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Brazil's economic growth strategy: the last two decades (1999-2019)[1].

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Abstract: In this work we aim to analyze Brazil's economic growth strategy in the last two decades. Following the works of Bresser-Pereira (2002) and Bresser-Pereira & Nakano (2003), we refer to this strategy as the "growth strategy with foreign savings". Based on the so-called Keynesian-structuralist theoretical framework, in this article the argument is that growth with foreign savings reinforces the trend of currency appreciation and increases the country's external vulnerability. Combined with the "Dutch disease", this growth strategy produces a picture which final outcome is characterized by the strengthening of such processes as de-industrialization and re-primarization of the exports. Because, in general, it promotes consumption and not productive investment, this strategy also results in substitution of foreign for domestic savings and loss of competitiveness of the domestic industry, further strengthening the external imbalance.

Key words: Foreign Savings, Brazil, Economic Strategy.

JEL classification: F43; 010; O11.

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[1] The present work is a translated (from Portuguese), revised and updated version of the following paper: GOMES (2016) - "A Estratégia de Crescimento com Poupança Externa nos Governos do PT". *Anais do XXI Encontro Nacional de Economia Política*, São Bernardo do Campo/SP, 2016.

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I- INTRODUCTION

In 2016, Brazil was rattled by the impediment of President Dilma Rousseff, who was succeeded by the administration headed by Michel Temer. There is much discussion about the nature of this institutional change and the following systemic crisis, but there is little questioning of the fundamentals of the economic strategy that set the country onto a path of economic instability and a consequent scenario of institutional instability. Based on the so-called Keynesian-structuralist theoretical framework, the hypothesis of this paper is that the economic strategy of the last two decades is the main responsible for the trajectory of instability that engulfs Brazil. This strategy resulted in the strengthening of the main characteristic of Brazilian economic underdevelopment, which is the external vulnerability of the country. Following the works of Bresser-Pereira (2002) and Bresser-Pereira & Nakano (2003), we refer here to this strategy as the "growth strategy with foreign savings"

The growth strategy with foreign savings is grounded on the idea, derived from neoclassical economic theory, that capital flows from developed to underdeveloped countries and thus increases the investment rate of the latter. However, according to the so-called Keynesian-structuralist tradition, the results of the growth strategy with foreign savings are the reinforcement of the tendency of exchange appreciation and the growth of external vulnerability. Combined with the "Dutch disease", the resulting scenario consists of de-industrialization and re-primarization of exports. Because it generally promotes consumption rather than productive investment, furthermore this strategy tend to result in substitution of domestic for foreign savings and loss of industry's competitiveness, reinforcing the external imbalance.

The aim of this paper is to present the position of a relatively large group of authors on the issue of economic growth anchored in foreign savings (the so-called Keynesian-structuralist school), as well as to investigate the growth strategy employed by recent governments in Brazil and to discuss the thesis that this strategy was the main responsible for the continued current account deficits and consequent increase in the country's external vulnerability. We will also investigate the overall macroeconomic performance and the impact of the growth strategy with foreign savings on the Brazilian economy. In order to achieve this goal, this article is divided into sections.

In the first section after the introduction we present the theoretical foundations developed by Brazilian social scientists to analyze Brazil's economic growth strategy; here we study the theoretical framework that underlies the repeated use of foreign savings as a growth strategy. The second one brings the experience of this strategy in the last two decades. The third section focuses on how the growth strategy with foreign savings aggravates the tendency of domestic currency appreciation and has negative consequences for the Brazilian economy. Finally, there is the conclusions section.

II- THE GROWTH STRATEGY WITH FOREIGN SAVINGS

Following the works of Bresser-Pereira (2002) and Bresser-Pereira & Nakano (2003), the so-called growth strategy with foreign savings gained popularity in the academic debates and engaged others authors, consolidating an overall theoretical framework. The objective of this section is to present the theoretical foundations of this economic growth strategy as well as to bring to the reader's attention some useful ideas to understand the underlying support that has guided Brazil's capitalist economic development in the last decades.

The growth strategy with foreign savings belongs to a set of development policies framed as neoliberal. Neoliberalism can be understood as the increasing presence of the market as regulator of the spheres of social life. Growing with foreign savings is part of a broader (development) strategy of coupling the national economy with the world economy and thereby widening the space available for private accumulation. Note that this strategy fits within a global rationality of how society should be ordered (whether this rationality is adequate or desirable is another matter that does not concern us in this work). In this section of the text we will study the theoretical foundations of the growth strategy with foreign savings.

The debate over the adequacy of anchoring economic growth on foreign savings and the consequences (positive or negative) of this fact stems from the neoclassical model of economic growth built by Solow and Swan in the 1950s. In Brazil, the debate had immediate repercussions because this country faced the difficulties and dilemmas arising from its industrialization process in conditions of external restriction. However, discussions increased in the 2000s with the formation of the so-called Keynesian-

structuralist school, which eclectically blends post-Keynesian macroeconomic thinking, based on uncertainty and complexity, with the Latin American structuralist tradition, whose main concern was the economic development of peripheral economies. In the 21st century, the seminal work on growth strategy with foreign savings is that of Bresser-Pereira and Nakano (2003).

Following the 2000's commodities boom and the renewed bet of the Brazilian government to anchor economic growth in foreign resources, the debate incorporated authors such as José Oreiro (2004), Ana Basílio, Flávio Basílio and José Oreiro (2008), Marcos Rocha and Nelson Marconi (2013), Leda Paulani (2013), as well as Bresser-Pereira himself, who in partnership with Paulo Gala (Bresser-Pereira and Gala, 2007) extended his contributions on the theme. Bresser-Pereira's book "*Globalização e competição – Por que alguns países emergentes têm sucesso e outros não* (2009)" is regarded as the milestone in the economic literature because it condenses the main arguments about the strategy of growth with foreign savings. Besides these authors, there are also important references when it comes to understanding the issue of external vulnerability that are Marcelo Carcanholo (2010), Reinaldo Gonçalves (2012, 2013) and Denise Gentil and Victor Araújo (2012).

