3 percent increase in voting power of developing and transition countries within the World Bank. It now appeared that the economic strength of the BRICs would be matched with decision-making power in global institutions (Roett, 2010:12).

5.4 Summits

The first two summits were held in Russia in 2008 and 2009. The meetings were held due to the increasing consultation among the four countries on policy issues of growing concern. The frustration of the USD’s status as the world reserve

currency was a serious issue for the BRICs, who have made it clear that they want a supranational currency to replace the USD. China in particular, is concerned about the US budget deficits cause they might lead to inflation and a weaker USD and this would hurt Chinas investment in US government debt. The Chinese central Bank has called for a new international currency to replace the USD (Roett, 2010:13). The monetary issue was again discussed in the 2010 BRIC summit in Brazil. In the joint statement following the meeting, it was said that there is a need for a more stable, predictable and diversified international monetary system. The BRICs underlined that 58\n\nthe emerging markets are playing an important role in economic growth and they stressed that the world needs a more stable and reformed financial architecture that will make global economy less prone and more resilient to future crises. The BRICs also stated that they want more power with the international organizations such as the World Bank and the IMF, stressing that there must be a shift in voting power in favour of emerging markets and developing countries to bring their participation in decision making in line with their relative weight in the world economy (Council on Foreign Relations, 2010).\n\n5.5 The role of Brazil It is obvious that Brazil has a place among these four fast growing developing economies. Although China is indeed the major recipient of FDI, Brazil has showed growth through the last two decades and in 2010 Brazil was one of the world's fastest growing economies (Lopez, 2011). Brazil has indeed reached outside South American borders to strengthen its ties with the other BRICs and other developing countries. An example of this is "The IndiaBrazil-South Africa Dialogue Forum", more commonly known as IBSA, which is a dialogue forum created

in Brasilia in 2003 under the leadership of President Lula (Roett, 2010:133). According to the forums home page: "IBSA is a coordinating mechanism amongst three emerging countries three multiethnic and multicultural democracies, which are determined to contribute to the construction of a new international architecture, to bring their voice together on global issues and to deepen their ties in various areas. IBSA also opens itself to concrete projects of cooperation and partnership with less developed countries" (IBSA). According to Roett (2010), IBSA is not yet recognised as a major international actor, but the forum reflects the fact that Brazil, India and South Africa have begun to assume a pro-active and increasingly collective bargaining role in an international context. The fact that these countries are cooperating and take a common stand on international conflicts shows that the South is beginning to approach global problems (Roett, 2010:133). The annual summits of the forum have emphasized stronger trade relations, support for democracy and human rights, peace and development. The development of a dialogue between IBSA and the European Union has been of high priority. The goal in such a relationship is for India, Brazil and South Africa to act as a counterweight to the industrial countries by using soft balancing power instead of trying to act as a rival (Roett, 2010:134). Russia is also interested in doing more business with Brazil. President Medvedev made it clear in 2008 that he hoped trade between Brazil and Russia would double from a modest baseline of \$5 billion in 2007, and he also announced plans to coordinate the two countries efforts "in fighting the crisis and creating a new global financial architecture." (BBC, 2008--Russia and Brazil heads push ties), (Roett, 2010:134). The relationship between China

and Brazil is seen as a very important one. These two countries have been strategic partners since the mid-1990s, and since the beginning of the 2000s, the leaders have met regularly. Brazilian exports to China have grown rapidly and in the spring of 2009, China became Brazil's biggest trading partner for the first time, displacing the U.S. Even though these countries are grouped under the same banner much has happened since the Goldman Sachs report was published in 2001. The difference between these countries has always been stark in terms of political set up, market size and the balance of their economies. However, it seems that these countries will play an important role in the world economy in the years to come.

6. Economic Analysis 6.1 Foreign Direct Investment

Brazil's economy is the largest in Latin America with a GDP of USD 2.1 trillion in 2010 (Brazil Country Brief). Years of economic growth, credible macroeconomic policies and a rising middle class have positioned the country as a leading recipient of foreign investment and an emerging player in global commerce. These factors make the economy one of the world's most dynamic and promising forces among emerging markets. Brazil is said to be the third-most-attractive country for future FDI, behind China and India (Economist Intelligence Unit, 2010).

During the 1980s, FDI was not at all high, but quite stable. At this time Brazil was a developing country and a large protected market protected by all sorts of trade barriers. This was the main factor that attracted the flows of FDI to Brazil. Since the start, foreign investments were regulated by a logic of market-seeking, the profitability of the investment being guaranteed by the protectionist trade policy. There were restrictions on the activity of foreign companies in sectors that provide finance and insurance services and there

were also state monopolies in the oil and gas sectors and in telecommunications and postal services. It was not until the 1990s the liberalizing reforms were introduced (Veiga, 2004). During the 1990s, Brazil and the other Latin American countries changed their trade and development policies, to varying degrees from the “import substitution industrialization” policies of the 1960s and 1970s to more “export-oriented” trade liberalizing alternatives. The Brazilian development policy shifted from a focus on insulating the economy from international trade pressures to a focus on integrating into the global economy through enhanced trade (Shaffer, Sanchez and Rosenberg, 2008). As seen in the chart below, there was a positive trend of foreign investment until the beginning of the 1990’s. FDI was not as high as it came to be in the later decade, obviously that was due to the fact that Brazil was not yet that open to trade as it came to be later in the globalization process. Chart 1. FDI--inflow in Brazil 1970--2009 (Millions USD).

FDI-inflow in Brazil 1970-2009

Year	FDI-inflow (Millions USD)
1970	250
1975	200
1980	150
1985	100
1990	50
1995	0
2000	100
2005	200
2009	250

Source: United Nations Conference on Trade and Development

As mentioned, the first attempt by the Collor administration in 1990 to liberalize trade further was not met with support and it failed quickly. In 1994, when the Real Plan was introduced, foreign investment skyrocketed.

Macroeconomic stability and a more stable financial system attracted foreign investors. As mentioned, the then president Cardoso opened the economy to

Data retrieved from <http://unctadstat.unctad.org/TableViewer/dimView.aspx>

private investors and privatized state-owned companies. Private investment in restricted sectors such as electricity, mining, banking and

telecommunications was now allowed, which attracted foreign investment (Economist Intelligence Unit, 2010). Foreign investment was kept relatively stable through the 1990's, even though Mexico and Argentina were hit by financial crises that in turn affected investment in Latin America. However, when the world was affected by the financial crisis in Asia in 1997, there was economic recovery in Latin America. At this time, Brazil and other developing countries were becoming more and more attractive for foreign investors. Latin America was the star performer among developing country regions in 1997. The region surpassed South, East and South-East Asia in FDI per capita. FDI inflows set a new record in 1997; it grew by 19 percent (World Investment Report, 1998). The world was hit by a financial crisis in 2001, leading to a decline in inflows to Brazil until 2003, when it started to pick up again. According to UNCTAD, FDI inflows had been on a downward trend since 2000. The decline was concentrated in services in the South American countries and FDI into services was important for Brazil. After the deregulation and privatization within telecom, utilities and banking, these had been attractive companies to invest in. With this came macroeconomic stability and growing markets which made South America an attractive region for foreign investment (World Investment Report, 2003). As mentioned in chapter 4, growth in Brazil had stagnated in 1999 and in the early 2000's the country operated with tight monetary and fiscal policies and this was a factor behind the decrease in inflows. Between 1999 and 2003 the United States was the main single investor by stock of FDI, followed by Spain, the Netherlands, France and Cayman Islands. In 2003 the EU as a group was the main investor, representing over 35 percent of total

