

Neo-liberalism in latin america: brazilian and cuban models research paper



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During the 1990s, most Latin America democracies enacted harsh neoliberal policies. Neo-liberalism aimed at ending the inefficiencies occasioned by the import substitution industrialization (ISI). Neo-liberalism involved drastic reduction of state involvement in businesses through privatization, creating a favorable business environment for foreign investments and reducing tariffs imposed on imports.

Thus, neo-liberal policies intended to open up the economy for foreign investment, eliminate monopoly and increase efficiency through competition. However, these policies also included severe austerity measures meant to curb inflation. The ISI policies, on the other hand, were highly protective of the domestic markets from international competition.

In the case of Brazil, the liberalization policies aimed at eliminating the monopolies established under the Import Substitution Industrialization. As a result, trade and inflow of foreign capital increased especially from 1995 under president Cardoso leadership (CIT).

Additionally, following foreign investment liberalization, many foreign firms invested in public utilities and oil exploration, sectors that were previously a preserve of domestic firms. In contrast, the neo-liberal transition led to reduced economic roles of the Brazilian state, enhanced firms' competitiveness and reduced market concentration.

For a developing economy, conducting trade agreements with developed economies such as the United States and European Union would be beneficial. However, Brazil has expanded its trade interests with developing economies from Asia, Africa and the Middle East instead. Experts describe <https://assignbuster.com/neo-liberalism-in-latin-america-brazilian-and-cuban-models-research-paper/>

the Brazil's relationship with the US as warm and friendly relative to the other states in Latin America.

Major collaborations between the two nations are in the areas of energy, security, counter terrorism and fight against drugs. The prevailing political conditions in Brazil, a Latin American country, influence its economic policies and relationship with the US.

Before the 1994 Real Plan, Brazil's domestic economy was highly protected from international competition through both non-tariff barriers and import tariffs.

In the 1960s, the level of protection stood at an estimated 85% (Amann, and Werner 34). Even though, at the time, there were occasional efforts moved towards liberalization of the domestic market, Coes established that “ the prevailing Brazilian trade policies particularly with regard to imports were severely restrictive in the 1960s period” (71).

During this period, the Brazilian trade regime essentially had exclusive administrative control over all imports. The trade authorities were able to reverse trends in domestic trade by regulating import flows to achieve greater trade openness.

However, beginning in the 1990s, Brazil's policy strategies increasingly conformed to trade liberalization as supported by US economic policies. In 1989, the average import tariff stood at 41% (Coes 132). After President Collor gained power in 1990, the tariffs began to reduce gradually and by 2002, the import tariffs stood at 13. 5%.

In 1990, the Collor administration eliminated the non-tariff barriers, which subjected the local firms to stiff competition from international firms. This marked the neo-liberal economic reforms, which aimed at increasing competitiveness and improvement of efficiency of local firms.

Neo-liberalism in Brazil began in the late 1980s culminating into the Real stabilization plan of 1994. Neo-liberalism bases on the assumption that control of the domestic market is the most efficient way that the state can coordinate economic activity.

It entailed the reduction of economic roles of the Brazilian state, characterized by the transfer of several trade functions traditionally under the control of the state to the markets. In Brazil, several regulatory reforms including elimination of government regulation of prices for consumer goods and change in resource allocation characterized the neoliberal economic reforms (Bergsman 143).

To achieve this, Brazil privatized several government assets estimated at US\$100billion, which represents 18. 5% of the total GDP in 1994 following the Real Plan. Alongside the massive privatization programs, liberalization of foreign trade, exchange rates and capital inflows formed part of Brazil's neoliberal strategies.

The Brazil's economic reform that began in the 1990s primarily aimed at promoting economic growth, creating employment, and facilitating international economic convergence (Amann, and Werner 41).

In economic reform, the perception to state intervention is two-fold viz. vertical policies targeting a specific sector and horizontal policies that cut across the board. Vertical policies such as subsidies or incentives usually affect the market outcomes and thus not preferable.