Policymakers that advocate for the growth strategy with foreign savings base their reasoning on the orthodox (neoclassical) economic theory, which states that in countries with capital shortages and surplus labor the return on capital is higher than in countries with surplus capital and labor shortages and therefore capital tends to flow, in the absence of restrictions on its international mobility, from advanced to backward countries. That is, countries with surplus capital would finance development in countries with insufficient savings. However, this movement, which should be spontaneous by capital's search for higher returns, can be hampered by institutional constraints such as political problems, fragile regulatory framework, controls of capital flows, etc.

From these ideas the orthodox school draw the following conclusions: (i) free movement of capital is a fundamental condition to ensure the efficient international allocation of resources; (ii) an underdeveloped country must attract foreign savings in order to increase its overall savings rate, and, by means of this, to finance a larger volume of investments and accelerate its pace of economic growth; (iii) and in order for

this to take place, macroeconomic stability must be ensured, which means that institutions in these countries need to be “disciplined”, “responsible”, “healthy” and adopt, at all costs, capital-friendly policies, so that a good (from the creditors' point of view) credibility of policy makers is built.

The growth strategy with foreign savings assumes that foreign savings will effectively become productive investment. This is a very unrealistic proposition, particularly in countries with open capital accounts and functioning internal capital markets. Moreover, it is assumed to be true the so-called “twin deficits” proposition, in which the current account is the counterpart of the government's fiscal result. This simply means that current account deficits would be solved by fiscal surpluses. Therefore, achieving primary surpluses would be a *sine qua non* condition for the capitalist economic development of a country. This is also a very unrealistic proposition because of the concept of savings implied in this proposition came from a questionable understanding of Keynes’ *General Theory*, as revealed by the known criticisms coming from the Post-Keynesian school.

Beginning with the so-called “neoliberal era” in 1990, the attraction of foreign resources became one of the structuring axes of the macroeconomic policies that were subsequently implemented. The idea was not only to finance the capitalist economic development but to stabilize the level of prices since inflation was a perennial problem of Brazilian economy. The renegotiation of foreign debt within the framework of the Brady Plan allowed Brazil to borrow again in the financial markets after the debt woes of the 1980s. International finance had been lending to Brazil once more and the perspective of trying to anchor economic growth in foreign resources took shape and attracted public opinion. Thus, part of the population believed that raising foreign savings would be the key to overcome the lack of domestic savings and therefore they offered support to this kind of policy which would in their hopes turn Brazil into a “modern” country.

The neoliberal prescription to prosperity included fiscal adjustment and trade liberalization along with financial liberalization. The latter one would seduce international capital to invest in the country; that is why opening the capital account would be critical to economic growth. Moreover, the existence of a positive interest rate differential between Brazil and the rest of the world would be fundamental for attracting

foreign savings. This is because orthodox theory postulates that, in a situation of free mobility and integration between markets, the interest rate differential between countries is the primary condition for raising capital. Thus, a country such as Brazil with high intrinsic risk should maintain a domestic interest rate significantly higher than the international interest rate in order to be able to attract foreign capital. The impact of high interest rates on the cost of debt and the subsequent pressure on the balance of payments would not be of significant importance, as capital inflows and their ability to materialize into productive investment and, *ipso facto*, increasing exports capacity, would more than compensate for this cost.

The production of current account deficits due to the strategy of growth with foreign savings would not be a problem because: (i) attracting foreign capital would help to cover current account deficits; and (ii) the fiscal adjustment would serve to contain the problems arising from the external sector (following the twin deficit theory). In this sense, the more a country fit into the "neoliberal outfit", adopting liberalizing measures, making a lasting fiscal adjustment, with state reform and all-around privatization, and providing a business-friendly environment with solid and credible institutions, the more it would be able to attract foreign capital and complement its domestic savings, thereby increasing the level of investment and the pace of economic growth. Whether the strategy of growth with foreign savings results in higher foreign debt and balance of payments problems is not something that has to be considered a concern by the country's policymakers. Note that, in the orthodox view, foreign debt is not a problem, but a device to accelerate economic growth.

Bresser-Pereira and Nakano (Bresser-Pereira & Nakano, 2003) refute precisely this point. Supported by the "Feldstein Horioka puzzle", they maintain that the policy of growth with foreign savings is a failed economic policy (ibid, p. 4). The crux of such a puzzle is that a country cannot borrow or lend *ad infinitum*, namely countries have a debt ceiling. This is because the accumulation of deficits, and ensuing indebtedness, generates an algorithm of macroeconomic instability: the increase in debt stock leads to an increase in sovereign risk, which generates rising interest rates; these, by its turn, bring about a decrease in domestic investment and the refusal of international investors to continue the debt rollover. The final picture is the breakdown of the country's relations with international finance markets (ibid, p. 10-11).

It follows that borrowing to cover problems in the balance of payments may reach a level where the country's own solvency is at risk due to the excessive cost of servicing its debt. And this would have a negative effect on a country's growth rate, because if the country is already heavily indebted, new current account deficits make the economy more unstable since there is the tendency to occur speculative attacks on the currency. Such a balance of payments crisis tends to lead to a devaluation of the exchange rate, which entails the adoption of recessive monetary and fiscal policies, with serious economic and social consequences.

Additionally, Bresser-Pereira and Nakano (2003) warn that foreign savings do not necessarily increase domestic savings, as there may be a leak to consumption. This is because the inflow of resources hardly becomes productive investment especially in the case where there is the lack of a government with active policies (industrial, technological, etc), an adequate macroeconomic environment and a business class willing to engage in resumption and/or expansion of its business. In fact, they consider that this was the case of Brazil from 1992 until the beginning of the 21st century, when there was a strong net inflow of resources, but which was mainly intended for the financing of consumption. In this case, the inflow of foreign resources serves primarily to increase domestic consumption and foreign debt, without the counterpart of increasing the country's productive capacity and its ability to amass hard currency (ibid, p. 14-15).