investment in Brazil (WTO trade policy review, 2004). FDI flows to Latin America and the Caribbean fell by 3 percent in 2003 to \$50 billion, which was the lowest level since 1996. UNCTAD predicted a recovery in FDI flows in 2004 after a few years of decline. Brazil, Argentina and Mexico saw the largest declines (World Investment Report, 2004). On the other hand, Brazil and Mexico remained the most important recipients of foreign investment, despite declines. In 2004, global FDI inflows rose modestly. Global economic growth had recovered gradually in 2002 and 2003 and in 2004 world economic growth reached 5,1 percent, which was the strongest growth since the mid 1980s, and obviously increased economic growth helped attract more foreign investment. The growth reflected increased flows to the developing countries and in Latin America and the Caribbean's FDI flows rose by 44 percent. Brazil, together with China, Hong Kong, Mexico and Singapore accounted for more than 60 percent of total flows (World Investment Report, 2005). The positive development of FDI inflow continued in 2005 globally. In Latin America and the Caribbean's there was only a 3 percent increase, much lower than in 2004 when flows to the region had risen 118 percent. However, Brazil experienced a decline compared to the previous year. FDI inflows went down by 17 percent in Brazil (World Investment Report, 2006). The decline in inflow to Brazil is due to the lower value of cross-border M&As, which has become a popular mode of foreign entry (World Investment Report, 2006). Additionally, the strong appreciation of the real discouraged investors from export-oriented foreign investment. The healthy development and good performance of the Brazil in recent years has reduced the government's dependence on external finance. In 2005, Brazil decided to

pay their debt to the IMF as mentioned in chapter 4. Global FDI reached a record high in 2007. Cross-border M&As picked up due to strong and sustained economic growth. In the Latin America and Caribbean region, the highest growth was noted in South America and there was a particular upsurge of flows into Brazil. Brazil took measures to promote investment in specific activities and the government announced measures to boost exports of manufactured goods (World Investment Report, 2008). This year the Netherlands was Brazil's main single investor with 21,3 percent of total FDI, followed by the United States, the Cayman Islands, Spain, Germany, France and Luxembourg. These seven investors accounted for some two thirds of all FDI inflows during the period. The following year the world was hit by a global financial crisis, but Brazil and the Latin American region was not hit as hard as many other economies. The global financial and economic crisis had a dampening effect on FDI in 2008. The collapse of the American financial institution Lehman Brothers led many developed economies into recession. Following a period of uninterrupted growth from 2003 to 2009, global FDI flows declined in 2008 and early 2009 in the developed countries.

Developing countries on the other hand, saw inflows rise in 2008 to a record level, with their shares in global FDI inflows growing to 37 percent from 27 percent in the previous year. Brazil alone accounted for half of South America's total inflows. The rise of FDI to Brazil resulted from an almost trebling of inflows to the primary sector, mainly due to cross-border M&As in the metals and minerals extractive industry. South American economies were affected by a drop in commodity prices, deteriorating terms of trade and weaker demand in export markets other than the United States.

Inflows into developing countries started to decline in late 2008 as the economic downturn in major export markets began to seriously affect their economies (World Investment Report, 2009).

6.2 Foreign Trade

Brazil's trade is restricted mainly to market access and dominance in regional trade where it feels most ready to compete. Attaining greater bargaining power through the Mercosur coalition and slowing the multilateral trade liberalization process to allow more time for economic adjustment are the perceived benefits of Brazil's strategy. Brazil also wishes to enhance its national influence in the world by protecting domestic economic capacity. These "trade preferences" are not randomly determined, but are deeply embedded in the country's industrial, foreign and macroeconomic policies. Brazil seeks to integrate South America. (Hornbeck, 2006).

Chart 2. Trade as a percentage of GDP in Brazil 1980--2009.

Year	Trade as a percentage of GDP
1980	30
1981	28
1982	26
1983	24
1984	22
1985	20
1986	18
1987	16
1988	14
1989	12
1990	10

Source: The World Bank

Data retrieved from <http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS>

Brazil's main trading partners are the European Union (EU), China, the United States, Argentina and Japan. As we can see the country trades with both major developed economies and emerging economies. Brazil has increased their trade with developing countries during the past years. During 2000 and 2003 exports to Africa increased by 112,3 percent, the Middle East 109,7 percent, Eastern Europe 108,6 percent and Asia 84,6 percent. The expansion of Brazil's foreign trade has helped the country to better integrate into the global economy, although Brazil still accounts for only 1 percent of world trade (Maag, 2005).

Chart 3. Inflation in Brazil 1995--2009.

Inflation,

consumer prices (annual %), Brazil 1995-2009 30 25 20 15 10 5 0

Source: The World Bank

Brazil's export performance was quite disappointing to the 1990s compared to the 2000s. Brazil has maintained a floating exchange rate since 1990. During the 1990s, Brazil experienced macroeconomic instability, inflation was high, and this especially affected the exchange rate, which again affected exports to other countries. As prices increased goods became more expensive for their trading partners. Exports increased significantly after the major devaluation of the country's currency in 1999 as a result of the financial crisis in Asia and the Russian devaluation this marked a period of sustained currency weakness (Maag, 2005), (International Economics: Brazil). Between 1999 and 2003 Brazilian exports increased

Data retrieved from <http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG>

significantly (WTO trade policy, 2004). Export to all of Brazil's main trading partners increased except for the Mercosur countries, mainly due to the economic crisis in Argentina, Brazil's main trading partner in the region. There were some important changes in terms of exports directed to its main trading partners. In general terms, the shares of North and South America, as well as Europe fell substantially, to the benefit of Asia and Africa, both on the export side as well as on the import side (WTO trade policy, 2004). However, the EU remained the main destination for Brazil's merchandise exports, accounting for almost 25 percent of the total. Chart 4. Real per USD 1991--2010.

Real per USD 1991-2010 3,5 3 2,5 2 1,5 1 0,5 0

Source: The World Bank

The real has appreciated by more than 60 percent in nominal terms between 2004 and 2008 and we can see from the table that during this period trade as a percentage of GDP has fallen. As effect of the

financial crisis in 2008 the real depreciated by some 30 percent in nominal terms with respect to the dollar and other major currencies in September-October 2008. Between 2003 and 2007 exports to the United States lost market share partly due to the strong real vis a vis the USD. Despite this the United States remained the most important single destination for Brazilian exports, representing 15,8 percent in 2007, down from 23,1 percent
Data retrieved from <http://data.worldbank.org/indicator/PA.NUS.FCRF>
in 2003. Exports to Argentina were three times higher in value terms in 2007 than in 2003, making it the second largest single export destination. In 2007 exports to Africa were three times higher than in 2003, which was partly reflected by higher economic growth in this part of the world. Brazilian imports from the United States and the European Communities lost market share, while those from Asia and Africa increased. In 2009, Brazil and the rest of Latin America were affected by the financial crisis to a larger degree than the previous year, and it can be seen from the chart that trade as a percentage of GDP decreased (WTO Trade Policy Review, 2009).

