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‘Export or die’: the rise of Brazil as an agribusiness powerhouse

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‘Export or die’: the rise of Brazil as an agribusiness powerhouse

Daniela Andrade

Abstract

This article explores the relationship between the rise of Brazil as an agribusiness powerhouse, the country’s recent economic upswing and its subsequent crisis. Agribusiness is analysed in the context of the overall dynamics of production, trade and capital flows that have emerged since the neoliberal policy reforms of the 1990s. Statistical series on the country’s Balance of Payments (BoP), macroeconomic and sector parameters show that the expansion of agribusiness is part and parcel of a policy-induced phenomenon of primary commodities export specialisation, which conjugates with BoP fragility, the reproduction of debt and external dependence – the core of the current crisis.

Keywords: Brazil, agribusiness, primary export specialisation, external dependence, neoliberalism

Introduction

In the course of the 2000s, the expansion of agribusiness production and exports has boosted economic growth in Brazil, contributing to its rise as an emerging economy and a major player in the global food system. Brazilian agribusiness has been predicated as strategic for economic and political power, including a place in global decision-making. Brazil has become a major supplier of a range of agro-commodities, a leader of the developing countries’ coalition in agricultural negotiations at the World Trade Organisation (WTO), and a frontrunner of agribusiness expansion in Latin America, and more recently, in Sub-Saharan Africa. Important parameters justifying the country’s membership of the BRICS (Brazil, Russia, India, China and South-Africa), such as the level of foreign reserves, inflow of foreign investments or GDP growth, have hinged upon the performance of its agribusiness sector. In 2007, when commodity prices peaked, most of the developing world suffered, but Brazil had its best economic performance in years, with 6.1% economic growth. Following the outbreak of the global financial crisis in 2008, the economy had a hiccup but continued to flourish – reaching a 7.5% growth rate in 2010 – while advanced economies were still in economic distress. However, even though the agricultural sector has kept breaking harvest and revenue records until today, Brazil plunged into the most severe economic crisis of the last 25 years in 2011, when growth fell to 3.9%, then to 1.9% in 2012, 0.1% in 2014 and -3.8% in 2015, thus technically entering into recession.¹ With cuts in credit, social spending, investments, wages and employment, the economy was in full-blown recession by 2016. How to make sense of that?

¹ World Bank, GDP Growth (Annual %)

These events call into question not the agribusiness expansion, but its contextual meaning – not Brazil's growth as such, but its patterns of growth. The question is not about what went suddenly wrong in country's trajectory, but how events have been explained. This article explores the relationship between the empirical rise of Brazilian agribusiness and its fundamental historical and material sense (or essence), which is abstracted from its relations with the broader economy and its logic of reproduction and accumulation.

A brief historical overview shows the mutual development of agriculture with national capitalism until the transition to neoliberalism. The main aspects of this major economic reorganisation are explained in their historical unfolding, as they set the ground for the advancement of agro-commodities exports. Using statistical series from the country's Balance of Payments (BoP), macroeconomic and sector parameters, agribusiness expansion is analysed in the context of the overall transformations in the patterns of production, trade and capital flows, underpinned since the neoliberal policy reforms of the 1990s.

The analysis shows that the rise of Brazil as an agribusiness powerhouse is part and parcel of the economy-wide effects of financialization, sponsored by state macroeconomic policies. While these policies have created opportunities for transnational financial – and often speculative – gains, they have also undermined production and exports, particularly in the industrial sector, inducing a process of primary commodities export specialisation. As it is discussed, reprimarisation has contributed to BoP fragility, the reproduction of debt and external dependence, which are at the core of the current crisis.

Agriculture and domestic capitalist development

Agriculture has marked the economic development of Brazil, although not always in the same way: the patterns of production have transformed, and so have the economic and social roles of agriculture. Until the Great Depression in 1930, agriculture and resource extraction were at the centre of domestic accumulation and economic development, and agro-extractive exports comprised the material basis of Brazil's relations with the rest of the world. After 1930, agriculture transformed along with the process of industrialisation and (in the 1990s) financialization; both processes have redefined the dominant system of economic reproduction and accumulation.

When industrial production began to drive economic growth, the development of agriculture was subsumed to industrial expansion. Even if coffee remained the country's main export item for at least two more decades, the foreign exchange generated was a source of finance for imports of industrial equipment and machinery. Yet, that has allowed the plantation farms to continue existing, as well as the agrarian oligarchy, although they increasingly shared the political control of the state with the emerging industrial bourgeoisie.² The economic and political dominance of the latter became evident when the state placed the policy of 'Import Substitution Industrialisation' (ISI) at the heart of its national development project.

² Albuquerque, "A formação da classe empresarial"

In the mid-1960s and 1970s, agriculture itself began to industrialise, incorporating industrial technology through a significant credit package promoted by the state.³ Farms were integrated with upstream and downstream industry as a consumer of machinery and agro-inputs and supplier of raw material for processed consumer goods for the national and international market.⁴ That was the origin of the Brazilian Agro-Industrial Complex, as progress in farming became linked to industrial capital and dynamics of accumulation.⁵ The substantial and consistent growth of agricultural exports in this period shows that ISI and export-oriented agriculture were complementary strategies.⁶ The Brazilian industry, once designed to serve the domestic market, did not generate foreign exchange necessary for its expansion, thus relying on the agro-export sector. Notably, Brazil became one of the most important 'New Industrial and Agricultural Countries' (NICs and NACs).⁷

Agro-exports, however, were an insufficient source of foreign exchange, exposing a structural flaw of ISI. The country increasingly resorted to foreign loans to acquire abroad crucial capital goods. By the 1970s, international creditors were essentially financing Brazil's 'economic miracle'.

Financial dependence – and the growth of external debt – became a problem only when Brazil's main creditor, the United States, endured two oil price shocks (in 1973 and 1979), followed by the stock market crash and recession. Interest rates in global capital markets skyrocketed, practically impeding access to international capital, besides provoking a dramatic increase in the cost of servicing the external debt. Indebtedness and debt service suddenly became inhibitors of growth.⁸ In face of the greatest recession of all times throughout the 1980s, ISI was abandoned. The support for agro-exports, however, was maintained by the state⁹ – this time, not to help to finance industry, but to service external debt.

The 1980s crisis and the changes it inflicted in the functioning of the economy reflected not only the structural limits of ISI, but also the fast-advancing process of financialization of capitalism at the global scale – a process that has underpinned a 'worldwide shift towards neoliberalism'.¹⁰ Neoliberalism encompassed a historic and systemic reorganisation of the material base for economic, social and political reproduction globally.¹¹ The control of financial capital over all spheres of production was a defining character of that reorganisation.¹² Before discussing how the transformations in agriculture were linked to neoliberalism, the next

³ Leite "State, Pattern of Development", 298

⁴ Graziano "A modernização dolorosa", 62

⁵ Muller, "Agricultura e industrialização do campo"

⁶ Spoor, "Policy Regimes and Performance"

⁷ Friedmann, "The Political Economy of Food", 45

⁸ Mollo, "O Desequilíbrio do Balanço".

