

Hoffmann, Helga

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BRAZIL

The Export Oriented Development Strategy in Brazil

Helga Hoffmann, Copenhagen *

Between 1968 and 1974 Brazilian exports increased at an annual average rate of 27 %, coinciding with extremely high rates of the country's economic growth. Interesting is therefore the role played by the exports in the Brazilian seven year boom and the discussion of the outward looking strategy and its limits after the end of the boom and the increasing balance of payments constraints.

Having been more or less stable below a level of US \$ 1.5 bn during the fifties and beginning of the sixties, showing only small increases in the middle of the sixties, Brazilian exports entered a period of impressive growth rates in 1968. Between 1968 and 1974 exports went up at an annual average rate of 27 %, from \$ 1.9 bn at the beginning of the period to almost \$ 8 bn at the end. (See Table 1, column 1.) This expansion of exports coincided with the extremely high rates of economic growth of Brazil in the 1968–74 period, the so-called "Brazilian economic miracle", when the real Gross Domestic Product (GDP) expanded at average annual rates of 10%. The question has been raised, therefore, as to the role played by exports in the Brazilian seven year boom. Moreover, the end of the boom in 1974 and the increasing balance of payments constraints after 1973, brought to the forefront the discussion of the outward looking strategy and its limits.

In this short exposition, the following points will be made:

- ☐ the successful export expansion cannot be explained only in terms of the government incentives given, but is closely related to other components of the Brazilian growth model and of the international situation;
- ☐ the significance of the export expansion in the recent Brazilian economic growth arises not from its share in global demand, which is relatively small, but from its balance of payments implications;
- ☐ the change to an "outward looking strategy"

had even a stronger accent on the side of imports and with reference to the inflow of foreign capital;

☐ the effects of the extrovert strategy which became apparent after 1973 were enhanced by the boosting petrol prices, but its limits would have made themselves felt independently of the creation of OPEC;

☐ given the inherited balance of payments difficulties, further increases in exports are an important element in any future growth strategy for Brazil.

Propositions like "exports were a response to the stagnation of the internal market", "exports are being done only to the benefit of multinationals", "exports could be done only under the condition of keeping wages under control", or "through exports Brazil is rising as a sub-imperialist power", which in this simplified formulation we consider wrong, are not discussed directly here. Nevertheless, the elements given might shed some light on these items, too.

We would not deny that the way to the external market was facilitated by the introduction of the "trotting peg" in 1968 (exchange rate policy consisting of frequent and unpredictable mini-devaluations of the cruzeiro) and of a whole battery of credit and tax incentives and related measures,

* Research Institute for Foreign Trade, Copenhagen School of Economics and Business Administration. — A preliminary version of this paper was presented in a Seminar at the Research Institute for Foreign Trade of the Copenhagen School of Economics and Business Administration in October 1977, and I am indebted to participants for comments. I acknowledge gratefully the research support from the Institut für Iberoamerika-Kunde, Hamburg.

gradually implemented¹. The conjunction of other variables should not be overlooked, though. ECLA is right in classifying Brazil as "perhaps the most obvious case of opportune and decided adaptation to the expansive conditions which emerged in the second half of the sixties and became extraordinarily stronger, with only brief pauses, at the beginning of this decade, being interrupted in 1974-75"².

In point of fact, world trade also expanded at very high rates in the same period (19.6% per annum in 1968-73). High growth rates of OECD countries in 1972 and 1973 equally benefited Brazilian exports, which had during these years the highest increase rates of the whole period: 37% and 55%, respectively.

External prices of the agricultural products exported by Brazil almost doubled between 1968

and 1974. The soaring coffee prices are more recent. But already in the period under analysis there had been increases in the coffee price, together with price increases *inter alia* for sisal, sugar, cotton, cocoa, meat. As soya prices went up steeply in the world market, Brazilian soya harvests multiplied by more than ten from 1966 to 1973 (from 600 000 tons to 7 mn tons), aiming at the external markets. To sum up, the change in the terms of trade was favourable, helping Brazil to increase by more than two and a half times the purchasing power of its exports between 1967 and 1973³.