Political Analysis
Brazil is a member of the main important international organizations. Mercosur, The World Trade Organization (WTO), The World Bank, The International Monetary Fund (IMF) and The United Nations (UN) are considered to be some of the more important ones. By looking into Brazils participation and role within these international organizations an analysis of how globalization has affected Brazil politically will be conducted in this section.
7.1 Mercosur Established in 1991, this trade organization originally consisted of Argentina, Brazil, Paraguay and Uruguay. In 2006 Venezuela was accepted as a member (European Commission: Mercosur).

This organization is South America's leading trading block and known as the common market of the South. It aims to bring about the free movement of goods, capital, services and people among its member states (BBC, 2010). Primary interest has been eliminating obstacles to regional trade, like high tariffs, income inequalities, or conflicting technical requirements for bringing products to market (Klonsky et. Al, 2009). The bloc's combined market encompasses more than 250 million people and accounts for more than three-quarters of the economic activity on the continent. Brazil and Argentina are the economic giants of Mercosur. Bolivia, Chile, Colombia, Ecuador and Peru are associate members; they can join free-trade agreements but remain outside the bloc's customs union. Mercosur tariff policies regulate imports and exports and the bloc can arbitrate in trade disputes among its members (BBC, 2010). The Mercosur trade blocs purpose is to allow free trade between member states with the ultimate goal of full South American economic integration. It is the world's fourth-largest trading bloc after the EU, North American Free Trade Agreement (NAFTA), and the Association of South East Asian Nations (ASEAN). Mercosul concluded in 2008 a free trade agreement with Israel and another arrangement with Egypt was signed in 2010. Mercosul is pursuing free trade negotiations with Mexico and Canada (U.S Department of State, 2011). The purpose of this analysis is to see Brazils role within Mercosur and its relationship with the other member countries. According to Klom, Brazil uses Mercosur as a political and economic alliance to confront other powers, in particular the US in the FTAA and the WTO and the EU in the EU-Mercosur context and in the WTO. The Brazilian market, in particular that of the south/south-eastern

states, is the economic core of the region. Neighbours depend on the Brazilian market, as demonstrated by the direction of export flows from Paraguay, Uruguay and Argentina towards Brazil. International investors and exporters, including those in Europe, seeking access to Brazil do so on the promise of regional coverage (Klom, 2003). The role of Brazil as the “big country” and “natural leader” of the region underpins the balance of power among the Mercosur partners. The timing of Mercosur's birth in 1991 was no coincidence. This was just after the Cold War had ended and at this point political relations in Latin America were beginning to change and the development we now know as “globalization” was starting to affect the world. Uruguay and Paraguay, which are the smaller countries, incline towards a stronger degree of supranational governance, but Brazil does not accept this. Mercosur should provide its members with a platform for projecting themselves into world markets and a framework within which they are better able to absorb globalization. It takes an outward-oriented view of the integration process, as a means of participating more effectively in the international economy and in international negotiations (Klom, 2003). In Mercosur the common market is mainly based on Brazil, which reaffirms the other members economic dependency. Mercosur does not make any financial transfers stimulating members to develop and diversify. The predominance of Brazil makes it the member that is most opposed to any supranational development within the organization. However, Brazilian domestic policies are the real drivers behind the pace of Mercosur progress. There are two factors that shape Brazil's position on Mercosur; first a predominance of interests by import-competing sectors over export-oriented

sectors; and second, a hegemony of the strategic vision of building regional power and autonomous development. These factors can both be attributed to Brazil's past visions on national development, which even today may still be playing a significant role in determining Brazilian positions in Mercosur (Klom, 2003). Brazilian foreign policy was directed towards the US for most of the twentieth century and only on occasion towards Europe. Due to the US difficulties with Mercosur, Brazil has been pushed towards Europe. Mercosur and the EU have strong relations and this strong relationship have been crucial in inclining Brazil's foreign policy towards the EU. The preferential relationship with the EU fulfils Brazilian objectives in building alliances that support its international ambitions. A European-leaning Mercosur serves as a positive instrument in Brazil's external relations and national development strategy, as does the process of EU-Mercosur negotiations. Mercosur is the top priority of Brazil's foreign policy and therefore considered to be the most important trade organization that Brazil is a member of (Klom, 2003).

7.2 The World Trade Organization

The WTO is the only global international organization dealing with the rules of trade between nations. The goal is to help producers of goods and services, exporters and importers conduct their business. The organization's main function is to ensure that trade flows as smoothly, predictably and freely as possible (WTO, 2010). Brazil, as a major exporter of agricultural products has adopted an offensive stance in negotiations on the liberalization of trade in agriculture taking place in the WTO, as well as in other negotiation processes. Brazil has participated actively in the Cairns group, which is a coalition of developed and developing countries exporting agricultural

products. Before the WTO Ministerial Conference in Cancun in September 2003, Brazil led the setting of an issuebased developing countries' coalition aimed at bargaining jointly during the Ministerial Conference and beyond. This new coalition, the G20, brought together developing countries with traditionally adopted differing - even opposed - positions in the agricultural negotiations in the WTO (Veiga). The decision making process that led to the establishment of the G20 involved intensive interaction between public and private domestic actors and between these actors and external players. The domestic and external players became more and more interconnected as the G20 was set up and became a relevant player in agricultural negotiations at WTO.

By the late 1980s, agricultural exports concentrated on primary goods such as coffee, cocoa and cotton, and were strongly regulated by state owned sectoral bodies. Due to this fact, the private sector did not show a great deal of interest in trade negotiations. During the negotiations to launch the sub-regional integration process, the private sector adopted a defensive stance and they focused on the alleged risks of competition in the domestic market arising from elimination of tariffs among Mercosur member countries. From 1995 and onwards a strong expansion of agribusiness productivity took place in Brazil, this was obviously driven by large investments. In the WTO, the new position taken by the private sector The Brazilian Minister of Agriculture called for the adoption of an "autonomous position" in 2003. The main sectoral Brazilian agribusiness associations created a research institute geared to providing technical support to the ongoing agricultural negotiations at the WTO. The so-called "Harbinson paper" was made public in the WTO talks, and a working group consisting of

ministries of Agriculture and Foreign Affairs, governmental agencies and private representatives related to the agriculture and agribusiness sector undertook an analysis of this paper, formulating technically sound proposals on each of the points it raised (Veiga). Brazil has been a leading player in the Doha Round negotiations and continues to seek to bring that effort to successful conclusion (U.S. Department of State, 2011). The country supports the strengthening of Special and Differential Treatment for developing countries and considers it to be an essential part of an agreement on agriculture (Maag, 2005). Brazil wanted with the establishment of the G20, create a coalition to build a consensus among developing countries with heterogeneous interests in the multilateral negotiations on agriculture. No agreement on agriculture was reached in Cancun, but the G20 was perceived by public opinion as a legitimate a constructive effort by developing countries to advance their interests in the WTO negotiations and to defend the idea of a development round. In the financial arena the G20 has gained an increasingly important role in the last few years. Brazil has even pushed for the G20 to replace the G7, which is limited to industrial nations, as the leading forum for discussing and solving global issues such as the economic crisis (Roett, 2010:138). The G20 is today an important partner in the agricultural negotiations and after the failure in Cancun the Non-Group-5 (NG-5) was created. This group consists of the United States, the EU and Australia, which are the major developed players in the agricultural negotiations, as well as Brazil and India. The assessment of the strategy of setting up the G20 is widely positive in Brazil, despite the setback of the Ministerial Conference in Cancun 2003 where the coalition

made its debut. Brazil still participates in the Cairns group, and the country has made efforts to keep the G20 coalition alive and has involved itself - with India - in the NG-5. Brazil has together with China and India come to enjoy a "new level of influence" in the WTO. They are described as advanced developing countries and with these three countries as "majors" within the WTO represents an important step forward, moving the overall negotiating dynamics to more closely reflect the dynamic economic reality of today's trading system (Rediff, 2010).