It should be noted, as Paulani (2013, p. 250-251) reminds us, that the attraction of foreign savings, by the reinforcement of the exchange rate appreciation, causes wage increases, which ends up encouraging consumption, and not investments, as this demand upsurge tends to be met by imports rather than domestic production. Thus, there is a substitution of domestic savings for foreign savings and a demand leakage instead of a demand increase, as well as a loss of competitiveness of domestic companies in comparison with their international competitors (due to the increase in hard currency costs without the corresponding increase in productivity (see Bresser-Pereira, 2009, chapter 6)).

The argument of replacing domestic for foreign savings can be summarized as follows: capital inflows, assuming that foreign exchange reserves do not vary, appreciate the exchange rate, resulting in two movements: one raising real wages and

increasing imports and the other reducing exports, investments and, therefore, domestic savings. Consequently, foreign savings tend to translate itself into higher consumption and higher indebtedness, which leads to income balance deficits. Only when the economy is undergoing a period of accelerated growth does this not tend to occur, as in this case the differential between the expected profit rate and the long-term interest rate is prone to be significant (Bresser-Pereira & Gala, 2007, pp. 16-18).

From all we study here, it follows that foreign savings are not a good strategy for increasing domestic investment; it is, at best, a complement to be used with zeal. Excessive recourse to foreign savings causes increasing instability (because countries have a limit on external indebtedness), as well as reinforces the tendency of domestic currency appreciation and the substitution of domestic savings for foreign savings.

III- THE LAST TWO DECADES OF THE BRAZILIAN GROWTH STRATEGY WITH FOREIGN SAVINGS

Since colonial times, Brazil economic dynamism comes from the vagaries of the international markets, in particular the primary commodities markets such as coffee and iron ore. The endeavor to industrialize the country, known as the "Vargas Era" (named after former president Getúlio Vargas), was relatively successful until the late 1970s when there was the attempt to establish a domestic capital goods industry. After the debt crisis of the 1980s and successive neoliberal administrations, Brazilian industry has been reduced to a declining role in the economic life. Because of this, Brazilian economy turned back to its usual routine: in time of commodities booms, Brazil has room to attain some level of economic growth; as international crises set in, Brazil has to depress its internal expenditures in order to guarantee the hard currencies to meet its financial obligations. As shown by historical processes elsewhere, the industrial sector is the main axis that could hold a long term capitalist economic development process in a country as large as Brazil, and as such its weakening has deleterious consequences for Brazil's long term economic prospects.

As every underdeveloped country, Brazil lack the power to generate hard currency at its own volition and it needs to pay special attention to its balance of payment. Throughout its history, Brazil has frequently resort to foreign savings even

though it is a country with sufficient scale to develop an economic growth strategy based primarily on its own resources. Brazil has a large territory, a population that is among the biggest of the world and abundance of resources but historically it has tremendous difficulty to develop its so-called innate potential towards capitalist economic development. The explanation for this does not concern us here: we will focus on the latest twenty years.

The year of 1999 was the year when Brazil shed its currency peg. It was with a currency peg in 1994 that Brazil stabilized its level price, which was out of control since the late 1970s. Following the 1997 Asian and 1998 Russian financial crises, reiterated capital outflows and speculative attacks against the Brazilian currency took place, and therefore Brazil could not maintain its currency peg, even though it promoted successive hikes on interest rates and accomplished a deal with the IMF (International Monetary Fund). Subsequent to this event, Brazilian policy makers changed its economic policy and followed the so-called "macroeconomic trinity" of flexible exchange rate, inflation target and primary fiscal surplus. This lasted until Dilma Rousseff administration; since then Brazil has engulfed itself in fiscal problems as the economy submerged into the depths of recession. The important point is that there is a continuity of economic policy that enables us to analyze the last two decades as a *continuum*. The axis of this policy is the prevalence of the interests of finance capital in the country's economic agenda.

The Brazilian economic declining performance since the 1980s can be thought in many ways but it is not an easy task to dismiss the growth strategy with foreign savings as one of its main causes, simply because it results in a reinforcement of the tendency of exchange appreciation and the rise of external vulnerability. Champions of the era of economic growth during the 2000's argue that Brazil is not in a long run path of deterioration in its economic foundations but just had a golden age of capitalist economic growth in the beginning of the XXI Century. These champions point out that the economic expansion of the 2000s was due to the growth of the domestic market, but this argument is rather a fallacious one. The domestic consumption did increase in this period but this was presumably because of the upsurge in households' indebtedness and from real wage gains coming from real exchange appreciation. The ascent in domestic consumption altered none of the structural tendencies of Brazilian economy that shows

its long term sagging trajectory, namely de-industrialization, re-primarization of exports, increased dependence of international markets and, *ipso facto*, diminished scope for counter-cyclical policies.

According to Gonçalves (2012), Lula's administration (2003-10) can be described as "Reverse National Developmentalism", which is the opposite of the "National Developmentalism" that characterized Brazilian economic policy during the "Vargas Era". This analysis is of striking acuteness because it points out to the long-term consequences of the policies then implemented and not merely to the economic growth rates. The latter can mystify any serious attempt to assess the conditions of a country's economy if it is considered isolate and not with regard to the long term structural tendencies. The "Reverse National Developmentalism" is said to increase Brazilian external vulnerability and as such it reduces the ability of Brazil to withstand unstable conditions, pressures and shocks (Gonçalves, 2012).