In contrast, the horizontal policies encompass the liberalization of finance, capital flows and trade markets, thus preferable. From this viewpoint, horizontal liberalization is an essential part of neo-liberal economic reforms. The imports from international markets limit the prices of related local products and increase the wages paid to workers.

Additionally, horizontal liberalization, particularly capital and financial liberation, reduces the state's capacity to put in place protective measures such as expansionary monetary policies as this may cause capital outflows. Neoliberal policies implemented by Brazil helped to eliminate high inflation occasioned by earlier economic policies (Bergsman 147).

Among the Brazil's neoliberal economic policies is the monetary policy designed to control inflation. Under this policy, the state had to regulate the supply of money in circulation (Saad-Filho, and Johnston 113).

It achieved this through regulation of commercial banks' lending behavior and exchange rate whereby the foreign capital flows determined the value of the domestic currency. In this way, the monetary policy controls the supply of money in two ways: inflation targeting and exchange rate targeting.

Under the exchange rate targeting, the foreign capital flows affect the supply of domestic currency while the inflation targeting controls inflation using the

interest rates. These policies primarily aim at stabilizing the prices of commodities at the expense of growth in employment and production output.

In the neoliberal monetary policy, interest rate regulation is instrumental in economic reforms. It takes into account all the economic aspects in all sectors equally. The interest rate manipulation is essential in neo-liberalism in four ways.

Firstly, it attracts foreign capital flows hence the foreign currency reserves increases. It also indicates the foreign financial markets preference for these policies (Font, and Spanakos 137). Secondly, it controls demand or inflation thus an important tool of reducing inflation.

Thirdly, it serves as a source of government funding especially through the regulation of public securities. Fourthly, the high interest rates enable the government to achieve its domestic savings goals. The government domestic savings depend on the interest rate. In Brazil, the interest rates were comparatively higher.

According to Font and Spanakos, “ the rationale behind this policy was that the high interest rates act as incentives that increase savings and thus increase investment funds available, which in the long term leads to higher economic growth rates” (141). Additionally, Brazil’s high interest rates in the wake of neo-liberal economic reforms attracted foreign savings contributing to economic convergence.

The institution of the Real Plan took place in 1994-1999 as a way of eliminating high inflation. However, the Real Plan was not limited only to eliminate inflation in Brazil, but also included policies to facilitate the neo-liberal transition. These policies included liberalization of capital account, trade and financial markets as well as the high interest rates.

Further, the Real Plan included policies such as the privatization of state-owned firms, reforms of the labor markets, overvaluation of the domestic currency and elimination of the state trade agencies (Font, and Spanakos 143). The privatization and capital account liberalization had begun as earlier as 1990 while the reduction of the state in trade policy making began in the 1980s.

Under the Real plan, the government was to implement these policies methodically to curb inflation and the threat of imports substituting local production, the major problems associated with neo-liberalism. The high interest rates were essential in eliminating the high inflation and facilitating the transition to neo-liberalism.

By 1992, the real interest rates in Brazil leading to the liberalization of the capital accounts (Krugman 224). The high interest rates attracted huge foreign capital flows in the 1990s, which led to overvaluation of the Brazilian currency, the real.

The overvaluation was the main aim under the real plan. Additionally, under the real plan, the real wages increased by 15% in 1991 to accelerate liberalization of imports and increase consumer consumption. Politically, the

regime including president Cardoso supported the inflation stabilization plan (Saad-Filho, and Johnston 115).

President Cardoso supported the neo-liberalism as a way of ensuring a new globalized economy in Brazil, and at the same time sought to eliminate the threat of import substitution occasioned by the new policies. However, Cardoso's policies had an impact on local enterprises, employment and the balance of payment.

Consequently, the imports rose from US\$27. 8 billion in 1992 to US\$41. 3 in 1994 (Krugman 231). Additionally, following the implementation of the neo-liberal policies, the trade balance and current account changed from a surplus to a deficit.