7.3 The International Monetary Fund

The IMF has 187 member countries and was established toward the end of World War 2. Brazil is one of the organization's original members (IMF: list of members, 2011). The founder's aim was to build a framework for economic cooperation that would avoid a repetition of the economic policies that had contributed to the Great Depression of the 1930s and the global conflict that followed. The primary purpose of the organization is to ensure the stability of the international monetary system-the system of exchange rates and international payments that enables countries to transact with one other (IMF: The IMF at a Glance, 2011). Today the IMF has 187 member countries and it helps member governments take advantage of the opportunities-and manage the challenges-posed by globalization and economic development more generally (IMF: What we do). According to the IMF, Brazil has a key role to play in the global economy. As the organization moves forward with reforms to its own governance structure, Brazils influence will be part of the successful process of change within the institution (IMF, 2010). Brazil even became a creditor to the fund for the first time in 2009, signaling that it does not need the IMF (MercoPress, 2009). The purpose of this lending was to

boost its position within the organization in forms of votes and veto power.

Brazilian officials said at the time that this would strengthen Brazil's international political standing (Liquid Asset Property, 2009). The leaders of the Group of 20 have pledged to push for agreement on greater voting power for emerging economic powers in the fund (Reuters, 2010).

Developing countries have for a long time criticized the voting system of the IMF. The United States and Japan maintain the two largest voting shares, but it was decided in 2010 that two European seats on the 24-member executive board now be reserved for emerging economies. Former managing director of IMF, Dominique Strauss-Kahn announced in 2010 that Brazil, China and India now are major players and given a significantly larger role in stabilizing the world economy (The Hindu, 2010). Currently there are five countries that essentially make up the board membership as they are always represented. These are the US, Japan, Britain, France and Germany. The group will be expanded to ten with the addition of China, India, Brazil, Italy and Russia (Klapper, 2010). The new managing director of the fund, the finance minister of France, Christine Lagarde, announced before she was elected that she "promised to give developing nations a greater voice at the International Monetary Fund". Lagarde chose Brazil as her first destination in the campaign because of the country's importance as a large emerging economy, which is important in the international scene (Galvao and Ragir, 2011). Prior to the election of the new French managing director, Brazil was pushing for a director from an emerging economy (Winter, 2011). The country welcomed the Mexican Central bank chief's candidacy, but stopped short of offering an endorsement (Colitt, 2011). In the end Brazil backed

Christine Lagarde, aligning itself with China instead of its Latin American neighbours. According to Brazilian Finance Minister Guido Mantega, Brazil chose Lagarde because of her commitment to continuing IMF reforms "which implies increasing representation among emerging economies" (Versiani and Marcello, 2011). That an organization such as the IMF, which has been very influenced by Europe and the US, makes this promise to the emerging economies implies that even more power will be given to these nations in the coming years.

7.4 The World Bank

The World Bank was established in 1944 under the name "The International Bank for Reconstruction and Development (IBRD). The mission evolved from being a facilitator of post-war reconstruction and development to the present day mandate of worldwide poverty alleviation in close coordination with the International Development Association and other members of the World Bank Group (The World Bank: History). The World Bank is a vital source of financial and technical assistance to developing countries around the world. Their mission is to fight poverty for lasting results and to help people help themselves by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors (The World Bank: About Us).

As Brazil still struggles with poverty in the country, the World Bank plays an important role in fighting this. However, Brazil as an emerging nation can also expect to receive more power within the organization. The president of the World Bank, Robert Zoellick was earlier this year in Brazil to broaden the Bank's strategic partnership with the country in the context of its growing role in global issues and international development. The fact that Brazil has managed to grow as quickly as it has

gives the country an experience of development that it can share with the world. Brazil has in the last decade raised more than 20 million people from poverty and laid strong economic foundations for growth and crisis resilience. The World Bank has been a partner in these efforts and Brazil is one of the top World Bank Group clients. The fact that Brazil has a growing role internationally makes the country a desired partner for the World Bank. Brazil is taking on an active role in international development, which will have a positive effect on its future influence on the World Bank and its decisions. (The World Bank: Press Release, 2011). Brazil and other emerging countries are also in the World Bank aspiring to have greater voting power. According to Zoellick, besides greater representation in decision-making mechanisms, there must be a change in the institution's attitude toward developing countries (China Daily, 2011). During the financial crisis in 2008 finance ministers from the G20 countries were looking to increase the role of emerging nations, as part of reforms to tackle the current crisis. At this time Brazil and other emerging-market nations did not feel that they had sufficient representation within the World Bank (BBC, 2008). The World Bank is advancing multiple reforms to promote inclusiveness, efficiency and accountability among others. But efforts must go further to realize a World Bank Group that represents the international economic realities of the 21st century and provided a larger voice for developing countries.

7.5 The United Nations The United Nations was founded in 1945 by 51 nations committed to maintaining international peace and security, developing friendly relations among nations and promoting social progress, better living standards and human rights. The organization has 193 member countries.

Brazil is a charter member of the UN and participates in many of its specialized agencies. It has contributed troops to UN peacekeeping efforts in the Middle East, Congo, Cyprus, Mozambique and Angola (Brazil Country Review, 2011). In the UN's political consultations, Brazil is coordinating its actions with the Rio Group⁹, which established regular meetings with China and the EU (Kage, 2006). Former president Lula set new priorities in Brazil's UN policy. Together with the President of France and Chile at the UN he launched the initiative "Action against Hunger and Poverty" in 2004. The aim of the initiative is to find and implement new financing mechanisms to reach the UN Millennium Development Goals (MDGs) and to provide additional sources of finance to the official development assistance goal of 0.7 percent. It began as the "Lula group", which in addition to Brazil, included Algeria, Spain, France, Germany and Chile, but by 2006 about 40 countries had committed themselves to support the project of "solidarity contributions", which began with a levy on air tickets. The proceeds and direct contributions are intended to increase access to high-quality diagnostics and drugs against Malaria, HIV/AIDS and Tuberculosis in the poorest countries (Kage, 2006). Under Lula, Brazil also addressed equity and justice by backing the concept of "Human security" at the UN. The Peacebuilding Commission is seen by Brazil as the missing link between security and development (Kage, 2006). The overall objective of the Human Security Unit (HSU) is to integrate human security in all UN activities. The HSU plays a pivotal role in translating the concept of human security into concrete activities and highlighting the added value of the human security approach (UN: Human Security Unit). Additionally, Brazil supported the founding of the Human Rights Council.