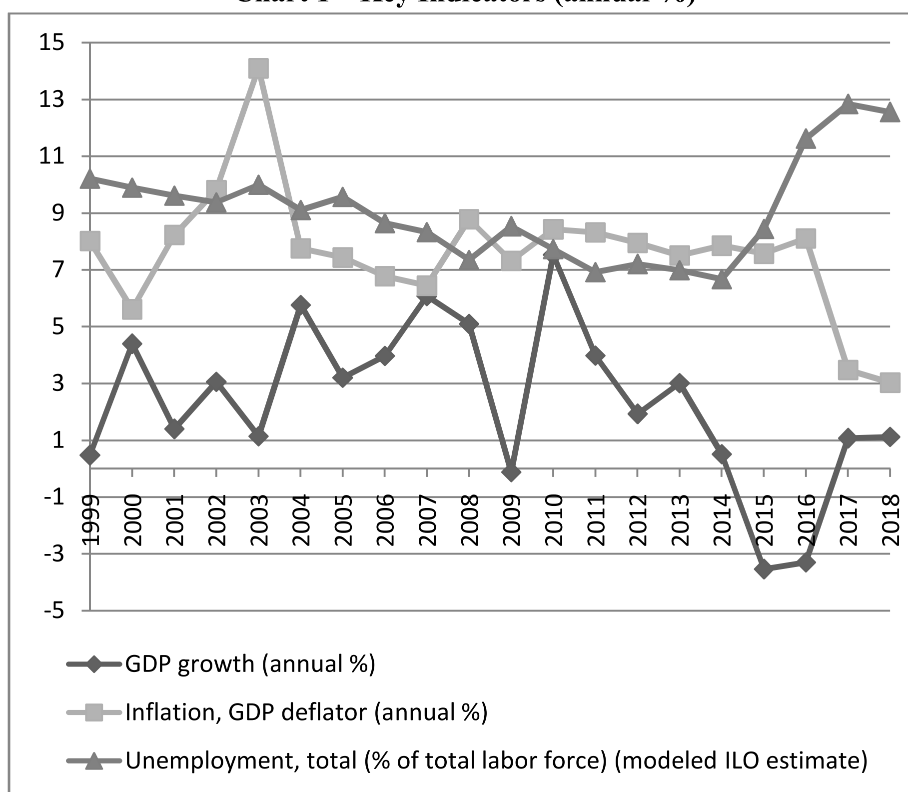
The important fact is that such a growth performance in the 2000s was only possible through the systematic use of foreign savings as a means to alleviate the chronic and structural problem of Brazil, which is its external constraint. The difference in Worker Party's administration GDP (Gross Domestic Product) growth rates and other macroeconomic variables from the previous administration was due to improved international liquidity conditions, the commodities boom and China's rise as a buyer of primary products from Brazil (Carcanholo, 2010). It can be said that the difference between the Lula and Cardoso (former Brazilian president) administrations was the external conjuncture and not the economic strategy adopted, though some differences did exist, particularly in the sphere of outright privatizations.

In 2008 the most severe economic crisis since the 1929 crash took place at the center of the capitalist system. Impacts in Brazil soon appeared: reflux in the attraction of foreign capital, falling exports and a slowdown in the pace of domestic activity. Brazil's response to the crisis was through fiscal stimulus, but without changing the tenets of the macroeconomic trinity. This meant that the fiscal stimulus had a short-lived impact; after that Brazil turned back to fiscal austerity and, in an environment of languish economic activity, this translated into a pro-cyclical recessive policy. Brazil turned into stagnation and the response was the so-called "New Economic Matrix"

which was an unusual combination of fiscal stimulus measures with the maintenance of fiscal surplus targets.

The international crisis lasted for almost five years and conditioned the performance of Dilma Rousseff administration. In such an external economic slowdown (including China, locomotive of the world capitalist system in the first decade of the 21st century), economic growth slowed and Brazil deepened its path of economic, social and institutional instability. The following chart provides information on macroeconomic performance for the period 1999-2018 in three key variables: unemployment rate, inflation rate and GDP growth rate.

Chart 1 – Key Indicators (annual %)



Source: World Bank (2019). Author's elaboration.

As we can see, the successful indicators are inflation, which remained low compared to historical records, and unemployment (up to 2014). In terms of unemployment, one must take into account the importance of the informal sector in Brazil's economy (it employs a significant share of Brazilian labor force) and considered that these results were distant from a full employment situation. In terms of growth rate, Brazil's performance was appalling: considering the whole period (1999-2018) the average was 2.33%; in contrast, the average of developing countries for the

period 2003 to 2013 was 5.17%, namely Brazil accumulated a relative backwardness relative to the group of countries with a similar stage of development[3]. Dividing the analysis into two periods, the first between 1999 and 2010 and the second between 2011 and 2018, we observed that the average GDP growth was 3.49% in the first period and 0.59% in the second period, indicating that the pace of growth stagnated as the effects of the so-called commodities boom waned.

The end of the commodities boom made clear that the economic performance of the 2000s was not the result of a growth strategy anchored in autonomous investment and domestic demand, but it was the consequence of favorable external conditions that enable the rise of purchasing power of the population through the currency appreciation and the easement of Brazilian external constraint. Once the commodities boom ended, Brazil turned back to its sliding path of so-called lost decades after lost decades. It must be noted that even this “return to mediocrity” has become harder as time goes by, mainly because of the effects that an economic strategy anchored in foreign savings produces in the productive structure (de-industrialization and re-primarization of exports).

Understanding how the growth strategy with foreign savings was developed requires the study of the performance of balance of payments variables. During the span 1999-2018, Brazil only had current account surpluses between 2003 and 2007. This denotes the importance for Brazil of economic growth with foreign savings and how the commodities boom was a period of exception in its recent history. The current account balance moved from a surplus of US$ 13984.65 million in 2005 to a deficit of US$ -52473.49 million in 2011 and US$ -54230.48 million in 2012. Up to 2013, the trade balance had not turned to negative (which occurred in 2014, when there was a deficit of US$ -3.9 billion), but trade balances had shown a downward trend since 2006. The anchoring of growth in foreign capital, whether short or long term, can be attested by the net balance of the financial account, which went from a mere US$ 4612.75 million in 2003 and negative results in 2004 and 2005 (of US$ -7894 million and US$ -10126 million, respectively), to reach a record of US$ 110807.81 million in 2011[4].