Examining the export expansion from the supply angle, it should be observed that the incentives to export, at the beginning of the period, fit the high rates of unused capacity reached in the industrial sector during the recession of 1963-1967. In the first stage of the growth period, known as the recovery of 1968-1969, industry gradually increased the utilization of its productive capacity. Export expansion represented means of using idle capacity and could take place without an immediate expansion of productive capacity. Along 1971, however, full utilisation of capacity was gradually achieved in most of the industrial branches. Considering the import coefficient of investments in Brazil, the further expansion would reveal one of its weak points in that imports started growing faster than exports, even before the

¹ Apart from the exchange rate incentive, the simplification of administrative procedures for exporters equally affected all products. Other incentives aimed at diversifying the structure of exports and promoting the exports of manufactures. After 1965 income tax ceased to be applied to export profits in the manufacturing industry; under the system of "draw back", products imported for further elaboration and subsequent exports are exempted from customs duties. From October 1967, industrial exports were exempted from indirect taxes; interest subsidized credit lines were set up for products for the external market. As to the commercialisation, a program of "export corridors" is aimed at improving the transport from the countryside to the harbours and the shipping outlets. Government is directly present in export activities through enterprises in which the state participates. In 1972, the income tax incentive of the manufacture exports was extended to the mining industry, in the specific case of enterprises controlled by national capital which process minerals abundant in the country, when they export half of their production at a value 50% higher than its value in the raw state, and when 10 years' supply contracts are signed. A detailed summary and enumeration of the plethora of decrees and regulations referring to export promotion in Brazil is found in Jolowicz, H., 1977, *Auslandsinvestitionen in Brasilien - Rechtsgrundlagen und Erfahrungen* (Foreign Investments in Brazil - Legal Bases and Experience), 2. ed., Institut für Iberoamerika-Kunde (forthcoming).

² CEPAL, *Estudio Economico de America Latina* 1976, Santiago, 1977, p. 212.

³ Between 1968 and 1973 the terms of trade index of Brazilian foreign trade had been improving by 25%. After 1973 the index has been declining, basically due to petrol prices. Cf. Banco Central do Brasil, *Annual Report* 1976, p. 215.

Table 1
Brazil: Balance of Payments
(US \$ mn)

	Exports FOB	Imports FOB	Non-factor services, net	Factor services and others, net	Interest payments	Interest receipts	Current account deficit	Direct investments, net	Loans and financing	Amortizations, net	Short term capital, net	Foreign reserves	External debt	Debt service over exports	Net external debt over exports
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1968	1,881	- 1,855	- 193	-219	- 154	+ 10	- 530	+ 61	+ 583	- 484	+381	257	3,780	0.34	1.87
1969	2,311	- 1,993	- 235	-213	- 204	+ 22	- 312	+ 177	+1,023	- 493	+164	656	4,403	0.30	1.62
1970	2,739	- 2,507	- 328	-253	- 284	+ 50	- 583	+ 132	+1,433	- 672	+122	1,187	5,295	0.35	1.50
1971	2,904	- 3,245	- 405	-273	- 344	+ 42	-1,321	+ 168	+2,037	- 850	+491	1,723	6,622	0.41	1.69
1972	3,991	- 4,235	- 529	-362	- 489	+130	-1,494	+ 318	+4,299	-1,202	+ 77	4,183	9,521	0.42	1.34
1973	6,199	- 6,192	- 842	-366	- 839	+325	-1,715	+ 940	+4,495	-1,672	-251	6,416	12,572	0.41	0.99
1974	7,951	-12,641	-1,329	-451	-1,370	+718	-7,123	+ 887	+6,891	-1,920	+464	5,269	17,166	0.41	1.50
1975	8,670	-12,169	-1,229	-520	-1,828	+365	-6,712	+ 895	+6,530	-2,120	+913	4,041	21,171	0.46	1.98
1976	10,130	-12,277	-1,256	-904	-2,039	+281	-6,066	+1,010	+7,921	-2,888	+973	6,544	25,985	0.49	1.92

(3) Travel, transportation, insurance. - (4) Profits, dividends, government transactions, other services. - (7) Corresponds to (1) + (2) + (3) + (4) + (5) + (6). - (8) Foreign investment, net, minus Brazilian investment, net. - (9) Includes currency loans. - (13) Includes debts of the private sector. - (14) Column (5) plus column (10) over column (1). - (15) Column (13) minus column (12) over column (1).