Brazil pleads, in light of its own large indigenous populations, for the adoption of the Universal Declaration on the Rights of Indigenous Peoples and favours the discussion of a right of petition in cases of violation of cultural, social and economic rights (Kage, 2006). In 2010-2011, Brazil is serving as a nonpermanent member of the UN Security Council. Prior to this it had been a member of the Council nine times, and it is seeking a permanent seat in the Council (U.S. Department of State, 2011). The Security Council is powerful because it is responsible for maintaining international peace and security and can authorize military action and impose sanctions, so

The Rio Group was created in 1986, members: 19 Latin American states and CARICOM (Caribbean Community) (Kage, 2006).

membership is coveted. The permanent members are today the US, Russia, China, Britain and France and their support is essential for any reform to be adopted (MercoPress, 2011). In 2004, the then US Secretary of State, Colin Powell, said to CNN that Brazil is a serious contender for a possible spot on an expanded UN Security Council, due to its size and nonnuclear status (Labott, 2004). In 2009, Brazil was building up an international campaign to secure a permanent seat. Former president Lula made obtaining a permanent council seat for Brazil one of his major foreign policy goals (UPI, 2009). In 2010, Brazil was backed by Britain on the matter. The British Foreign secretary emphasized that Britain will continue to push for reform in the UN and make Brazil a member of the Council (Rathbone, 2010). This year, Brazil has together with India, Germany and Japan demanded a reform within the UN Security Council. The UN has since 1979 been talking about expanding the council to reflect the world in the 21st

century, not the global power structure after World War 2 when the UN was founded. However, every proposal has been rejected, primarily because of rivalries between countries and regions more concerned about their own self-interests than the improved functioning of the UN (MercoPress, 2011). Earlier this year, US president Barack Obama met with Brazilian president Dilma Rouseff and he heralded Brazils extraordinary rise on the world stage, but stopped short of backing its bid for a permanent seat on the council (Fox Business, 2011). The General Assembly will meet in September this year to discuss if the reform of expanding the council from the current 15 seats, 5 permanent and 10 rotating (Brazil, 2011). In addition to pushing for a seat on the council, a Brazilian has been elected as Director-General of the UN Food and Agriculture Organization. Jose Graziano da Silva was elected in June this year (Castelfranco, 2011).

8. Poverty and income distribution analysis As mentioned in chapter 3, Brazil has one of the most unequal distributions of national income in the world. Income inequality in Brazil remains high by international standards and is rooted in structural causes, such as inequality in educational attainment and land ownership (Clements, 1997). The chart below shows the Gini coefficient for Brazil during the years 1981-2009, and as seen in this chart, the income distribution has been fluctuating since the beginning of the 1980's. But as one also can see, both poverty and income distribution rates has, since the beginning of the 21st century, been declining. According to Coes, real per capita income in Brazil has increased significantly during the last two decades. However, relative inequality in the distribution of income has remained high in the country. The debate about the trends in the Brazilian income distribution began in the

1970's, with the release of data showing that relative income inequality had worsened between the 1960's and the 1970's. During this decade, per capita income increased by over 2 percent at annual rates. Over the same period, however, the Gini index rose from 0.50 to 0.57, making Brazil one of the world's most unequal countries (Coes, 2005). Chart 5. Gini coefficient for Brazil between 1981--2009. Gini coefficient for Brazil 1981-2009

Year	Gini Coefficient
1981	64
1982	62
1983	60
1984	58
1985	56
1986	54
1987	52
1988	50
1989	48

Source: The World Bank

Since the macroeconomic stabilization program was implemented in Brazil in 1994 with the real plan, the percentage of Brazilians living below the national poverty line has decreased and the income distribution rate has declined, as seen in the tables. In 2004, around 20 million people or about 11,3 percent of the population were extremely poor, living with a monthly family income per capita up to one fourth of the minimum wage. Around 50 million people, or 30 percent of the population, were poor, living with a monthly family income per capita up to one half of the minimum wage. Around 19 percent were living at the national poverty line, according to the chart above (WTO). According to Garbelotti, the problem of income distribution can be seen from two different sides. One derives from capitalism and is related

Data retrieved from <http://data.worldbank.org/indicator/SI.POV.GINI>

into the personal capacities of each person in their national desire to increase its own level of wealth and well-being. The other derives from what Garbelotti mention as intergenerational poverty, and is related to the fact that poverty tends to be kept over generations (Garbelotti, 2007). It is interesting to look at factors that cause the distribution of income on the individual level to change. According to Lopez-Calva and Lustig, these causes can be broadly

classified into four categories: i. changes in the underlying distribution personal characteristics (that is, the racial, ethnic, age, gender, health and educational make up of the population) and population's location (rural or urban areas, for example); ii. changes in the returns to assets, personal characteristics (in particular, the return to human capital) and location; iii. changes in how people use assets (for example, utilization of arable land) and participate in the labor market (for example, active/inactive, self-employment/wage labor and hours worked); iv. changes in transfers, both private (e.g., remittances) and public (e.g., cash transfers or in-kind transfers). State action can modify the distribution of income directly through budgetary or fiscal interventions (taxes and transfers) that change disposable income and purchasing power. It can also do it indirectly through interventions such as transfers of productive assets such as investment in human capital and land reform and policies such as price controls, labour market regulations and import or export restrictions. In the case of Brazil estimates have been made of the role played by public policy and the performance of markets in the evolution of income inequality. Four dimensions have received highest focus: (i) changes in wage differentials by skill level; (ii) changes in labor market segmentation; (iii) changes in government (or public) transfers, and (iv) changes in the minimum wage. Between 2001 and 2007, wage differentials between workers of different skills, living in different locations, and working in different sectors (formal/informal; primary/secondary) narrowed. Also during this period, public transfers rose (both in terms of average benefit and coverage), and the real minimum wage increased (Lopez-Calva and Lustig, 2009).

policies have been important for poverty reduction and decrease in equality. Conditional cash transfers have since the late 1990s become the mainstream of the social policy in Brazil through the implementation of several programs. Cash benefits are said to be more cost-effective and flexible. The Bolsa Familia program is focused on health and education and these are components of human capital that are considered essential for breaking the circle of intergenerational poverty. The cash transfer programs have impacted child labour and school attendance positively. School attendance has increased in the period from 1992-2001 and child labour by children from the ages of 10 to 17 has declined (Garbelotti, 2007). It is important to focus on the fact that Bolsa Familia is a social assistance program rather than social security. It is about giving the poor an opportunity to get out of poverty by providing means for schooling and further education as well as better access to health benefits. In comparison, income inequalities tends to be more unequal in Latin America than in other regions, and in no other Latin American country is the gap between rich and poor as wide as in Brazil (Clements, 1997). As seen in the charts above, income inequalities in Brazil during the 80's and 90's remained high. It peaked in 1988, and this was due to political turmoil and a lack of fiscal discipline. The Bresser Plan had failed and the country experienced negative growth. During the end of the 1980s, the Gini index increased from 58 to 63. A decrease in income distribution and poverty rates did not show until the early 21st century. As mentioned earlier, during the last decade social reforms have been introduced and measures have been taken to reduce poverty. The main reason for this improvement in income distribution is the

reduction of poverty. Other reason includes a decrease in food prices, improvements in scholarships and mainly the advances in social programs, social welfare incomes and a real increase in the minimum wage (Garbelotti, 2007). Between 1992 and 1996 labour income grew fast in Brazil at 6.9 percent per year. However, the pattern of growth during these years was not pro-poor, and the increase in labour income per capita at the low end of the distribution was consistently below the mean rate. Regardless of how high or low the poverty line would have been set, within reasonable boundaries, the change in labour income per capita was not pro-poor. It can be seen from the chart that the Gini index is on its way down. Between 1996 and 2004, per capita labour income decreased by -1.6 percent and this reduction originated from a large percentage fall in earnings per worker (Zepeda et. al, 2007). Between 2001 and 2005, the national income per capita increased by 8 percent to the 10 percent poorest and by 5.9 percent to the 20 percent poorest, besides the fact that national income increased only by 0.9 percent. At this time, the high increase in the income of the poorest comes from 85 percent reduction of inequality and only 15 percent from growth. Between 2001 and 2004 it is possible to assure that the growth rate of per capita real income of the poor increased more than the average income, which 78\ngenerated a pro-poor net growth rate of 4.42 percent, which in turn represents a decline of inequality. This change in per capita income comes from non-labour income such as social security benefits and cash transfers.