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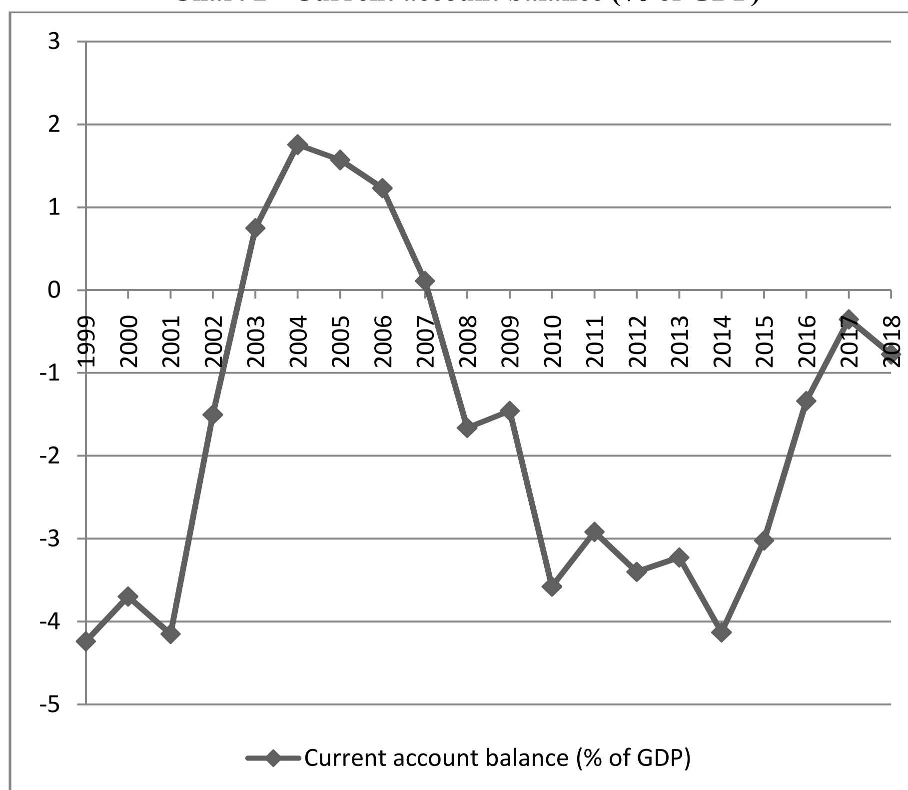
[3] Source: https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=109 (accessed: 08/30/2019) and WORLD BANK (2019).

[4] Source: Banco Central do Brasil.

Special reference should be given to the current account deficit, the core of the growth strategy with foreign savings. In terms of the ratio of this balance in relation to GDP, the year of 2007 was the last year that a positive result was reached. As of 2008 this ratio constantly worsened, denoting a dramatic moment in the Brazilian external accounts. The downward trend is reversed from 2015 onwards, mainly due to the sharp fall in the level of domestic activity, which tends to reduce the absorption of resources from abroad. The following chart depicts the path of the current account balance in percentage of GDP since 1999.

Chart 2 - Current account balance (% of GDP)



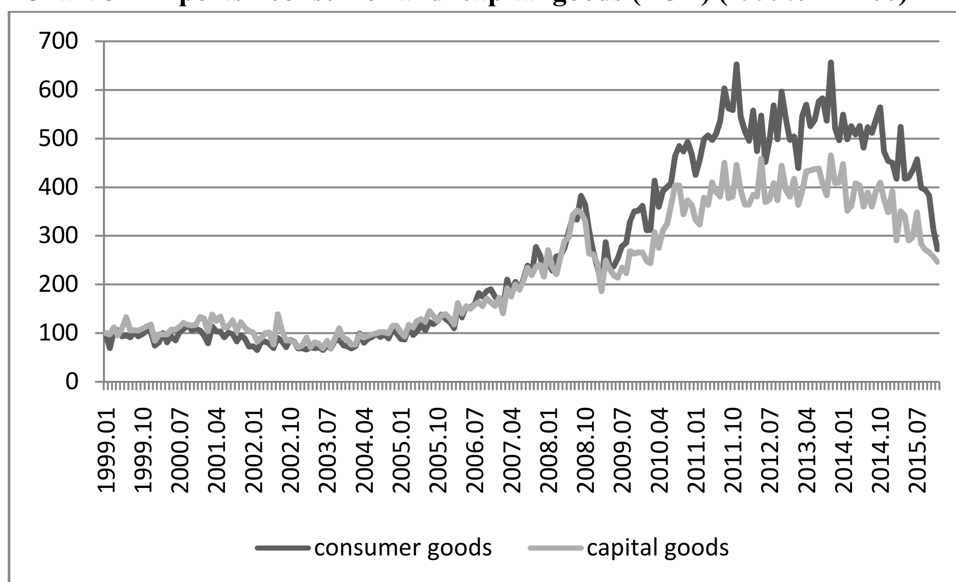
Source: WORLD BANK (2019). Author's elaboration.

The foreign savings growth strategy assumes that it is normal for an emerging country to incur current account deficits because, in theory, such a country is catching up with the central economies and is therefore growing faster than these, and capital, in its perennial pursuit of the best returns, flows into it. That said, there are two fundamental points to analyze whether or not the current account deficit is benign: (i) whether capital flows are being directed to finance productive investment or to finance consumption; and (ii) whether the composition of capital flows that finance the deficit is

long-term or short-term capital; the latter one is more volatile to international liquidity and risk conditions than the former.

Let's look at the first point. In order to know where incoming capital is being directed, it is useful to determine whether the deficit in external accounts is due to an increase in imports of capital goods or import of consumer goods. Through the analysis of the chart below[5] one can conclude that the Brazilian current account deficit problems have been driven by an increasing pace of imports of consumer goods as compared with the imports of capital goods. In 2003, on average, Brazil imported US$ 462 million in consumer goods per month and US$ 862 million in capital goods per month. In 2014, the monthly average of imports of consumer goods was US$ 3235 million and US$ 3975 million in capital goods. In other words, while imports of consumer goods increased by 700% in 11 years, the imports of capital goods increased by 461%. This indicates that Brazil has resorted to foreign savings not to finance its investment but to finance its consumption, borrowing without creating additional capacity to generate hard currency, which aggravates its traditional external constraint and causes a movement of import de-substitution.