⁹ Spoor, "Policy Regimes and Performance"

¹⁰ Saad-Filho, "The Political Economy", 224

¹¹ Saad-Filho, "Neoliberalismo: uma análise Marxista"

¹² Ibid., 65-66

section explains the key aspects of neoliberalism itself and how it formed new patterns of growth.

Macroeconomic stability, consumption-led growth and foreign financing

In the transition from the 1980s to the 1990s, the state implemented successive policy and institutional reforms in an attempt to gain economic efficiency and recover previous economic dynamism.¹³ The reforms had an underlying idea: the state should free the market from (state) regulation, and transfer (to the market) part of its functions and assets. That implied, among other things, privatisation of state-owned productive enterprises and services (including financial services), fiscal and labour market reforms, but most important, it included the liberalisation of trade, finance and capital flows. The control of debt and inflation were also central and led to the institutionalisation of contractionary fiscal and monetary policies.¹⁴

In 1994, a major economic plan, named the *Real*¹⁵ Plan finally succeeded to contain inflation, promoting a ‘virtuous circle of macroeconomic stability and consumption-led growth financed by foreign capital’.¹⁶ Besides their role in taming inflation, combined effects of high interest rates, fixed exchange-rate at an overvalued rate and trade liberalisation were also highly appealing to consumers; imported goods were made affordable and available, also forcing an overall decline in local prices.¹⁷ The initial success of the *Real* Plan helped its main architect – the then Minister of Finance, Fernando Henrique Cardoso (from the Social Democratic Party, PSDB) – to the Presidency of the country for two consecutive terms (1995-2003).

From 1993 to 1997, the volume of imports in Brazil skyrocketed from US\$25.3 to US\$59.7 billion, while exports increased at a much-reduced pace. Already in 1995, a trade deficit began to develop. In 1997, Brazil had a US\$6.8 billion trade deficit, while in 1993 it had a US\$13.3 billion surplus.¹⁸ Behind the trade deficit, there was an abrupt process of deindustrialisation and increasing unemployment.¹⁹

At first, the trade deficit did not prevent imports or require a currency devaluation. Attracted by macroeconomic stability – and liberalised capital account – foreign investments returned to the country, financing the on-going consumption, as well as state expenses.

¹³ Saad-Filho, “The Political Economy”, 225

¹⁴ Mollo and Saad-Filho, “Neoliberal economic policies”, 101-103

¹⁵ ‘Real’ refers to the domestic currency’s name introduced by the Plan. Real (‘reais’ in the plural form) remains the official currency of Brazil.

¹⁶ Saad-Filho, “The Political Economy”, 228

¹⁷ Ibid., 226

¹⁸ All data referring to the Brazilian Balance of Trade, as well as Services, Income and Investments come from the Brazilian Balance of Payments Series (based on IMF Manual 5, BPM-5) available at the Brazilian Central Bank website (<http://www.bcb.gov.br>).

¹⁹ Saad-Filho, “The political economy”

Keeping high interest rates, the state not only controlled inflation but was also able to regularly sell National Treasury bonds of the public debt in the national and international market, transforming debt into an asset to finance its expenses. The unprecedented increase in foreign portfolio investments reflected the interest of the international financial market in the high levels of financial return of the Brazilian Treasury bonds indexed to the interest and exchange rates. Yet, there was no magic trick: a new indebtedness cycle was inaugurated. The external debt – formed earlier through abundant external loans – was gradually being repaid, but substituted by an internal public debt, incurred by the sale of Treasury bonds in the national market. Yet, foreign investors were among creditors of the internal debt.

The main owners of the internal debt bonds were national investors, particularly public and private banks. Nonetheless, their investments were often coupled with external borrowing, thus also linked to a foreign creditor. With interest rates higher in Brazil than in the rest of the world, national banks and firms were stimulated to borrow abroad, and to invest not in production but in public debt bonds. As a consequence, the external private debt skyrocketed from less than US\$10 billion in 1990 to US\$116 billion in 1998.²⁰ However, once acquiring public debt bonds, national banks and firms perversely converted private external debt into public internal debt. Since 1994, the internal debt has escalated.²¹

The rapid increase of domestic assets owned by foreigners (including the public debt, state-owned enterprises and services) engendered an immediate rise of outflow of profit and dividends earned by foreigners. Income outflow was also enhanced by the interest paid on external private loans. Income repatriation, more than the trade of goods and services deficit, became the largest burden of the current account of the BoP – a burden that, in the 1980s, mostly corresponded to the interest paid on the public external debt.

In the timespan of five years, the current account deficit expanded from US\$0.7 billion in 1993 to US\$33.4 billion in 1998. Evidently, this translated into a structural and self-propelling vulnerability of the domestic economy, increasingly dependent on absorbing external savings to finance itself. The Brazilian external exposure was exacerbated in the context of great instability of international financial markets, affected by a sequence of currency and financial crises (Mexican in 1994, Asian in 1997 and Russian in 1998). In 1999, Brazil became the centre of a currency crisis of its own: foreign investors, fearing the government would fail to finance the BoP deficit and provoke an external default, promoted a massive asset sale (or a ‘capital flight’), which led to the collapse of the domestic currency and depletion of foreign reserves. National banks and firms, fearing currency devaluation itself, anticipated the payment of their external debt, consuming foreign reserves of the Central Bank – which, in turn, resorted to interest rate increase to stimulate the return of foreign capital, yet promoting further recession and unemployment.

Erupting only five years after the start of the *Real* Plan, the crisis exposed the flaws of the new growth model, of which the state was the main agent. Yet, its

²⁰ Auditoria Cidadã da Dívida, *ABC da Dívida*, 18

²¹ Ávila, “Dívida interna”, 6

core premises were maintained or deepened as ‘solutions’ to the crisis itself. President Cardoso’s policy response consolidated the macroeconomic policy regime ‘tripod’:²² 1) rigid monetary policy, tied to inflation targets and high interest rates; 2) fiscal policy attached to ambitious annual targets of the primary fiscal surplus, aiming to compensate the nominal public deficit and 3) a floating exchange rate regime, which allows the currency to fluctuate according to the market. This tripod, as will be seen below, has been maintained until the present.