Chart 6. Poverty rate at national poverty line
 11. Poverty headcount ratio at national poverty line (% of population)
 40,0 35,0 30,0 25,0 20,0 15,0 10,0 5,0 0,0
 Source: The World Bank
 12
 In June this year, Brazil and the

World Bank renewed a partnership hoping to overcome Brazil's extreme poverty, an issue that has disadvantaged more than 16 million people of Brazil. The World Bank joined Brazil's campaign against poverty by announcing that new financing for the next fiscal year to be USD 6 billion, which is almost twice as much as the bank's current commitment. The money will mainly support development programs and continued economic growth. President Dilma Rousseff newly launched "Brasil sem Miséria", a plan to overcome extreme poverty by boosting poor families' income, improving their access to basic services and economic opportunities (The World Bank, 2011-Brazil, World Bank Step Up Fight Against Extreme Poverty).

11 National poverty rate is the percentage of the population living below the national poverty line. National estimates are based on population-weighted subgroup estimates from household surveys (<http://data.un.org/Data.aspx?d=MDG&f=seriesRowID%3A581#MDG>). 12 Data retrieved from <http://data.worldbank.org/indicator/SI.POV.NAHC>.

9. Discussion

It is important to look into how the economic, political and social dimensions of globalization interact with each other because they do. It can be argued that they are interdependent. The economic policies that are introduced depend on the government and how they want the country to function. What economic policies that are carried out affect the people. In this analysis there has been a thorough investigation of how globalization has affected Brazil economically, politically and socially. There are both pros and cons to globalization and it has been argued that it only benefits the rich. It is therefore important to discuss the matter and find out what the effects are. From being a protectionist country

to becoming the number one recipient of FDI in Latin America, Brazil has developed from a being a developing country to becoming an emerging nation. After the opening up of foreign trade and privatization of companies, investment has grown and this has made it possible for the government to introduce reforms and introduce new economic policies. The globalization process has more or less forced Brazil to open up the economy and in terms of FDI and trade less boundaries has led to increased earnings for Brazil. The increase of FDI in the mid-90s led to growth in the economy, and foreign investment has been stable since then. The growth in FDI and the increase in foreign trade have led to changes and improvements within Brazilian society. For the government to be able to increase welfare it depends on stable growth in the economy. For the economy to grow at an even pace, Brazil has to watch inflation carefully. Bolsa Familia can be considered as a project that has been introduced due to an increase in growth. Increased government earnings have made it possible for the government to start a program where the goal is to reduce future poverty and inequality. The Bolsa Familia program has definitely helped Brazil in its poverty reduction and in lowering income inequalities. Too many children do not get a proper education and this has to change if Brazil is going to maintain stable growth. It is important to accumulate human capital and focus on long-term poverty reduction. This cash transfer program has already helped and will continue to help poor people in Brazil. It is important that Brazil facilitates and helps people out of poverty by setting demands. Bolsa Familia has a focus on education and health, and this way it may help people stay out of poverty since human capital is an important asset.

With improved skills it is possible to

get a job that pays better and a job that is more protected in terms of unions. However, despite the success there are still some concerns about its effectiveness. Critics think that it erodes work incentives and that the money sometimes goes to the wrong people. In a report from the International Policy Centre for Inclusive Growth, researchers found the program did not lead to dependence and that the programs impact on the labor market was insignificant. The report also suggests that the program must take into account the household dynamics, especially regarding the gender division of labor. In addition, complementary initiatives focused on training and empowering informal and self-employed workers are desirable in order to strengthen the program's role in reducing helplessness. Critics mean that people receiving money from the Bolsa Familia program might be to dependent on the cash transfers and hence create dependency among the receivers. (Gondim, 2010). Since the introduction of the program, the number of Brazilians with an income below 800 reals, which is approximately 440 USD, has fallen more than 8 % every year since 2003. The main reason for the improvements is the raise in bottom-level wages. About one third of the poverty reduction can be attributed to Bolsa Familia. However, there are worries that the program is not working out as well as it should be, especially if you compare the differences between the rural and the urban areas of Brazil. Rural poverty in Brazil is high, and around 41 percent of the rural households were enrolled in Bolsa Familia in 2006, against 17 percent of urban households. In the two largest cities, Sao Paulo and Rio de Janeiro, less than 10 percent of the households are in the program. Still, these cities contain what can be considered some of the worst poverty in the country.

Brazil's success in cutting poverty seems to have been greater in rural areas than in urban ones. Rural poverty fell from around 38 percent to around 13 in 2008, which is much more than the urban rate fell. Because poverty in rural Brazil used to be higher than urban poverty, a larger reduction is of course both natural and wanted. But, in absolute terms there are as many poor people in urban areas of Brazil as there are in rural, mainly because the country in general is largely urban. And there are three reasons for why the Bolsa Familia works less well in the cities. The Bolsa Familia program allows children to miss about 15 percent of classes, if they miss more the whole family will suffer from suspended payments. Since children in the rural areas often work at home, for example at the family farm, their contribution to the family income is often unpaid. Hence, in rural areas the parents take children out of school to help them out at home, which often can be combined with school and classes since their work often is temporary. The child labor in cities is different. Children earn much more money by working on the streets than they get from Bolsa Familia. This way there is actually an economic incentive to stay out of school and leave the program. This is why the program had a little success in reducing child labor in the cities (The Economist, 2010). As mentioned in chapter 3.2, the Brazilian development model called "conservative modernization", shows that there has been no effort in promoting the inclusion of the poorest people in Brazil. Until the 21st century, no efforts had been made to introduce reforms and regulations to include the poorest people in the labour market and help them receive an education. However, now one can see that social reforms have been introduced, and due to this poverty have been reduced. Children are

encouraged to stay in school due to cash transfers. For Brazil to benefit from globalization, an educated workforce is necessary. The ones that receive an education and develop general skills will be able to create their own wealth and it will be these people that will be the main beneficiaries of globalization. As discussed in chapter 2, there is a huge difference between “old” poverty and “new” poverty. Brazil’s Bolsa Familia program has been very successful in fighting the old poverty in Brazil, which mainly is the kind of poverty that exists in the rural areas of Brazil where lack of medicine, schools and absence of clean water is reality for the people living there. The “new” poverty, mainly in urban areas, is harder to fight, because this kind of poverty often involves drug addiction, violence and family break down. And these are the problems of many of the fast growing cities in Brazil (The Economist, 2010). Even though poverty has been reduced, not everyone sees the benefits of increased welfare. An important step to reduce poverty and inequality is for Brazil to improve the infrastructure, which will improve the lives of many people. It is time for Brazil to rebuild the country and improve the poor communities in the cities. Growth has declined in Sao Paulo and Rio de Janeiro due to capacity constraints. The government has failed to keep up with the demand that comes from rapid urbanization and these are examples of cities that have outgrown their capacity. The improvement of infrastructure and upgrading big cities is therefore crucial if Brazil is going to experience future growth (Cadena, Remes and Restrepo, 2011). Without increased export and more foreign investment it would have been more challenging for Brazil to introduce PAC. Through PAC, Brazil is able to improve the lives and living conditions of 82\n\nmany people. Brazil is no