Chart 3 - Imports - consumer and capital goods (FOB) (1999.01 = 100)



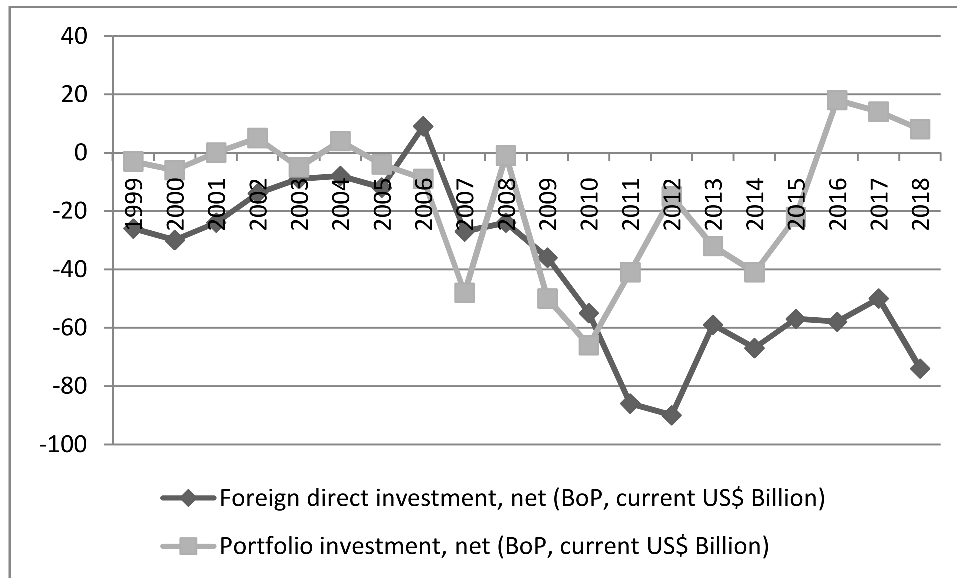
Source: Ipeadata, Author's elaboration.

5 Source: Ministério do Desenvolvimento, Indústria e Comércio Exterior, Secretaria de Comércio Exterior, data available at Ipeadata.

Another clue that the foreign savings are not serving to increase productive capacity is the evolution of the country's investment rate. Analyzing quarterly data (available from Ipeadata), at current prices, on the trajectory of the investment rate as a percentage of GDP, one can infer that the idea that foreign savings can increase the investment rate is very dubious. In the first quarter of 2003 the investment rate was 16.2%. Between 2003 and 2007, the investment rate fluctuated between 14.8% and 18.2% of GDP, with an average of 16.2% between the first quarter of 2003 and the fourth quarter of 2007. From 2008 on, when the current account deficit problems started again in Brazil, the investment rate went from 18.2% of GDP (first quarter) to reach a peak of 20.6% in the third quarter of 2008 and achieve the mark of 17.3% in the third quarter of 2014, with an average of 18.5% between the first quarter of 2008 and the third quarter of 2014. That is, even if there was an increase in the investment rate, it can be considered irrelevant.

As for the second point, regarding the composition of capital inflows, we have the chart below which relates foreign direct investments (FDI), in general long term investments, and portfolio investments, which in general are short term investment. The first point is that portfolio investments are extremely volatile, responding to the flows and counter-flows of international capital movements. The second point is that net foreign direct investment kept a steady downward flow since 2006. In addition, the fact that the gap between net portfolio investment and net FDI was tilted toward the former indicates that the recurrent Brazil’s current account deficits has been financed with short term resources that are extremely volatile to international finance market vagaries and liquidity risk conditions.

Chart 4- Foreign direct and portfolio investment, net (BoP, current US$ Billion)



Source: World Bank (2019). Author's elaboration.

Another worrying point about Brazilian economy is that foreign investments generate remittances of profits and dividends and when there is a reversal of the economic cycle in the center of the capitalist world there is the remittance of resources from alien companies to their headquarters. And this directly impacts the income balance that tends to become (significantly) negative. In Brazil, this account shows results with a progressively negative trend, reaching a negative record of US$ 47.3 billion in 2011 (considering data until 2014). The international crisis that erupted in 2008 led to a sharp acceleration of interest, profit and dividend remittances, especially in the second half of 2008. In the period 2008 to 2013, the remittance of profits and dividends from portfolio investments (net) was on average of US$ 7879 million per year. Remittance of profits and dividends from direct investment (excluding reinvested earnings - net) was on average US$ 21753 million per year. Adding up the figures we reached the amount of US$ 29632 million. By its turn, the average trade balance for the same period was US$ 20310 million[6]. From this, one arrives to the conclusion that the growth strategy with foreign savings leads to a situation of growing vulnerability in the foreign accounts (cf. Araujo & Gentil, 2012 and Gonçalves, 2013).

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[6] Source: Banco Central do Brasil.

In summary, we saw in this section the outcome of the strategy of growth with foreign savings in Brazil. Some of the problems associated with such a strategy (current account deficits, currency appreciation, external vulnerability and substitution of domestic savings for foreign savings) were mitigated only in the period of commodities boom. As soon as the international cycle reversed, another scenario set in.

IV- GROWTH WITH FOREIGN SAVINGS, "DUTCH DISEASE" AND EXCHANGE RATE

The growth strategy with foreign savings had several negative side effects for the Brazilian economy. We have already seen some of these as we reviewed the historical context of this model, but now we will highlight an effect of this strategy whose consequences for the Brazilian economy take significant dimensions, which is the tendency for Brazil's currency appreciation.