Source: Boletim do Banco Central do Brasil, vol. 12, n. 7, July 1976, and vol. 13, n. 5, May 1977, Banco Central do Brasil, *Annual Report* 1976.

increase in petrol prices. (Compare columns 1 and 2 of Table 1.)

Exports and Industrial Growth

In addition to the sheer increase, the country achieved an important change in the composition of exports. The importance of coffee declined from an average share of about 40% in the mid-sixties to about 20% in the seventies⁴. Soya, from an almost inexistent item in the country's export structure in the mid-sixties, became one of its largest exports (11.2% of total exports in 1974, if we add up beans, cake and bran). Exports of manufactures were no more than 1% of total exports up to 1959, and still insignificant in 1964 (6.2%); after 1973 manufactures represented more than one quarter of total exports. As shown in Table 2, from a share of 10% in 1968, manufactures went up to about 28% in the mid-seventies.

Despite the remarkable increases, the importance of exports is not to be found in the additional demand they represent for the system. The export coefficient of the whole economy was slightly

over 6% of GDP in 1974. Particularly in the case of manufactures, exports, despite the increase in their participation, are still only a small part of final demand. In certain years they might have acquired more significance for some branches, like food (where exports corresponded to 35% of the sector's GDP in 1970 and 30% in 1974), textiles, wood products, but for manufacturing industry as a whole, exports represented in 1974 less than 14% of the sector's GDP⁵. In this respect, the Brazilian case differs from other developing countries which showed also high growth rates in manufacture exports, like Taiwan and Korea. In these countries, on the contrary, exports came to represent a very high share of the global demand. Manufacture exports in 1973 represented 37% of production in Korea, and 48% of production in Taiwan. The corresponding share in Brazil was 5%.

⁴ If the years 1974-1975 are taken into account, the decline of coffee is even steeper, since in these years it represented only about 10% of total exports. Smaller harvests due to frost explain the shrinkage. With the jump in prices in 1976, the weight of coffee in total exports went back to slightly over 20%.

⁵ For agriculture, exports equalled 16% of the GDP in the correspondent sector. Only for mining exports represent a very high share (over 70%) of the sector's GDP. See CEPAL, Estudio Económico de América Latina 1975 (E/CEPAL/1014), p. 118.