longer considered a developing country, but an emerging nation, which means that there is a need for social change. For Brazil to grow further there is a need for human capital and that is why it is important to reduce poverty further so that more young people can get an education and participate in developing the country further. Trade liberalization and more FDI are important for this development. It can be argued that trade liberalization has had both positive and negative effects on Brazil. It has in the recent years been positive due to increased income and growth. Due to global shifts Brazil is now an important trading partner for many large nations outside Latin America and it is considered a country with great investment opportunities. This is definitely a positive effect of globalization; increased income from FDI and increased exports. However, during the late 1980s and early 1990s, trade liberalization actually led to an increase in income inequality in many Latin American countries (Perry, 2006). Brazil went from being a protectionist country with domestic firms competing with each other. Domestic firms had market power, but when trade becomes more open, their power would be reduced (Dornbusch, 1992). Trade liberalization has increased Brazil's international trade, but it has also increased Brazilian farmers exposure to the fluctuation of international prices. Research has shown that larger and richer growers have benefited more from trade liberalization than have smaller farmers. Smaller farmers have received less support from the market and this has decreased their hopes of increased income. This also related to the conservative development model Brazil has had. More has been given to skilled farmers and small unskilled farmers have been neglected, which has given the large farmers more economic power.

The new policies that were introduced were more favourable for rich farmers. It is obvious that the government wants to support the farmers with the best equipment and it can be assumed that they also can produce more. Since Brazil suddenly became a more open market, it might be due to this that more liberalized trade led to more inequality. For more open trade to work, reforms and policies need to be introduced so that the whole population can share the wealth. Brazil was for a long time a country with an unstable macroeconomic environment, with an unstable financial system and this hindered the country from benefiting from trade openness. There is definitely a risk in using trade liberalization as a stabilization program. Brazil was after the Real Plan was introduced struggling with an overvalued exchange rate and this was not an ideal time to introduce trade reforms. The exchange rate did indeed hinder export growth in the 1990s. As Brazil managed to stabilize the macroeconomic environment in terms of new policies and reforms, the country also managed to gain more from trade liberalization. In recent years, Brazilian trade has had a positive effect on reduction in poverty and inequality (Castilho, 83\n\nMenendez and Sztulman, 2009). The increase in export revenues has been important for Brazil in terms of economic development and growth. A major challenge for Brazil and its foreign trade situation is the overvalued currency. For Brazil to keep a positive trade balance, it has to control inflation and its currency. Brazil's currency is strong compared to the dollar, which has a negative effect on Brazilian manufactured exports. Brazil has to introduce the right economic policies that can keep the currency under control if they want to keep international competitiveness. A strong real is favourable for Brazil because

it will keep inflation stable, but not necessarily favourable for international trade. The real is strong compared to the US dollar and the US is one of Brazils main trading partners. If the real remains strong and the dollar weak it is likely that exports to the US will go down, all in all, exports become less competitive. The strong real also has a negative effect on the competitiveness of the local industry. From the political analysis one can see that these important international organizations are still looking at the world order as it was after the Second World War. Emerging nations are looking for a change in power and Brazil is one of the countries that are very engaged in this case. It can be seen that within this political dimension there has clearly been a development and there is more and more pressure for a change in power and reforms within the most significant organizations and in particular within specific areas such as the UN Security Council and WTO trade negotiations. Since the globalization process that we know today began in the early 1990s, emerging nations have gradually taken on a more significant role within international organizations. Leaders from developed countries have also expressed that they understand that they cannot do without the cooperation of emerging nations. Brazil has together with the other BRIC nations and the G20 been pressuring the international institutions to take into consideration that emerging nations are important for the future of the state of the world economy. As mentioned in sub-chapter 5.4, the BRIC countries have also called for a new international monetary system. The USD is now the world reserve currency, but the BRIC countries mean that this should no longer be. With the downgrading of the US debt rating from AAA to AA plus, the dollar will weaken, which will affect trade between the US and

Brazil. As mentioned, the Brazilian currency is strong compared to the USD, which has a negative effect on Brazilian exports to the US, one of its main trading partners. However, after the downgrading of the US, the real plunged against the USD due to the concerns about European debt and world growth. This made the investors switch from high risk assets to low-risk assets, which are considered safer. Even though the US has been downgraded, Brazil only has a BBB- rating, which is eight notches lower. Investors are playing it safe by investing in assets denominated in USD because it is a less risky currency (Blount, 2011). If foreign investors retreat from the Brazilian market, it will lead to a weaker Brazilian currency, which will benefit Brazilian farmers that rely on export for their livelihood. However, it will be negative for imports as goods will become more expensive. This shows how exposed Brazil is to the global economy.

There is no doubt that it is easier for Brazil to take on more power within Mercosur than in the other four organizations mentioned. Mercosur is as mentioned a regional trade organization and Brazil, as the largest market within South America, is bound to have significant power here. Mercosur is very important for Brazil and South America's trade relations to the rest of the world. With the right use of the different aspects of this organization, Brazil may gain more power within international trade. It is important for Brazil to make sure that trade within Mercosur is as open as possible because this will gain the economy since one of Brazil's most important trading partners are Argentina. Brazil has indeed been a member since the founding of the UN, Mercosur, World Bank and IMF and with its fast growth and presence in the international scene it seems reasonable that developed countries should include Brazil in the decision

making within these organizations to a higher extent. It can be argued that Brazil's extreme growth has led to an increased role within international politics, and due to this Brazil has a greater chance at receiving more power. As Brazil is a part of the BRIC countries, which are considered to be the fastest growing economies in the world, Brazil should be recognized to a further extent by the Western countries, as they will be a greater part of the world economy in the near future. Brazil is as mentioned an important exporter of agricultural products and it seems in place that this should be a reason for increased influence within the WTO. Globalization has led to increased trade liberalization, which has been beneficial for Brazil in terms of export, particularly of agricultural products. The WTO has been criticized for favouring rich countries and giving more subsidies to farmers from the wealthy nations, in particular EU countries and the US. With Brazil taking on a leading role within the G-20 show an indication of strong engagement within the WTO, and especially for the developing countries. With its size and resources Brazil has it only makes sense that the country should be more influential within these organizations. Brazil has many small farmers that are not able to compete with the larger ones due to a lack of resources. Regarding the UN, the Security Council does not have any permanent members from the South American region and it seems about time to have someone on the council taking care of this region's interests, as the economies of this region are growing. Additionally, the permanent members are all wealthy states, which might lead to better protection of the rich countries than the poor. They can also use the veto power to protect their own national interests, and this might be on the expense of another

country's well being. It seems that globalization has made the international organizations more aware of Brazil's and other emerging nations' role within the global society. However, except for Mercosur, it seems that there is more power given to Brazil from the money lending institutions, the World Bank and the IMF, than the other organizations. This might be due to the fact that Brazil has not suffered as much from the recent financial crisis as the developing countries, so the timing here seems to be quite important. The IMF and World Bank rely on assistance from nations to help the countries that are suffering, and now with the financial instability in European countries such as Greece and Portugal, the providers of capital realize that increased support from the wealthier emerging nations are needed and for them to contribute more they must be given more power. Brazil has now become a creditor to the IMF and it makes sense that with its size and capacity to grow further it will become an even more important player within international politics, but for this to happen, Western countries have to make room for Brazil. For Brazilian farmers to be able to compete with increased international competition, trade has to be facilitated to a stronger degree than it is today and the WTO plays an important role in this matter. Brazil has already managed to stabilize the macroeconomic environment and reduce inequalities to a certain degree. With the right trade reforms and foreign trade policies that to a further extent can benefit the Brazilian farmers, will make trade liberalization more beneficial. These international organizations mentioned here speak warmly of and promote globalization. When globalization is spoken of as a positive phenomenon it is important that it has a positive impact on the world.