The chart below represents the evolution of the exchange rate in Brazil from 1995 to 2019. Note: (i) a period of exchange rate appreciation, between 1995 and 1999, within the framework of the exchange rate anchor; (ii) a depreciation movement between 1999 and 2003 because of the exchange rate regime change; (iii) an appreciation movement between 2004 and 2008 mainly due to the commodities boom; (iv) a period of depreciation in the second half of 2008 due to the international crisis; (v) a movement of exchange appreciation, between 2009 and mid-2011, due to the "Quantitative Easing" policy carried out by the US Federal Reserve and also by other monetary authorities, such as the European Central Bank and the Bank of Japan; and (f) since then, a movement of exchange rate depreciation due to a downward trend in commodity prices, the Central Bank's actions in the foreign exchange market and the outflows of capital regarding the "flight to safety" phenomenon characteristic of long spans of crisis in a peripheral economy.

Chart 5 - Commercial exchange rate BRL/USD - average (monthly)

Source: Ipeadata, Author's Elaboration.

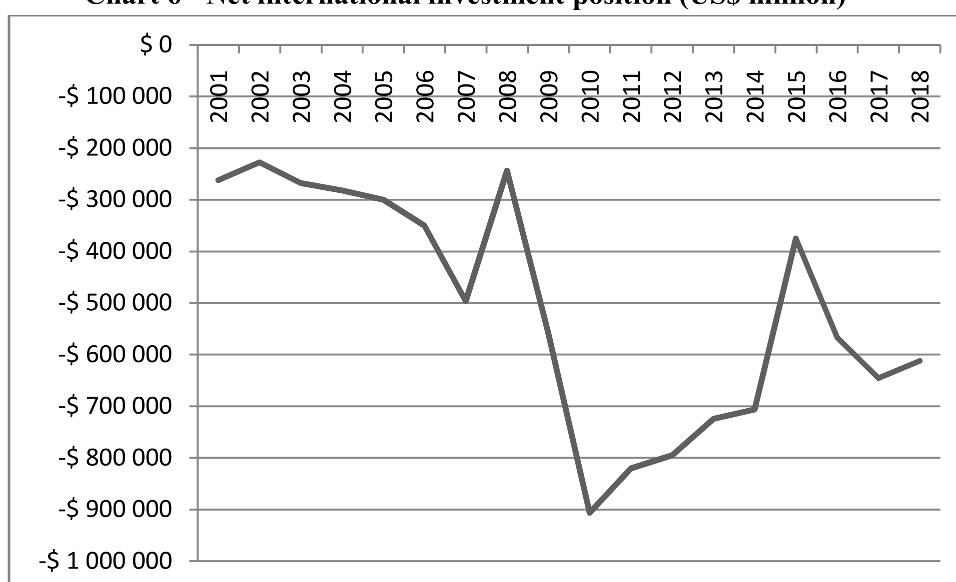
The determination of a country's "optimal" exchange rate is a controversial theme. Among the various existing approaches, the so-called Keynesian-structuralist stands out because there the long-term exchange rate depends both on structural factors (and long-term economic policies) and on short-term macroeconomic policy. According to a study by Feijó, Nassif and Araújo (2011), organized following this approach, the optimal exchange rate, for April 2011, was BRL$ 2.90 for 1 USD$. Note, when inspecting the chart, that Brazil was far from this optimum level in the month just mentioned. And not only in this period: according to the investigation by the three authors, it was only between mid-2003 and mid-2005 that the Brazilian economy experienced an estimated undervaluation of the real exchange rate concomitantly with "sound" macroeconomic indicators, having reached its "optimal" exchange rate in 2004.

There are basically two structural factors for Brazil's currency appreciation: (i) the growth strategy with foreign savings and (ii) the "Dutch disease". In the first case, as we have seen, there is the opening of the economy to trade and financial flows, leading to exchange rate appreciation due to the excess of hard currency relative to the local currency. Such attraction of foreign capital occurs because this strategy involves an interest rate differential, which guarantees arbitrage situations for market agents, especially those involved in carry trades. When there is excess liquidity in the international market, as in the case of the Quantitative Easing era after 2008 crisis, there

is a strong flow of capital seeking better yields ("money chasing yield") that contributes to the exchange rate appreciation.

Brazil did manage to channel some of this financial resources inflow to build a substantial cushion of foreign reserves. Albeit a high maintenance cost due to the differential between domestic and international interest rates, the amount of foreign reserves surged from US$ 193783 million in 2008 to US$ 358808 million in 2014[7]. But this did not change the trajectory of degradation in the net international investment position, which is the difference between the stock of foreign assets and liabilities, as we can see by the chart below. Note that the net international investment position declined from US$ -243658 million in 2008 to US$ -705912 million in 2014[8].

Chart 6 - Net international investment position (US$ million)



Source: IMF Data, Author's Elaboration.

As for the "Dutch disease", this is a phenomenon that has gained space in the Brazilian economic debate in the last decade. This "disease" can be thus defined (Black, 2002, p. 131):

> *"The effect of an increase in one form of net exports in driving up a country's exchange rate, which handicaps the sale of other exports and impairs the ability of domestic products to compete with imports."*

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[7] Source: Banco Central do Brasil.