Table 2
Brazil: Structure of Exports — Fob

Group of Products	1968		1970		1972		1974		1976	
	US \$ million	%	US \$ million	%	US \$ million	%	US \$ million	%	US \$ million	%
1. Primary Products	1,496.4	79.5	2,057.0	75.1	2,738.1	68.6	4,860.0	61.1	6,183.7	61.0
Coffeebeans	774.5	41.2	939.3	34.3	989.2	24.8	864.3	10.9	2,172.8	21.4
Sugar	101.6	5.4	126.6	4.6	403.5	10.1	1,261.6	15.9	204.9	2.0
Soya (beans, cake and bran)	25.2	1.3	70.7	2.6	280.2	7.0	889.3	11.2	1,581.9	15.6
Iron ore	104.5	5.6	209.6	7.7	231.7	5.8	571.2	7.2	995.6	9.8
Meat, chilled or frozen (beef and horse)	25.1	1.3	77.9	2.8	191.0	4.8	69.1	0.9	56.7	0.6
Other primary goods	465.5	24.7	632.9	23.1	642.5	16.1	1,204.5	15.1	1,171.8	11.6
2. Industrial products (sugar excluded)	375.8	20.0	657.2	24.0	1,208.2	30.3	2,896.4	36.4	3,565.6	35.2
2.1 Semi-processed goods	178.0	9.5	249.0	9.1	310.0	7.8	633.6	8.0	789.5	7.9
Sawn wood	74.5	4.0			72.6	1.8	85.7	1.1	51.3	0.5
Cocoa butter, peanut oil, castor oil	62.3	3.3	76.2	2.8	114.3	2.9	258.9	3.3	206.3	2.0
Other semi-processed	41.2	2.2	96.1	3.5	123.1	3.1	289.0	3.6	531.9	5.2
2.2 Manufactured (included instant coffee)	197.8	10.5	408.2	14.9	898.2	22.5	2,262.8	28.5	2,776.1	27.4
Footwear	0.5	ins.	8.3	0.3	54.6	1.4	120.3	1.5	175.1	1.7
Boilers, machines and mechanical instruments	13.0	0.7	23.9	0.9	55.3	1.4	150.6	1.9	266.2	2.6
Beef, processed	12.6	0.7	15.8	0.6	50.5	1.3	81.0	1.0	113.6	1.1
Electrical machinery	5.9	0.3	16.8	0.6	38.7	1.0	183.1	2.3	189.4	1.9
Office machines	13.5	0.7	28.2	1.0	30.9	0.8	90.4	1.1	76.9	0.8
Rolling stock and vehicles	3.9	0.2	14.9	0.5	68.6	1.7	186.5	2.3	373.1	3.7
Vegetable and fruit juices	11.8	0.6	15.1	0.5	43.6	1.1	62.3	0.8	104.4	1.0
Cotton fabrics	1.8	0.1	9.0	0.3	25.8	0.6	59.4	0.7	42.1	0.4
Instant coffee	22.8	1.2	42.5	1.6	67.9	1.7	116.1	1.5	225.5	2.5
Other manufactured goods	112.0	6.0	233.7	8.5	462.3	11.6	1,263.1	15.9	1,209.8	11.9
3. Special transactions	9.1	0.5	24.7	0.9	44.9	1.1	194.6	2.4	381.1	3.8
Total exports	1,881.3	100	2,738.9	100	3,991.2	100	7,951.0	100	10,130.4	100

Source: Calculated from Boletim do Banco Central do Brasil, May 1977, pp. 226-7.

In Brazil, even if only the *increases* are taken into account, both in exports and production, the figures do not warrant the proposition that exports led the industrial growth. While in Taiwan, for instance, the increase in manufacture exports from 1966 to 1973 is equal to 54 % of the increase in manufacture production, in Brazil this percentage is 15 %⁶.

It is to be insisted that the evidence is against an explanation of Brazil's recent industrial growth in terms of expanding exports. In evaluating the role in the growth model, one should take into account that most of the exports of industrial products were originated in the so-called traditional industries, and these were undoubtedly not the leading ones in the latest growth cycle. Calculations done at the Research Institute of the Ministry of Planning have shown that in 1971 66 % of industrial exports still came from the "traditional" branches of food, leather, wood products, tobacco, textile and clothing⁷. Since also the exported products which would be classified as chemicals are traditional ones, mainly edible oil, the share of the traditional sector was even higher, amounting to 78 %.

From the data on the structure of exports in Table 2, one can observe an increase in the relative share of the three items of machines (boilers, etc., electrical machines, office machines) and a fairly impressive steepening of the percentage of "rolling stock and vehicles". However, despite the tendency of capital goods and durables to gain in importance, non-durables are still the main weight in Brazilian manufacture exports. Moreover, one should remember that these are increases over low starting points. Thus, for instance, while 516,058 units of vans, buses, trucks and passenger cars were produced in the country in 1971, the number of units exported in the same year was 1,665, or the minimal share of 0.2 % of the production.

Generally it can be said that the sectors in which external markets have greater relative participation are amongst the ones with the lowest growth rates in the expansive cycle. This expansion was led by the extraordinary growth of the consumer durables sector, particularly the car industry, in the wake of a considerable expansion of consumer's credit, and corresponded to the patterns of income distribution reinforced in the period⁸.

This is true at least for the first stage, from 1968 to 1970, when industry gradually recovered from the 1962–1967 recession. After 1971 the highest growth rates are in the capital goods sector. At

least as important as the expansion of durables was the role of building industry, stimulated through a new financing system for the acquisition of housing and high government expenditures in infrastructure. Labour intensive goods showed a comparatively slower recovery. For textiles, clothing and footwear, only at the beginning of the seventies were the production levels of 1961 again reached. On the whole, while the output of the consumer durables sector grew at an average annual rate of 23.8 % from 1967 to 1973, the comparable rate for the non-durables sector was 11.9 %. And anyone can check that most of the industrial exports came from the non-durables sector⁹.