Although the tripod policy regime intended to stabilise the public debt, the current account and prevent the return of inflation, it was structurally limited. As Mollo and Saad-Filho explain, currency depreciation favoured the stabilisation of the current account, but brought inflation back and increased the debt servicing. The debt was difficult to stabilise, as interest rates could not be significantly lowered, being a mechanism to control inflation and attract foreign capital, as well as avoid its outflow. High interest rates imposed a high cost of servicing the debt, besides constraining growth and investment.²³ That has limited fiscal revenue, leaving the state with little choice but to raise taxes and cut spending.²⁴ In brief, the country had fallen into a ‘macroeconomic policy trap’.²⁵

The policy trap creating BoP instability and dependence on foreign capital was, in fact, political. While premised upon the control of debt and inflation, ‘technical’ measures introduced by the *Real* Plan have in fact driven the process of financialization of the Brazilian economy, including of the state’s finances. That has inaugurated structural changes in the workings of the economy as a whole. The following section returns to the issue of agriculture and agribusiness, revealing how its role within the broader economy was re-defined in the early 2000s.

The expansion of agribusiness exports

Agribusiness for macroeconomic stabilisation (1999-2003)

With little margin for policy manoeuvre, re-adjusting the current account became a matter of either ‘export or die’– as appealed President Cardoso in 2001 at the swearing in ceremony of the Minister of Development, Sérgio Amaral.²⁶ In that context, the agricultural export sector was re-launched as the country’s best asset.²⁷ Until the mid-1990s, however, the sector was highly indebted, having been badly hit by inflation and a sequence of unsuccessful inflation-curbing plans that sent false signals to investors.²⁸ With the stabilisation of inflation, though, access to credit and new investments were stimulated. Also, in the harvest season

²² Moraes and Saad-Filho, “Da economia política”, 508

²³ Mollo and Saad-Filho, “Neoliberal economic policies”, 108-109

²⁴ Ibid., 106

²⁵ Ibid.:107

²⁶ While phrase hints at the context of the time, it was widely reported as echoing the Brazilian historical cry of independence proclaimed in 1822: ‘Independence or death’.

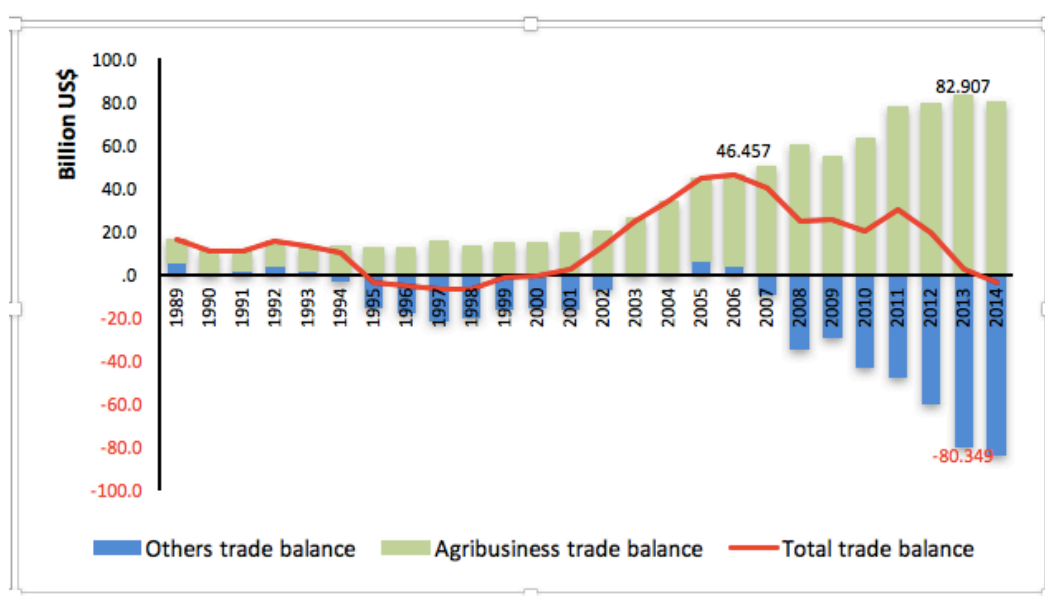
²⁷ Delgado, “Especialização primária”

²⁸ Gasques et al., “Desempenho e Crescimento”

of 1995/96, the rural debt was renegotiated and partly assumed by the state (which converted it into public debt bonds).²⁹ Furthermore, in September 1996, a large fiscal incentive for export was put into effect with the approval of a law (*Lei Kandir*) that exonerated primary and semi-manufactured products from trade tax ('ICMS').³⁰

With the exchange rate devaluation in the early 2000s, the agricultural export sector was ready to take off. The country adopted an aggressive position in the negotiations at the World Trade Organisation (WTO) to increase access of Brazilian agro-exporters to international markets. In 2002, Brazil launched two landmark disputes (which it won in 2005) against US and EU subsidies.³¹ Brazilian exports began to reach new commercial partners, particularly, China. Favoured by increasing Asian demand, agribusiness exports increased 50% from 1999 to 2003 – while agribusiness imports decreased 17% – thus generating a substantial surplus that began to counteract the total trade balance deficit (Figure 1).

Figure 1: Agribusiness net export and 'all others' net export (1989-2014)



Source: Ministry of Agriculture, Livestock and Supply (MAPA);³² Author's Elaboration.

Of course, trade expansion was coupled with progress in agriculture itself. Advancements in land and labour productivity, gains in scale of production and in total output resulted from state support on several fronts. Policies for agricultural modernisation adopted in the 1960s-70s – but dismantled in the early 1990s – were reintroduced. The National System of Rural Credit (NSRC) was perhaps the most important of them. Also, the incorporation of science and technology resulted in enormous gains in productivity – the main driver of the output increase, according to the Institute for Applied Economic Research (IPEA). Such

²⁹ Fuscaldi and Oliveira, "Crescimento da Agricultura Brasileira", 30

³⁰ Fuscaldi and Oliveira, "Crescimento da Agricultura Brasileira", 20 and Agência Senado, "Lei Kandir" available at <http://www12.senado.leg.br/noticias/entenda-o-assunto/lei-kandir>

³¹ Hopewell, "New Protagonists in Global Economic", 10

achievement also reflected the efforts of the Brazilian Enterprise of Agricultural Research (Embrapa).³²

Despite these positive results in agriculture, the economic context in 2002 was worsening. With a presidential election on the horizon generating further uncertainty, the domestic currency reached its lowest value, inflation was back to the levels of 1995 – and much higher than the target agreed with the IMF. The short-term nominal interest rate (*Selic* rate) was above 20% per annum³³, foreign reserves were down to US\$38 billion and the ‘Brazil Risk’ reached its historical high.³⁴ The multiple crises since 1999 cost the election for Cardoso’s party and, in October 2002, Luiz Inácio Lula da Silva, from the Workers’ Party (PT), was elected as President.