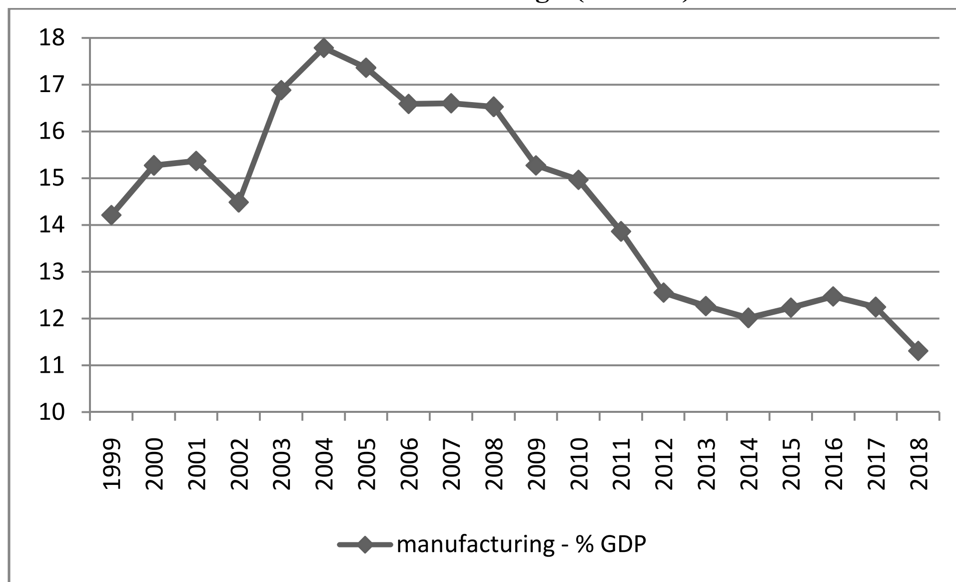
[8] Source: IMF Data.

This economic “disease” is typical of countries with abundant natural resources because in these countries natural resource intensive sectors tend to have a higher level of productivity than others, pushing the exchange rate to a level that is not appropriate for the international competitiveness of the industrial sector (Diamand, 1986, pp. 61-62). In the case of Brazil, the “Dutch disease” can be seen as the main responsible for the exchange rate appreciation in the period 2004-2008. During this period, the fundamental factor that aggravated the symptoms of the “Dutch disease” in Brazil (a country abundant in natural resources) was the so-called commodities boom, a phenomenon explained both by rising prices for commodities and soaring demand from new markets, especially China, whose economy was on a fast pace of growth.

The increase in the Chinese demand for commodities has led to a tendency to re-primarization of Brazilian exports due to the trade pattern established with China. Brazil's trade relations with China are marked, from the point of view of the former, by exports of primary products and imports of manufactured goods. The growing importance of this Asian country in Brazilian trade (the percentage of exports, by destination, from Brazil to China, which was 1.2% in 1990 and 2.0% in 2000, increased to 6.7% in 2007 and 8.3% in 2008; the percentage of imports, by destination, from Brazil to China, which was 0.9% in 1990 and 2.2% in 2000, increased to 10.5% in 2007 and 11.6% in 2008 (Carcanholo & Mattos, 2013, pp. 73-74) shifts Brazil's trade profile toward a typical underdeveloped country’s pattern, namely exports of primary goods and imports of everything else.

This re-primarization means that Brazil is growing at the low end of global value chains. Combined with the process of de-industrialization a dire picture of Brazil’s long term economic trajectory is painted. The de-industrialization of Brazil can be attributed to a number of factors, especially the growth strategy with foreign savings, currency appreciation, the lack of industrial policies and the doctrine that financial led-growth can work in a large underdeveloped country as Brazil. The dramatic shift back of Brazil from an industrialized developing country to a semi-industrialized and commodities dependent country is reflected in the dramatic fall of the manufacturing part of industry in the GDP, which is illustrated by the chart below.

Chart 7 - Manufacturing - (% GDP)



Source: Ipeadata, Author's Elaboration.

Brazil's de-industrialization took off with the opening of its economic due to the adoption of the "Consensus of Washington" policies in the early 1990s. The country, which once dreamed of completing the process of imports' substitution as it built its sector of capital goods, entered a phase of destruction of its industrial fabric. It is certain that this shift in the economic panorama of Brazil has been taking decades to complete, but the pace accelerated since the mid-2000s as the chart above reveals. And this is not random, because, as we saw in this paper, the adopted economic strategy set Brazil onto a slippery path and strengthened its underdevelopment characteristics, of which the primacy of primary commodities production over the others sectors of the economy is the most typical one.

In short, the growth strategy with foreign savings reinforces, along with the "Dutch disease", the tendency for Brazil's currency appreciation, which by its turn reinforces structural problems of Brazilian economy such as de-industrialization and re-primarization of exports. The combination of these factors leads to a situation in which Brazil bolsters its historical underdevelopment trajectory, including its relative backwardness with respect to the pace of growth in world per capita income (see the study by Feijó, Nassif and Araújo (Feijó, Nassif and Araújo, 2013) on this topic).

V- CONCLUSIONS

Based on the so-called Keynesian-structuralist theoretical framework, the present paper aimed to analyze Brazil's economic strategy in the period 1999 to 2019. Following the works of Bresser-Pereira (2002) and Bresser-Pereira & Nakano (2003), we referred here to this strategy as the "growth strategy with foreign savings". Such a strategy is anchored in the idea that developed countries transfer savings to developing countries, which, on receiving them, turn these resources into financing for productive investment. Based on this, the best policy would be to open the capital account and adopt capital friendly measures, as both would stimulate the inflow of capital. Current account deficits would not be a problem but part of the solution to the question of capitalist economic development.

We saw in this paper the results of the growth strategy with foreign savings: reinforcement of the tendency of currency appreciation and growth of external vulnerability. Combined with the "Dutch disease", the resultant scenario is characterized by the strengthening of such processes as de-industrialization and re-primarization of exports. Because it generally promotes consumption rather than productive investment, such a strategy also end up in the substitution of domestic for foreign savings and loss of competitiveness of the domestic industry, further strengthening the external imbalance. Ultimately, the growth strategy with foreign savings tends to provoke a balance of payments crisis, with serious economic and social consequences. Brazil avoided the most obvious aspects of a balance of payment crisis due to the accumulation of foreign exchange reserves during the Workers' Party administration, but it could not avoid de-industrialization and re-primarization of exports and the consequent sagging trajectory of its economy.

During the period between 1999 and 2019, we observed that the growth strategy with foreign savings in Brazil achieved positive results in terms of some of the key economic indicators so long as the so-called commodities boom lasted. As the boom times ended, the weaknesses associated with such a strategy manifested with full strength and Brazil entered a phase of cooling economic growth. Added to the country's political and social contradictions, the coming picture was a crisis in the various spheres of Brazilian social life.

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