This sketch of the sectoral growth behaviour should help in ascertaining that the role of exports in the Brazilian boom was only partial. It is true that in some cases a relative slack in internal demand was not alien to the decided search for external outlets in which Brazil's manufacturers have embarked. But it is totally wrong to conclude from this that the external outlets were more important than the expansion of the internal market in explaining the country's growth.

Liberalization of Imports

On the side of imports, the changeover to an outward looking strategy meant a more liberal policy. Imports could increase since capacity to import expanded not only through higher exports but through the inflow of foreign capital. Total imports went up at average rates around 20 % during the period 1967–1970, rising to 35 % in the period 1970–1973. This speeding up was due basically to the performance of industrial imports, which reached more than 80 % of the total imports. And amongst industrial imports, capital goods had the lion's share. Half of the rate of increase of imports between 1968 and 1972 is explained by the import

⁷ W. Suzigan, R. Bonelli, M. H. T. T. Horta and C. A. Lodder, *Crescimento Industrial no Brasil: Incentivos e Desempenho Recente*, Rio de Janeiro, IPEA/INPES, 1974, pp. 142–143.

⁸ It is beyond the scope of this text to examine the income distribution pattern of the Brazilian growth model. The most complete work on this subject is by Edmar L. Bacha and Lance Taylor, "Brazilian income distribution in the 1960's: facts, model results and the controversy", chapter of a forthcoming book on growth and income distribution.

⁹ In relation to the mentioned weight of traditional industries in exports, most of the industrial exports of Brazil come from branches with lower degree of concentration and also where national firms are prevailing. This situation might present changes, to the extent in which nondurables lose weight in the structure of industrial exports. Actually, parallel to the gain in the shares of intermediate goods, capital goods and durables in Brazilian exports, between 1971 and 1974, government enterprises and multinationals increased slightly their participation in manufacture exports, as compared to the local private firms. Although the number of firms with export programs have been increasing, half of the exports are still realized by a number of firms which represent only 1 % of the total number. See F. Fajnzilber, *Sistema Industrial e Exportação de Manufaturados: Análise da experiência Brasileira*, Rio de Janeiro, IPEA/INPES, 1971, Chapter II, and CEPAL, "Políticas de promoção de exportaciones . . .", op. cit.

⁶ Data and other comparisons in CEPAL, "Políticas de promoción de exportaciones: lecciones de la experiencia", *Servicios Informativos de la CEPAL*, no. 228, November 1976.

of capital goods, which went up at an annual rate of 30 %, with accelerating tendency (32.5 % in 1971–1973, 46.9 % in 1974).

Machinery and equipment remained the main item even after the expenditures for oil had more than quadrupled. The most dynamic sectors, like metallurgical industry, engineering, electrical equipment, transport equipment and chemicals, contributed the major share of industrial imports.

Increased imports, as well as the increase of the import coefficient of the whole economy¹⁰ and of all the main industrial branches¹¹ from 1966 on were undoubtedly geared to the industrial growth of the country. However, one should observe that imports increased not only because of a lag in response of the internal sector of capital goods, but also due to official encouragement of the import of capital goods. An additional factor was the lack of internal credit for the acquisition of machinery and equipment, as compared to suppliers' credit for the import of machinery¹².

As a matter of fact industrial expansion, and therefore also the general economic growth rate, became more and more dependent on the supply of imported goods, to the disadvantage of the local capital goods sector. Thus, for instance, the elasticity of capital goods imports to changes in the formation of fixed capital, which was 0.20 on average in the period 1953–1967, went up to 1.84 in the period 1967–1972.

In this connection arises the importance of exports for the Brazilian industrial growth, not directly as a component of total demand (as already mentioned), but indirectly by providing means to pay imports of capital goods and of intermediate goods.