From the start, managing the immediate problems mentioned above, imposed an enormous pressure on President Lula’s government. The ‘need’ to bring back macroeconomic stability, control the fiscal and external risks, regain market credibility and restore the confidence of foreign investors in the economy forced him to comply with the macroeconomic policy regime of his predecessor. Lula’s acquiescence, in fact, was a political condition for power itself. Throughout all the Workers’ Party administrations – lasting until September 2016 – the policy tripod has been upheld practically unchanged.

In 2003, the first year of his mandate, besides gradually soothing the tensions of the financial market, Lula harvested the results of the currency devaluation³⁵ and policy reforms initiated by Cardoso. The current account was back in surplus, leveraged by the 52% improvement in exports since 1999, while imports decreased only 2%. Net services and income remained practically unchanged, which means that agro-exports were largely responsible for improving the current account balance. At the end of 2004, Lula’s second year in office, the trade surplus was larger than US\$33 billion dollars – the seventh largest in the world.³⁶ With a substantial trade surplus-to-imports ratio the country began to generate ‘a sizeable free cash flow for each dollar of additional exports, making it easier to earn the foreign currency it need[ed] to keep servicing the debt’³⁷ – besides building up its foreign reserves. The period of crisis was coming to an end, and the country was seemingly on the right path to take off.

The economic upturn

Agribusiness for growth and global power (2004-2008)

Between 2004 and 2008, average annual GDP growth rate was 5%, against 2% between 1999 and 2003. It is worth noting right away that, despite the improvement, the average growth rate in Brazil was still much lower than other emerging economies, the reason for which is commented below. The recovery of economic growth in this period was largely driven by the primary, or natural resource sectors, especially mining, oil and agriculture.

³² Gasques et al., “Desempenho e Crescimento”

³³ IPEAdata

³⁴ IPEAdata, EMBI+Risco-Brasil. The Emerging Markets Bond Index-Brazil (EMBI+Br) is calculated by JP Morgan and measures the capacity of a country to honour its external debt securities.

³⁵ Paulani, “Acumulação sistêmica”, 243 and Boito Jr., “Estado e burguesia”, 66

³⁶ Santos, “Brazil’s Remarkable Journey”

³⁷ Ibid.

In Lula's administration, foreign trade gained major relevance. Lula himself made great efforts towards opening markets for Brazilian exports and was successful, as he encountered an international commodity market in expansion and prices on the rise – indeed, the beginning of the global 'commodities boom'. With exceptional global market prices for Brazilian exported commodities, agribusiness became more than a strategy for macroeconomic adjustment, but itself a driver of growth.

From 2004 to 2008, agribusiness exports generated an ever-increasing trade surplus, at an average of 19% increase per year, going from US\$ 34.2 billion to approximately US\$60.0 billion.³⁸ In 2010, the country was the world's biggest exporter of a series of agricultural products – coffee, sugar, orange juice, tobacco, ethanol, beef and poultry – and the second-biggest source of soy.³⁹ That was accompanied by record yields, year after year, promoted through the massive boost in the budget allocated to the NSRC, which reached US\$38.4 billion of rural credit disbursed in the 2007/2008 harvest season, and US\$82.8 billion in 2013/2014.⁴⁰

In this period, food and agribusiness enterprises became some of the largest Brazilian transnational companies – in fact, the world's largest in several production segments.⁴¹ That has been the case, for example, with companies involved in the internationalisation of the beef industry, such as Marfrig, JBS Friboi and Brazil Foods. Major public and private Brazilian firms operating in the natural resource-intensive sectors have also received long-term subsidised loans from the National Development Bank (BNDES) to consolidate their market position and expand operations abroad.⁴²

Commodities export earnings enabled more public investments, credits, employment, tax collection and improved public budget, in a positive virtual circle. That also favoured the accommodation – and expansion – of heterodox social policies of 'unquestionable – though provisional – success', delivering substantial gains in terms of employment, distribution and citizenship.⁴³ The increase in employment rates, real minimum wage, compensatory income distribution programmes and access to popular consumer credits boosted domestic consumption, the second pillar of the Brazilian growth model.

Both drivers of growth, primary exports and consumption, benefited and relied upon foreign investments and state policy support. Investors were attracted by the opportunities in the primary sector, as well as by the growing domestic market.

The World Investment Report 2009 showed that Brazilian agriculture received the third largest amount of FDI in the world in the period 2005-07, being only behind China and Malaysia.⁴⁴ In 2008, Brazil received half of the FDI inflow of the entire Latin America and Caribbean region, 34% of which was directed to the

³⁸ MAPA, Brazilian trade balance and Agribusiness trade balance series: 1989-2014.

³⁹ MAPA, *Agronegócio brasileiro em números*

⁴⁰ Annual Agricultural Harvest Plan (Plano Safra) available at the MAPA website (<http://www.agricultura.gov.br>), (author's estimate)..

⁴¹ Economist Intelligence Unit, "The Global Power of Brazilian"

⁴² Garcia, "A Internacionalização de Empresas Brasileiras"

⁴³ Moraes and Saad-Filho, "Da economia política", 507

⁴⁴ UNCTAD, "Transnational Corporations, Agricultural Production", 117

primary sector.⁴⁵ That is also indicative of the process of financialization and internationalisation of Brazilian agribusiness at the farm and agro-industrial level.

The massive inflow of capital throughout this period forced the Central Bank to regularly buy hard currency in the exchange market to control the expansion of the monetary base and, thus its inflationary effect. That operation, called sterilisation, consisted of the purchase of foreign currency, not with domestic currency, but with government securities. That also explains why interest rates in Brazil were constantly high. For each dollar acquired, a debt of equal value in local currency (thus, multiplied by the exchange rate) was created. With such operation, Brazil increased its foreign reserves, which jumped from US\$85.8 billion in December 2006 to US\$180 billion in December 2007, reaching US\$363.5 billion in December 2014.⁴⁶ Yet, that external asset was formed along with a corresponding internal debt, which implied a social fiscal cost, compromising the country's present and future income.⁴⁷

After the global financial crisis in 2008, GDP collapsed, but the economy rebounded in 2010, when Brazil reached a growth rate of 7.5%, its best performance. Having large foreign reserves at the time, the government was able to prevent a currency shock. In fact, it was able to react in the opposite direction compared to the 1999/2002 crises, adopting expansionary policy measures. In her first mandate (2011-2014), President Dilma Rousseff opened more room for growth, reducing the interest rate to the lowest level of the last two decades, introducing some capital controls, promoting selected sectors of the industry, among other interventions that made her administration the most heterodox of all PT's mandates – but only for a very short period.