The real plan had many implications for the economic growth as well as politics in Brazil. The increased capital inflows increased Brazil's external liabilities and created a need for foreign financing.

The interest rates could not lower as this could trigger capital outflows and devalue the real. Although the real plan played a significant role in the eliminating the high inflation, it led to imbalance of trade payments resulting into financial crises such as the January 1999 financial crisis.

Following this currency crisis, the government of president Cardoso introduced a new economic policy regime. The new policy included multiple of inflation targeting strategies alongside efforts to manage the fluctuation of the real (Purcell, and Riordan 198).

The new reform policy aimed at reducing interest rates, stabilizing domestic debt and maintaining a low inflation rate, which stood at 6.4% as at 2010. The policies are still core to President Lula's administration and economic reforms.

The devaluation of the real had many political implications. The crisis in 1999 affected president Cardoso's reputation and compelled the regime under President Lula to implement the neo-liberal policies (Kellogg 189). The Brazilian economy remains highly sensitive to changes in the price level and the neo-liberal mechanisms of eliminating inflation the current regime uses.

Currently, the relationship between Brazil and the US is a friendly and cordial one. Brazil is regarded as a strategic power and significant in the efforts to stabilize Latin America by the US.

The United States regards Brazil, alongside Chile, as moderate leftist governments compared to the other states in South America (Diamond, Hughes, Linz, and Lipset 17). Brazil has played a significant role in averting political crises in Bolivia, Ecuador and Venezuela in line with the United States goals of promoting the stability of the region.

However, occasionally, Brazil's foreign policy approach tends to differ with that of the United States leading to disputes on political and trade issues. The issues of disagreement include Brazil's opposition to the war in Iraq and the Free Trade area of the Americas.

The US-Brazil cooperation has continued to increase with regard to many regional and bilateral issues. Of particular significance is the cooperation

between these two countries on energy issues. The US assistance to Brazil is not substantial because Brazil is a middle-income economy.

The U. S. aid in 2009 totaled \$8. 6 million dollars in 2009 down from \$14. 8 million in 2008 (Feldstein, and Horioka 314). Traditionally, the US-Brazil cooperation revolved around environmental conservation programs including the conservation of the Amazon forest and fighting drug trafficking and diseases. Currently, the major issues that demand stronger cooperation between the US and Brazil include; trade, human rights, environmental issues, terrorism and drug trafficking.

With regard to the narcotics, Brazil receives assistance to fight trafficking in narcotics. Brazil is a major transit country and consumer of cocaine, marijuana and heroin globally.

Most of these drugs are primarily destined to United States and European markets and other transit countries. The US through the Andean Counterdrug Program gave Brazil \$1million for law enforcement against drugs (Feldstein, and Horioka 318).

Furthermore, Brazil cooperates with the neighboring countries in fighting trafficking in narcotics and drug cartels. Despite opposition from governments of Paraguay and Argentina over the US involvement in drug trafficking and terrorism, Brazil continues to support counter terrorism activities (Diamond et al. 23).

Of particular significance is the US-Brazil cooperation with regard to energy security. Brazil has implemented policies to reduce over reliance on oil by

exploring alternative energy options. Currently, Brazil, with the US assistance, can enrich uranium for production of nuclear energy.

Deep-water oil drilling by Petrobras Oil Company also holds a promise of supplementing Brazil's energy needs. Bio-fuel production is also another front that the US and Brazil cooperate. It is a leading exporter of ethanol globally alongside the United States.

A mutual agreement developed in 2007 between the US and Brazil with regard to bio-fuels encompasses many aspects. It facilitates technology sharing between the two countries.

It also increases the US-Brazil collaboration in advancing the development of bio-fuels globally. The third world countries that have received the US-Brazilian assistance include Haiti, Dominican Republic and El Salvador (Feldstein, and Horioka 321).

Despite the high level of cooperation between the US and Brazil, potential obstacles with regard to bio-fuels exist. Currently, the US bio-fuel imports directly from Brazil are subject to high tariff rates.