Besides the incentives to export and a more liberal import policy, the new outward looking strategy aimed at attracting foreign capital and for this purpose a more favourable legislation was introduced. Specially from 1968, Brazil could count on a considerable inflow of foreign loans, so that not only the current account deficit was covered, but foreign reserves were accumulated at unprecedented levels (see Table 1, column 12). The inflow of foreign direct investment equally increased (Table 1, column 8), but it is noticeable

that the higher levels occurred only after the expansive phase in the economy had already started, although the favourable legislation was already in force much earlier.

The ease with which Brazil has been contracting foreign currency loans, almost multiplying by five its external debt between 1968 and 1974, is presented sometimes as a result and a proof of the confidence shown in the Brazilian economy on the part of the international financial market, or even as a sign of acclaim of the international finance community for the prevailing economic policy. However, here again one should be reminded of the conjunction of internal measures and favourable developments in the external financial market¹³. After describing the expansion of the Euro-dollar market, Wells (1973) has emphasized "that it is changes in the Euro-currency markets which have been responsible for the flood of funds to Brazil". "... the relative ease with which Brazil has increased this part of net overall indebtedness is due to dramatic changes in the international availability of capital rather than to international acclaim for Brazilian policies and performance." Nevertheless, the adequate adaptation to favourable conditions was once again observed: "Although Brazil may to date be the largest borrower, this is probably due to its earlier development of requisite institutional structure than anything else."¹⁴

These foreign currency loans contracted in the Euro-currency markets are the largest component of Brazilian total debts. Actually, Brazil could profit heavily from the international money glut of the second half of the sixties and beginning of the seventies. And it was far from being the only developing country benefiting or suffering from this circumstance.

Limits of the Outward Looking Strategy

From 1974 on, balance of payments difficulties became once more one of the main concerns of economic policy. The balance of payments current account deficit jumped from \$ 1.7 bn in the previous year to \$ 7.1 bn in 1974. This jump was due basically to the exceptional rise in imports, which more than doubled in 1974. (See Table 1, columns 7 and 2.)

Some interpreters made the petrol crisis responsible for the Brazilian balance of payments difficulties, given the fact that the country relies on

¹⁰ The import coefficient of GDP had declined along the so-called import substitution process, to 7.2 % in 1957. It declined further during the 1962-67 recession, being 3.4 % in 1965 and 4.5 % in 1966, which is explained by the slack in investment. During the last upswing it increased again, reaching 10.4 % in 1974.

¹¹ See CEPAL, *Estudio Económico de América Latina* 1976, p. 215.

¹² It has been suggested that, besides the financing of imports, the high stock of foreign capital in the economy has a built-in tendency to increase the marginal propensity to import capital goods. See R. Bonelli and P. S. Malan, "Os limites do possível: notas sobre balanço de pagamentos e indústria nos anos 70", *Pesquisa e Planejamento Econômico*, 6 (2), Rio de Janeiro, IPEA/INPES, agosto de 1976, p. 215.

¹³ International liquidity grew from 1969 to 1974 at the annual rate of 23 %, while during the previous 20 years (1949-69) this rate had been 2.8 %. P. S. Malan and R. Bonelli, "The Brazilian economy in the seventies: old and new developments", *World Development*, vol. 5, nos. 1/2, Jan.-Feb. 1977, p. 23.

¹⁴ J. Wells, *Euro-dollars, foreign debt and the Brazilian boom*. Working Paper n. 13, University of Cambridge, Centre of Latin American Studies, 1973.

imports for almost 80 % of its oil consumption. However, a closer analysis will show that other factors besides the quadrupling of oil prices have been playing an important role¹⁵. It is true that the imports of fuels and lubricants almost quadrupled, reaching \$ 2.062 bn in 1974. But, as commented before, the imports of capital goods had also a very high increase and remained still the main item, totalling \$ 3.119 bn in 1974. The imports of raw materials except oil had equally a very high increase: they more than doubled in 1974, reaching 45 % of total imports. Excluding oil, these increases derive from higher quantities imported, and only to a lesser extent from higher prices. Only in 1976 total imports of fuels and lubricants came to exceed slightly the item machinery and equipment (\$ 3.823 bn and \$ 3.518 bn respectively)¹⁶.