The exceptional abundance of international liquidity also played a major role in Brazil's prompt economic recovery. In 2010, the country had accumulated 3.4% of the global stock of foreign investment, jumping from the 18th position in 2006 to the 7th as a destination of foreign investments – and the 1st position among the BRICS (retaken by China in 2011).⁴⁸ As various studies have observed⁴⁹, the 2008 global financial meltdown further underpinned the entry of financial (and speculative) capital into agriculture, land and primary commodity production⁵⁰ – in a clear demonstration of the systemic integration of agribusiness with global circuits of financial capital. Brazil itself was also expanding agribusiness investments abroad. In 2009, for example, ProSavana was launched: an ambitious, and also controversial project to promote large-scale, export-oriented production of soybeans (but also corn and cotton) in Mozambique. ProSavana involved private agribusiness firms, complex global financing and diplomatic support from the Brazilian state in a trilateral cooperation agreement with Japan and Mozambique.

⁴⁵ Ibid., 64-66. In the manufacturing sector, which received 35% of investments, 80% accounted for the industry of semi-processed material. Ibid.

⁴⁶ International Investment Position (IIP) Series, available at Brazilian Central Bank (<https://www.bcb.gov.br>)

⁴⁷ Gentil and Araujo, "Divida Publica e Passivo"

⁴⁸ Ribeiro e Silva Filho, "Investimento Externo Direto", 33-34, based on UNCTADstat data.

⁴⁹ Arezki et al., "What Drives the Global", 1 and Ghosh, "The Unnatural Coupling", 78

⁵⁰ Sauer and Leite, "Agrarian Structure, Foreign Investment" and Wilkinson, Reydon, and Di Sabbato, "Concentration and Foreign Ownership"

By the end of the decade, Brazil was not only thriving but also suggesting that neoliberalism, growth, global power, and also equity, could be compatible. Yet, far from showing that its development dynamics were reason for optimism, the country's success (and shortly, its fall) showed precisely the contrary.⁵¹

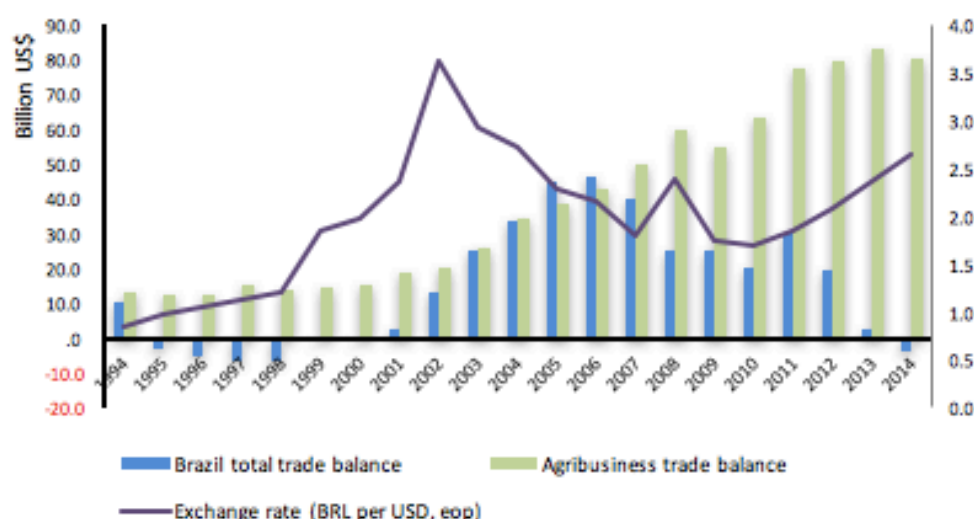
From miracle to mirage

In 2014, GDP growth was zero, inflation was above Central Bank targets, the local currency was depreciating rapidly, unemployment was on the rise, the target of the primary fiscal surplus could not be met for the first time and the current account reached an unprecedented deficit. How to make sense of that?

Despite the persistent increase of net agribusiness-exports until the present day, the trade balance was in decline since 2006 (see Figure 2). It is also evident that after 2005, the (historical) deficit of services and income flows began to widen, particularly in the years of highest annual growth (2007-08, 2010-11). As expected, the current account balance was in a downward slope from 2008 onwards, as shown in Figure 3. This suggests that not only was the current account manifesting the burdens of the past, but also that these burdens were systemically related to the country's pattern of growth. Furthermore, it suggests that the relations previously observed between agribusiness trade performance, current account adjustment and recovery of economic growth were circumstantial; the continuous expansion of the agribusiness sector, however, seemed permanent and structural.

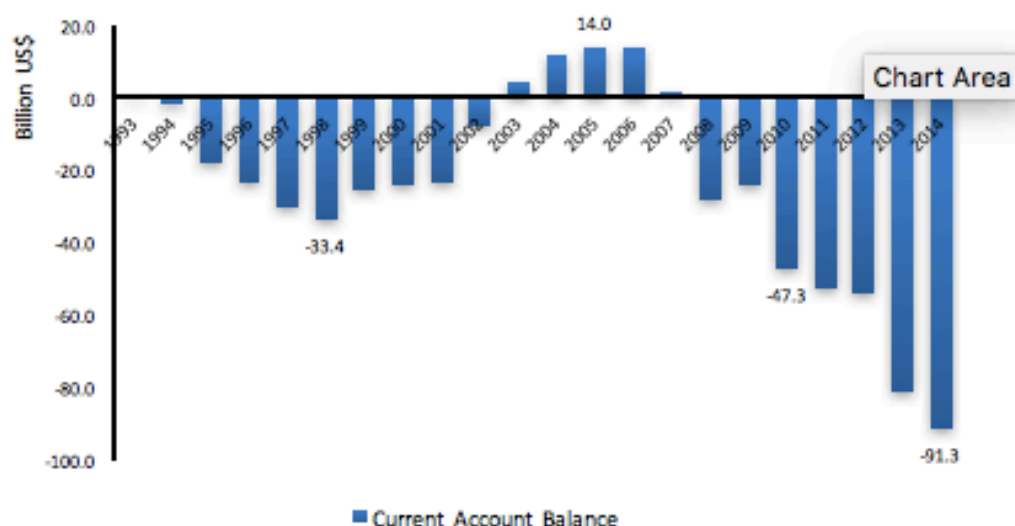
⁵¹ Amann and Baer, "Brazil as an Emerging Economy", 413

Figure 2: Brazil's overall and agribusiness trade balance (1994-2014)



Source: MAPA

Figure 3: Current Account Balance: 1993 to 2014



Source: Brazilian Central Bank (Balance of Payments Series)

The pattern of growth, accumulation and trade

For the second time, Brazil is experiencing crisis after a period of accelerated growth. The fact that current account declines when growth accelerates reveals, first, the continuity, and second, the perverse character of the prevailing pattern of accumulation since 1990s. High interest rates and exchange rate appreciation have been the two main mechanisms undermining the overall transactions of goods, services and income with the world economy – and why not, the overall quality of growth. Interest and exchange rates have also conditioned the forms and intensity of transnational financial gains.