Trade is another front that the US and Brazil cooperate particularly with regard to regional and global issues. Brazil spearheads the efforts to establish a free trade agreement with South American countries.

Additionally, Brazil in partnership with the US played a significant role in 2005 in the Doha negotiations for the development of a Free Trade Agreement of the Americas (FTAA).

Brazil also played a vital role in the Doha World Trade Organization talks of 2003 that aimed at forcing the developed countries to reduce agricultural subsidies and open up their markets for agricultural products from developing countries (Guillermo, Leonardo, and Carmen 123).

The Brazil-US cooperation also involves the protection of intellectual property rights and related issues through the US-Brazil Commercial Dialogue.

With regard to human rights, the US raises concern over human rights abuses by the Brazilian police. The US is also concerned about racial discrimination and rampant human trafficking in Brazil.

The high crime rates and police brutality in Brazil coupled with corruption in law enforcement threaten the state security in Brazil. President Lula in 2007 launched major anti-crime initiatives estimated at \$3 billion for police reforms and rehabilitation programs.

The US-Brazil cooperation also extends to environmental protection. The USAID environmental programs provide aid and skills to farmers to promote good farming practices especially among the rural poor. Additionally, the USAID funds programs aimed at conservation of the Amazon forest.

Prior to the disintegration of the Soviet Union, Cuba enjoyed support, economic collaboration and aid from the Communist Soviet Union.

Economically, neo-liberalism in Cuba contrasts with that in other Latin American countries including Brazil.

In Cuba, neo-liberalism is state-led with most enterprises being under the control of the state (Cammack 256). In contrast, neo-liberalism in Brazil involves the liberalization of trade to increase competition and efficiency.

However, this comes at the expense of social costs. In Cuba, neo-liberalism focuses on human and social aspects of economic relations. The pillars in this form of neo-liberalism include high tariffs and subsidies to domestic production, increased emphasis on public service employment and state-controlled economic development (Kellogg 197).

These policies aim at shielding the developing industries from the stiff foreign competition. Cammack notes that, unlike in Brazil, the Cuban industries after becoming stable and independent in the 1990s, the Foreign Direct Investment (FDI) raised gradually to increase efficiency (257).

This contributed to the growth of pharmaceutical industries and sugar farming in Cuba both of which are results of the comparative high economic growth rate. The Cuban economic growth rate stood at 12% at 2007 (Cammack 260).

Cuba, due to its communist inclinations, has had ideological disagreements with the US especially during Fidel Castro's era that began in 1959.

Over the years, the US has imposed a range of economic sanctions aimed at weakening Castro's long rule. In early 2008, Castro voluntarily handed power to his brother Raul Castro. Since the communist regime took power in 1961, the US foreign policy towards Cuba has involved tough economic sanctions and poor diplomatic relations between the two nations (Levins 31).

The strained relations are due to incompatibility of political ideologies between the two nations. The US advocates for a regime change to end the long rule by the socialist party. In addition, many issues strain the Cuba-US relations (Kellogg 209).

The US accuses Cuba over gross human rights abuse especially in arresting journalists and dissidents holding divergent political views. Cuba also opposes the US detention of terror suspects without trial at Guantanamo Bay. Recently, the Cuban officials seized the US prison camp at Guantanamo Bay to protest against the detention.

Neo-liberalism in Latin America is of two kinds: the Brazilian model run by private enterprises and the Cuban state-run model. In Brazil, the neo-liberal policies particularly the Real Plan aimed at promoting competition, increasing industrial efficiency and capital inflows and eliminating inflation.

These neo-liberal policies are in line with US capitalist principles hence the high level of US-Brazil cooperation in many sectors particularly in energy security.

In contrast, Cuba's socialist political system conflicts with the US capitalist ideologies. Additionally, Cuba adopted different neo-liberal policies from Brazil. The Cuban neo-liberalism entails state-controlled economic growth and protection of local industries from foreign competition until they are self-reliant. In essence, the political ideologies of Latin American countries determine the country's economic policies and its relationship with the US.

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