This behaviour of imports can be better understood taking into account developments of a cyclical nature in the process of Brazilian economic growth¹⁷. To put it in a nutshell, high imports corresponded to the last stage of the growth cycle in an economy which has not yet developed sufficiently its capital goods industry. During the first stages, the expansion could proceed gradually using up existing productive capacity, but, as soon as productive capacity had to be expanded, higher imports accompanied the higher investment levels¹⁸.

While, on the one hand, imports had a record increase, export expansion, on the other, slowed down, as a consequence of recession in the advanced capitalist economies. Apparently this time the Brazilian economic policy had failed in adapting rapidly enough to the changing international situation.

Change of the Strategy

Although it has only an indirect bearing on the subject being discussed here, it must be noted that, at the same time, higher rates of inflation made their reappearance. While inflation had been kept under control even during the boom and during 1972 and 1973 stayed at the level of

14 % (cf. the Rio de Janeiro cost-of-living index), in 1974 it surpassed the level of 30 %, which had not happened since 1967. Despite deflationary measures adopted, inflation was again over 30 % in 1975 and reached practically 45 % in 1976.

Government faced the worsening balance of payments situation by gradually introducing some import controls, which, in addition to the decline in the rate of growth, succeeded in keeping imports not very much over 12 bn after 1974. Parallel to it, opportunities of advancing further steps in the process of import substitution through internal production are being sought. Accordingly, after 1974 changes in the legislation were introduced so as to reduce the preferential treatment given to the import of capital goods in the previous period. Fiscal incentives similar to those given to the export of manufactures were extended to the domestic production of capital goods. Special lines of credit were created to support the local production of machinery and equipment, as well as of intermediate goods. Public sector purchases of capital goods are suffering some reorientation so to allow higher participation of domestic production.

It remains to be seen whether the more "inward looking strategy", based on the import substitution of capital goods, will actually break through. The renewed need of fighting inflation sets limits to an expansionary course in economic policy. In this context, some recent deflationary measures might counteract the official support to the domestic capital goods sector. The boosting coffee prices in 1976 equally took off part of the pressure in this direction, but the balance of payments deficit remains high and represents, by international standards, a very high proportion of the GDP. Certainly there are no easy means of further contracting imports. Unless there is unused capacity in the correspondent domestic sector, the policy of stimulating the internal production of capital goods cannot alone guarantee the reduction of imports. As known from past stages in the process of import substitution, the installation of new branches might at the beginning actually increase the need for imported capital goods. Let alone the international pressure of suppliers searching for outlets, given the slack in demand which persists in the most industrialized countries. Moreover, even if import controls and the decline in the Brazilian rate of growth could avoid further expansion of imports, the snowballing of debt services (Table 1, columns 5, 10 and 14) contributes increasingly to the deficit. From the characteristic balance of payments difficulties inherited from the past stage, it has to be concluded that export expansion will remain an important element in any future growth strategy for Brazil.

¹⁵ Reproducing calculations from the daily *Jornal do Brasil*, Malan and Bonelli (op. cit., p. 44) note that only 115 multinationals operating in Brazil obtained authorization to import US \$ 3 bn in 1974. Since their exports were slightly over US \$ 900,000, their trade deficit was US \$ 2 bn, out of a total trade deficit of US \$ 4.6 bn; this was at least as high as what can be attributed to the petrol price increase.

¹⁶ Data from Banco Central do Brasil, *Boletim*, May 1977. Other official sources of trade statistics, like the Department for External Commerce of Banco do Brasil (CACEX) use a different system of classification, and therefore a higher figure of \$ 2.812 bn for the imports of "oil products" in 1974 can be found.

¹⁷ Malan and Bonelli, op. cit., and Suzigan et al., op. cit., have described this cyclical pattern.

¹⁸ Moreover, an aggravation of the trade-off between growth and trade balance was observed in the recent period. Edmar L. Bacha, "Issues and evidence on recent Brazilian economic growth", *World Development*, vol. 5, nos. 1/2, Jan.-Feb. 1977, p. 59.