State-sponsored high interest rates have intensified the inflow of foreign capital (Figure 4), which again explains the increase in income remittances (Figure 5) during the economic upturn.

Figure 4: Net Foreign Investment by type and the exchange rate (1999-2014)

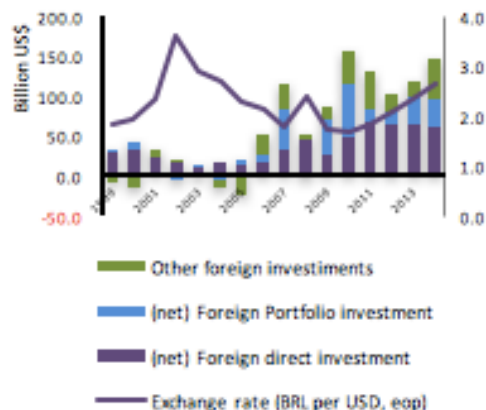
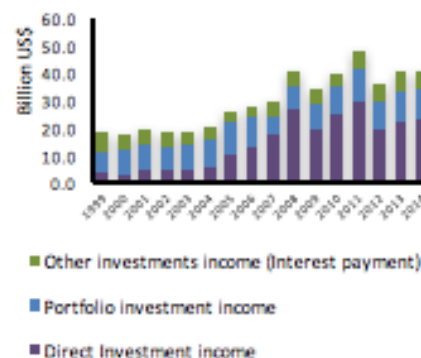


Figure 5: Net income outflow by type of foreign investment (1999-2014)



Source: Brazilian Central Bank (BoP series) and IPEADATA (Exchange rate Series)

Foreign capital deriving from the primary commodities exports and foreign investments has flooded the domestic exchange market, provoking a progressive appreciation of the currency. Brazilian private banks and firms borrowing capital abroad at favourable rates – particularly since 2006 – also contributed to the massive inflow of foreign currency.⁵² Brazil had ‘one of the most appreciated currencies in the emerging world’⁵³. However, differently from the years of the *Real Plan* –when overvalued currency resulted from a fixed exchange rate defined by the Central Bank – now currency appreciation was a systemic outcome of the growth model, anchored in foreign capital and markets. Yet, overvaluation itself is ultimately the result of a political choice: allowing the exchange rate to fluctuate according to market forces.

As mentioned before, the appreciation of the exchange rate increases the real return of foreign investments that are converted back to hard currency, thus stimulating both remittances and more foreign investments, in a self-indulging, manipulative scheme. From December 2008 to December 2009, a year of negative growth, the domestic currency appreciated more than 26% against the dollar. A foreign investor who bought domestic public debt bonds at the end of 2008 received, in one year, an average of 14% of interest (based on the Selic rate Dec 2008), plus the additional increase of 26% if earnings were converted back in dollars – that means, over 40% in real dollar gains.

In contrast, exchange rate appreciation constrained exports and hindered production. In the more sophisticated industrial segments – producing more technology and value-added products – the volume of imports increased more than its exports, thus, generating a bulky trade deficit (Figure 6). The opposite case is observed in the agribusiness and primary sectors in general – the

⁵² Gaulard, “The ‘Hot Money’ Phenomenon”, 370

⁵³ Amann and Baer, “Brazil as an Emerging Economy”, 416

producers of low-technology and low value-added products – where a robust surplus was generated (Figure 7).

Figure 6: Import and Exports from medium-low, medium-high and high technology industry (1997-2015)

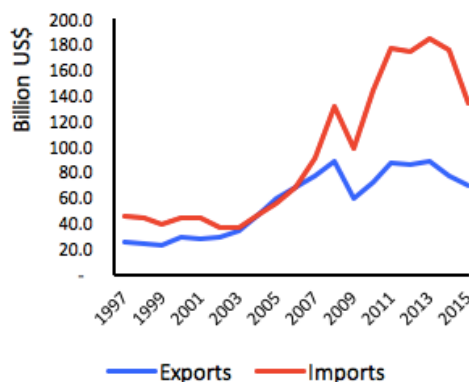
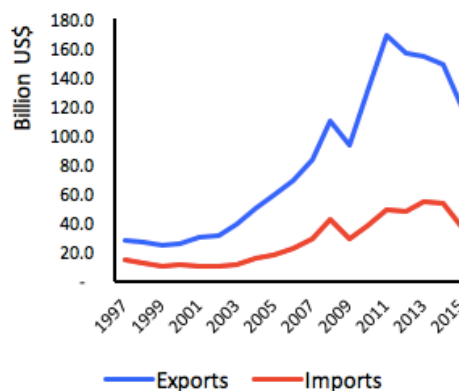


Figure 7: Import and Exports of commodities and products of low-technology industry (1997-2015)



Source: Ministry of Industry, Foreign Trade and Services (MDIC)

As Carneiro explains, such a dynamic reflects the new industrial profile of the country, developed since the end of ISI and the beginning of neoliberal macroeconomic policies. The sudden exposure to international competition, overvalued exchange rate and privatisation in the early 1990s has led to the dismantling of certain industries, making production chains less integrated and more dependent on the import of production inputs.⁵⁴ Putting it differently, the domestic production of value-added and technology have been replaced by the consumption of imported goods – precisely the opposite of ISI. Despite having reached a significant level of industrial diversification in the 1980s, part of the Brazilian industry was gradually reduced to assemblers (of imported inputs) – or *maquilas*.⁵⁵ With the recovery of domestic consumption, accompanied by the currency appreciation, an industrial trade balance deficit began to show.

Contrariwise, the primary sector and low-technology manufacture exports were less sensitive to the exchange rate. In spite of the currency overvaluation, these export sectors are highly competitive. That is because they exploit cheap and abundant production factors (land and natural resources), an advantage that was magnified during the commodity price boom. Not only that, the primary sector had a low import coefficient, meaning that was easier to produce a surplus.