During the last two decades globalization has become an important term within international economics. Obviously, it has improved the state of many countries in terms of increased growth and income, and supporters of this worldwide phenomenon say that globalization benefits all if it is controlled and the wealth is divided so that it benefits everyone. However, globalization has also affected nations, and especially people, negatively. The opponents to globalization are under the impression that globalization is the downside of capitalism and that the developed countries are using the less developed countries for their own benefit. Brazil has gone from being a developing country to a middle-income country with an increased important role in the world economy. The country has been struggling with macroeconomic instability such as high inflation and an unstable currency for many years. During the 1990s, economic reforms were introduced and the governments were trying to turn things around and stabilize the economy. Measures such as privatization and trade liberalization were taken and Brazil was able to attract more foreign investment, which in turn led to a more stable currency and lower inflation. Globalization became an unavoidable term after the Cold War and it has had an effect on every single country since then. In this paper, how globalization has affected Brazil has been investigated, and it has certainly had a great effect. The economic dimension of globalization, here measured as FDI inflow and foreign trade, has definitely increased since the mid-1990s. Opening up of domestic markets led to a great boost of FDI inflow and investors discovered Brazil as an attractive market. At the same time inflation fell, but the government still had a problem controlling the currency. However, since the beginning of the 21st century, the state has

been able to control both inflation and a fluctuating currency. Hence, the globalization process has been important in stabilizing the macroeconomic conditions in Brazil, there is no doubt that the increase in FDI inflow and more openness to trade has benefited the economic situation in the country. With the Brazilian economy growing at a fast pace, Brazil was included in a group with the other three fastest growing economies in the world, Russia, India and China. These countries are working on coordinating their policies to continue their future growth and development. The BRICs are confronting the industrial countries on issues such as increased power within international organizations. The BRICs and their ability to influence the global economy is a great example of modern globalization. Brazil plays an important part in this group. It can be seen as an advantage for South America that Brazil has achieved this high status in the global economy, as this will most likely benefit the whole region. Brazil is also a leading nation within the Group of 20, which are developing countries that have gathered to challenge the decisions made by the Group of 7, since the decisions made by the G7 do not always benefit the developing countries. This is particularly the case within the WTO and the trade negotiations. Indeed, Brazil has shown to be a leading emerging nation when it comes to involvement in the international arena. While the country was developing and growing, Brazil's role within the world economy was as well. The political dimension of globalization was measured as Brazil's role within international politics, more precisely, international organizations. It has become a regional leader in South America, which has led to Brazil taking a leading role within Mercosur. Within this trade organization, Brazil is powerful and works towards more

South-South trade as well as integrating South America with the rest of the world. Brazil is working towards increased power within the international organizations IMF, the World Bank, the UN and WTO. It is definitely a struggle as the Western and developed countries still hold most of the power. However, Western leaders have implied that there should be a change in power and that emerging markets such as Brazil should obtain a more significant role, due to the fact that the Brazilian economy is becoming more important. But Brazil is still a country struggling with huge inequalities even though it has improved significantly during the last two decades. The social dimension of globalization was measured as poverty and income distribution. In the beginning of the 1990s poverty was extremely high and the Gini coefficient was significantly higher than previous years so it was obvious that measures had to be taken in order to reduce such inequalities. As mentioned, globalization led to more FDI and international trade, which boosted the economy, but not everyone became richer. With the uneven income distribution the country has, it was obvious that measures had to be taken so that more people could take part in the increased wealth. Bolsa Familia was introduced as an assistance program to lift people out of poverty. With the focus being on education, the program makes children stay in school, which is important for the future of Brazil. Even though the program has been acclaimed for lifting many people out of poverty, it has been criticized for having flaws. One criticism is that Bolsa Familia creates dependency amongst its receivers, leads to a sort of helplessness. Critics say that Bolsa Familia has been helpful in reducing old poverty, but fighting new poverty that occurs in the urban areas is more challenging.

There are pros and cons to globalization, but it has definitely opened up many opportunities for Brazil. Brazil has shown that it has been able to benefit from globalization to a large degree because it has been controlled. A working political system has made globalization beneficial. The currency and inflation has been stabilized, which makes Brazil an attractive foreign market. Without globalization Brazil would not have been able to attract as much FDI inflow and foreign trade as it has. And without this the country would not have been able to stabilize the economy and without macroeconomic stability, Brazil would not have been able to grow at such a fast pace. It has been argued that capitalism does not benefit all, creates a gap between those who receive an education and those who do not. However, even though inequalities are still significant, globalization has had a positive effect on poverty, it has indeed been reduced. The growth has made it possible for Brazil to demand a more significant role within important international organizations, but the developed Western economies are still reluctant to give up their position, which only confirms that they want to protect their own interests. However, Western leaders are realizing more and more that they cannot escape the increased power of the emerging markets in the global economy. Brazil and the emerging market countries are influencing the global economy to a larger extent, which in turn also benefits the developing countries. The future of globalization in Brazil looks promising, however, it is important that globalization is controlled and creates opportunities for the Brazilian people. With the world becoming more and more global and Brazil being exposed to events in other large world economies, the future can be challenging and it is therefore important that

the right economic policies are decided upon and introduced. With increased globalization comes demand for skilled labour, which is a determinant for further growth. The government has to introduce policies that ensure that with globalization comes increased wealth for everyone. As discussed, capitalism brings about demand for skilled labour, which has shown to have a negative effect on welfare. For Brazil to be able to keep the position as the 8th largest economy in the world there must be a focus on higher education. The Bolsa Familia program is a huge step on the way to make children and youth stay in school, which in turn will benefit Brazil in the future in terms of a decrease in inequalities.

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Appendix 1
The KOF Index of Globalization Source: Dreher (2006) A. Economic Globalization i) Actual Flows Trade (percent of GDP) Foreign Direct Investment, flows (percent of GDP) Foreign Direct Investment, stocks (percent of GDP) Portfolio Investment (percent of GDP) Income Payments to Foreign Nationals (percent) ii) Restrictions Hidden Import Barriers Mean Tariff Rate Taxes on International Trade (percent of current revenue) Capital Account Restrictions B. Social Globalization i) Data on personal contact Telephone Traffic Transfers (percent of GDP) International Tourism Foreign Population (percent of total population) International letters (per capita) ii) Data on Information Flows Internet Users (per 1000 people) Television (per 1000 people) Trade in Newspapers (percent of GDP) iii) Data on Cultural Promimity Number of McDonald's Restaurants (per capita) Number of Ikea (per capita) Trade in Books (percent of GDP) C. Political Globalization Embassies in Country Membership in International Organizations Participation in UN Security Council Missions International Treaties
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