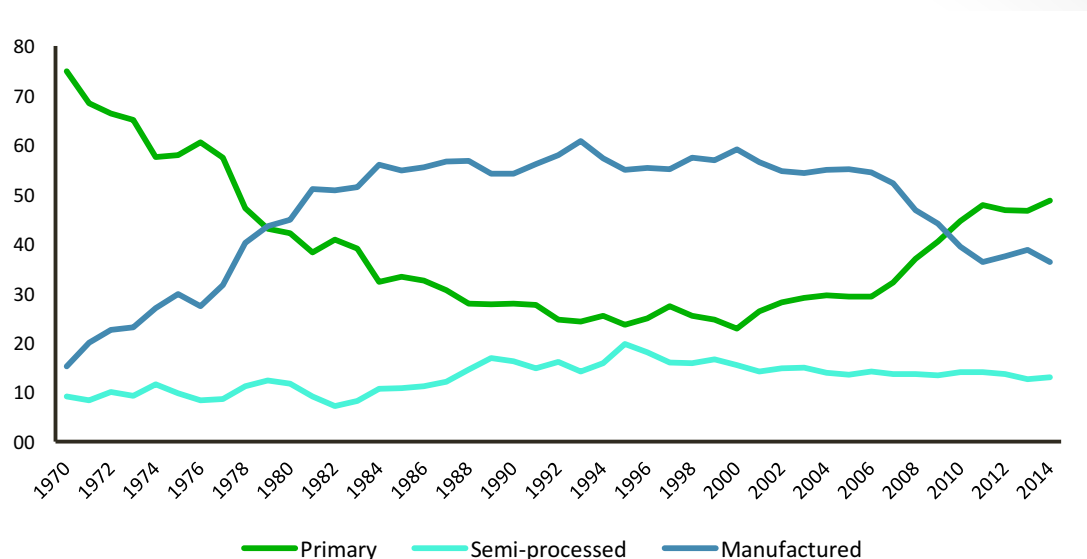
By the end of the decade, the composition of the country's foreign trade basket reveals a phenomenon of reprimarisation, or primary export specialisation.⁵⁶ That is, the decline of manufactured and the increase of primary products. Figure 8 illustrates these two parallel trends.

⁵⁴ Carneiro, "O Desenvolvimento Brasileiro Pós-crise"

⁵⁵ Ibid.

⁵⁶ Carneiro, "O Desenvolvimento Brasileiro Pós-crise", Delgado, "Especialização primária como limite"; Paulani, "Acumulação sistêmica, poupança externa" and Moreira and Sebag, "Um novo padrão exportador".

Figure 8: Brazilian exports: % primary, semi-processed and manufactured (1970-2014)



Source: MDIC

It must be clear that reprimerisation of exports was not only an exacerbated development of the primary sector as an effect of the global commodity boom or a 'China effect'; it was also the outcome of policy-induced constraints on production, diversification, competitiveness and export performance of the industrial sector. The next section further discusses that relation.

Reprimerisation: Agribusiness for financial accumulation

Primary export specialisation, of which the agribusiness has been a spearhead, implied that earning foreign exchange became highly dependent on the primary sector (Gentil, 2014) – and in fact, on a hand full of commodities. In 2012, the export of only five commodities – iron ore, soybeans (and soy-related products), sugar, crude oil and meats – amounted to 42.5% of the value of all Brazilian exports. The soybean complex alone accounted for 14% of all Brazilian exports in 2014.⁵⁷

Considering that the price of Brazil's main export commodities is defined in the stock market and commodity future markets, earning foreign exchange became more exposed to price volatility. That means that primary export specialization has implied further external vulnerability. Furthermore, the fact that the total trade balance decreased during the economic upswing – when the commodity prices were soaring and the terms of trade were favourable⁵⁸ – suggests that primary export specialisation is structurally limited.

There are two reasons to argue so. First, because specialised, rather than broad-based export capacity is itself necessarily weaker. The more specialized the export basket, the more fragile the trade balance. Second, because – as discussed above – the greater the economic grow, the steeper is the decline of the industrial trade balance, making agro-commodity export structurally ineffective to

⁵⁷ AGROstat, Agribusiness series per product: 1997-2015 (author's estimate)

⁵⁸ IPEADATA, Terms of exchange, index (2006 = 100)

counteract the industrial trade deficit. Yet, primary exports are further stimulated because of that. The relentless expansion of primary exports – even when the price of soya and iron ore, Brazil's two major commodities, had collapsed (in 2014) – seems to prove all the above.

Perversely, these exports reinforce the tendency for exchange rate appreciation that hinders the industrial exports. That is why intellectuals such as Bresser-Pereira have argued that Brazil presented, indeed, symptoms of the Dutch disease.⁵⁹ One key aspect is the regressive self-reinforcing dependence on export of commodities.

It is worth remarking that the large inflow of foreign investments, observed from 2006 onwards, failed to address the gaps in the industrial chains of production. Bresser-Pereira, discussed by Paulani⁶⁰, argues that, contrary to orthodox views, the absorption of external savings in developing countries, being associated to cyclical exchange rate overvaluation, does not stimulate domestic investments, but consumption – thus reproducing external dependence, instead of the contrary.

Indeed, while until the 1990s the greatest part of FDI concentrated in manufacturing,⁶¹ in the 2000s the focus has shifted to consumer-centred service sectors – particularly the services privatised in the previous decade⁶² – and increased emphasis on the agro-extractive industry. Simultaneously, the type of FDI also changed, now reflecting merges and acquisitions of national companies, foreign equity stakes, besides intercompany loans, which substitute domestic sources of financing and do not necessarily increase gross fixed capital formation. Thus foreign investments might have actually reinforced regressive productive structure.

Internally, macroeconomic policies have reduced the possibilities for reversing the dependency on foreign technology. As Anderson notes, specifically referring to Brazil: 'the highest long-term interest regime in the world' is 'manna for rentiers', but 'crippling for investors'.⁶³ High interest rates have increased the cost of credits and limited public and private investments, which explains why Brazilian growth was rather modest. Between 2005 and 2015, the total investment-to-GDP ratio (public and private) has varied between 16 to 21%, which is much below the average for emerging and developing economies.⁶⁴

Brazil has also increasingly debilitated its capacity for domestic savings while anchoring its process of growth in the absorption of foreign savings.⁶⁵ Between 2003 and 2008, the government had an average primary fiscal balance of 3.4% of the GDP spent in interest on outstanding public debt, while the average

⁵⁹ Paulani, "Acumulação Sistêmica" and Bresser-Pereira, "The Dutch Disease". "Dutch disease", a term coined by this newspaper [The Economist] in 1977 to describe the impact of a North Sea gas bonanza on the economy of the Netherlands. This malady involves commodity exports driving up the value of the currency, making other parts of the economy less competitive, leading to a current-account deficit and even greater dependence on commodities'. The Economist, "It's Only Natural"

⁶⁰ Paulani, "Acumulação sistêmica".

⁶¹ Hennings and Mesquita, "Capital Flows", 105

⁶² Ibid.

⁶³ Anderson, "Crisis in Brazil"

⁶⁴ Brazilian Institute of Geography and Statistics (IBGE), Investment rate series: 1947-2014 (author's estimate)

⁶⁵ Paulani, "Acumulação sistêmica", 252

spent on investments was only 2.0%.⁶⁶ National savings were used to pay interest on the internal debt and, consequently, were no longer available for financing productive investments. As Batista Jr. observes, ‘fiscal constraints become, to a great extent, a by-product of the external vulnerability’.⁶⁷ Yet, that has imposed the need for an increasing tax load, with little counterpart to tax payers.

If primary exports are not strong enough to counteract the industrial trade deficit, they are also too weak to remunerate the stocks of foreign capital and balance the current account. Paradoxically, depleting the current account reproduces debt and the need to finance from external sources, both implying greater dependency on global capital liquidity and thus, further vulnerability.

For Delgado, the fact that the current account balance rapidly declined after a short period of surplus shows the weakness of specialisation in primary commodities as a solution to external dependence: it can only be a provisional fix to a structural imbalance of the Current account.⁶⁸ Yet, while primary export was a temporary solution to policy-induced external deficits, *reprimarisation* was a consequence of the dominant patterns of accumulation shaped by policy. Primary export specialisation therefore was not a solution to, but a product of, external dependence.

The limitation of agribusiness does not lie in the nature of the sector itself, but on its organic links with the dominant and financialized pattern of accumulation that constitutes and is reproduced through the very fabrics of agribusiness. As such, its expansion during the exceptional market circumstances in the 2000s did not, and could not, produce sustained growth. The windfall global commodity boom, therefore, was a missed opportunity to diversify, articulate and expand Brazil’s productive structure, thus maximising the social gains from agriculture and related industry. So much so, that at the end of the cycle, the economy is in crisis, instead of more solid, stable or sovereign. Yet, the agribusiness, although weak and vulnerable as driver of growth, seems to be reinforced as the material base for growth itself.

The current crisis and the political character of financialization

The mounting deficit of the current account became a problem when the abundant global liquidity ended. With a lasting global recession, the inflow of FDI did not increase between 2011 and 2014 (see figure 5), leading the country to rely on volatile and costly portfolio investment (also shown in Figure 5) to finance the public debt and the current account. This created further instability, which led to exchange rate devaluation, increasing the cost of external liabilities and of the imports that the industry was now dependent on. Even with little economic growth between 2011 and 2014, and supposedly less consumption, the total value of imports was as higher as ever. That translated into steep trade balance decline and growing BoP fragility.

In the face of that, Dilma Rousseff, who had just won her second election by a small margin in 2014, shifted back to the policies of the opposition. As *The Economist* wrote, the first task of the President’s new team of Ministers was:

⁶⁶ Ministério da Fazenda, Secretaria de Política econômica

⁶⁷ Batista Jr., “Vulnerabilidade Externa”, 178 (author’s translation)

⁶⁸ Delgado, “Especialização primária”

[...] restore credibility to economic policy. That means restating Brazil's commitment to its pre-2010 "tripod" – of independent monetary policy, fiscal responsibility and a floating exchange rate. It also means tightening the budget.⁶⁹

The political consequences of substituting domestic by foreign savings were exposed: the state's strategic policies – chiefly, monetary policy – were now hostage of financiers, owners of the public debt and other financial assets. The main instruments of monetary policy, interest and exchange rates, are bargaining assets of financial investors. If their conditions are not met, investors can simply leave, therefore holding a major leverage power over the government to dictate economic policy. The more uncertainties and risks caused by inflation or current account deficit, the more the financial sector asks to lend the capital the economy depends on. Every month, investors in the internal debt market put the National Treasury 'on its knees to rollover tens of billions of *reais* in bonds'.⁷⁰

Servicing the public debt has become the largest single expense of the Central Government annual budget (48.5% in 2010). Simultaneously, the systematic sale of debt securities became the major source of public financing (48% in the that same year).⁷¹ According to the National Treasury, foreign investors (non-residents) owned 18.6% of the internal public debt security stock in 2014 – while national financial institutions, pension and investment funds held 67.2%.⁷²

State-sponsored interest rates have functioned as mechanism of a massive public income transfer to private financial institutions (national and international). As Paulani notes, the forms of extraction through debt reproduction, debt servicing, income and dividends repatriation are much more efficient and intense than the extraction through the terms of trade, as in the time of the 'classic dependence'⁷³, or interest on external loans, as in the time of ISIs.⁷⁴

With a full-blown recession, the government has resorted to draconian austerity measures, which are likely to exacerbate the difficulties in overcoming the faults (and the sources of inequality) of the country's structures for economic reproduction and accumulation. Indeed, at this moment, agribusiness continues to be stimulated as Brazil's salvation and best resource to promote stabilisation and output growth.

Conclusion

The prominence of agribusiness in the Brazilian economic upturn is not only a manifestation of the exceptional circumstances of the global commodity boom and excellent performance of the sector; it also reveals the effects of financialization on patterns of production, trade and capital flows across the economy. Since the mid-1990s, state macroeconomic policies have undermined

⁶⁹ The Economist, "Dilma Changes Course"

⁷⁰ Ávila, "Dívida interna", 2

⁷¹ Camara Legislativa Brasileira, "LDO-2010" (author's estimate)

⁷² Ministério da Fazenda, "Dívida Pública Federal", 37

⁷³ The 'classic dependence' describes the exchange of primary products (from the periphery) for manufactured goods (from the centre). Evans, "Dependent Development"

⁷⁴ Paulani, "Acumulação sistêmica"

production and trade, particularly in the industrial sector, converting the country into a specialised primary commodities exporter. That meant becoming more dependent on agro-commodities export, but also on technology import and foreign capital inflow. State-sponsored interest and exchange rates have been key limits to output growth and export competitiveness, and simultaneously the fundamental mechanisms defining the rates of return on financial investments – which shows the pivotal role of finance in policy-making. The course of events described in this article shows that primary export specialisation is weak to offset the industrial trade deficit and remunerate the stocks of foreign capital; both have been perversely enhanced as a consequence of growth. That has translated in BoP fragility, reproduction of debt and external dependence – which together form the core of the crisis that erupted in 2014. That also shows that the crisis was not an anomaly in the country's development trajectory, but precisely a product of its very patterns of economic growth and accumulation in the past decades.

In brief, becoming a world agricultural powerhouse conceals an overall loss of economic power and political autonomy, as a consequence of the country's insertion in global circuits of financial capital accumulation. This justifies a critical approach to both agribusiness and the patterns of capitalist development in Brazil.

'Export or die' – this paraphrase of the country's independence slogan – was not a call for development or growth, as its herald intended to convey; as this article hopes to have shown, it was, quite literally, a condemnation to continue serving the imperatives of financial accumulation.

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