

Breno de Amorim Lara, student of the international faculty, Kursk State Medical University, Kursk, Russia

e-mail: loh.miertschink@gmail.com

Lorraine Christine Miertschink Klabunde, student of the international faculty, Kursk State Medical University, Kursk, Russia

e-mail: loh.miertschink@gmail.com

ECONOMIC CHANGES IN BRAZIL

Abstract: the article describes the changes in economic development of Brazil over the last 10 years. The dynamics and changes in the structure of GDP are revealed. The main trends of development of Brazilian industries are studied. The governmental programs on development of industry, agriculture and other sectors of economy are presented. The essence of Brazil's trade policy, the main directions of import and export, the relationships with countries-partners are studies.

Key words: economic development, GDP, Brazil, trade policy

Брено де Аморим Лара, студент международного факультета, Курского Государственного Медицинского Университета

e-mail: loh.miertschink@gmail.com

Лорейн Кристине Миертчинк Клабунде, студент международного факультета, Курского Государственного Медицинского Университета

e-mail: loh.miertschink@gmail.com

ЭКОНОМИЧЕСКИЕ ПЕРЕМЕНЫ В БРАЗИЛИИ

Аннотация: в статье рассматриваются изменения в экономическом развитии Бразилии за последние 10 лет. Выявлены динамика и изменения

структуры ВВП. Изучены основные тенденции развития отраслей экономики Бразилии. Рассмотрены государственные программы развития промышленности, сельского хозяйства и других отраслей экономики. Исследованы сущность торговой политики Бразилии, основные направления импорта и экспорта, отношения со странами-партнерами.

Ключевые слова: экономическое развитие, ВВП, Бразилия, торговая политика

Brazil is the greatest state in South America, located in its central and eastern parts. Brazil is a federal republic, administratively divided into 26 states and a federal district. The capital is Brasilia. The currency is Real (R\$). The official language is Portuguese [12].

Currently, Brazil's economy is the 8th biggest in the world by nominal GDP of 2,080 trillion (USD) according to International Monetary Fund. Characterized by a large and well-developed agriculture, mining engineering, manufacturing and service industry, Brazil's economy is the largest in all South America and it is expanding its presence in world markets. Also, the second-best economy in America, being over only United States of America. Brazil is also a member of BRICS, an association of the five major emerging economies, and the economic bloc Mercosur [3,13].

Since the 1950s, the government has begun to actively stimulate the Brazilian industry by creating investment banks (1952 – BNDE) and state-owned companies in major industries (Petrobras – 1953, CSN – National Metallurgical Company – 1941, Eletrobras – Electricity Company – 1962), creating infrastructure and supplying raw materials for industry. Today, Brazil is one of the most industrialized countries in the Third World. Since 2003, Brazil has steadily improved its macroeconomic strength, creating gold holding and reducing debts. After a record growth in 2007 and 2008, the onset of the global financial crisis affected the country's economy in September 2008. Brazil experienced two quarters of recessions, that declined global demand for Brazilian goods and decreased external financing. The Brazilian industry is mostly

concentrated in the southeastern region of the country (Rio de Janeiro, São Paulo and Minas Gerais) [1].

The main product markets in Brazil are industrial. They provide about 90% of domestic demand for industrial goods due to own production, and more than 80% for machinery and equipment, such as cars, electrical appliances, building materials, cement, communications equipment, metal, vehicles, clothes and shoes [1,3].

Traditionally important for the country are the markets for agricultural products, the largest of which are the markets of meat and meat products, ethanol, sugar, soybeans, corn, milk, rice, fertilizers, and leather. Due to highly developed agriculture, Brazil is the world's largest manufacture and exporter of sugar, coffee and orange juice, and ranks second in the world in the production of ethanol, beef, tobacco, soybean, leather and animal skins; third place – in the production of chicken meat, shoes, iron ore mining. The main trading partners of Brazil is China, then United States [1,3].

The main sectors of origin of the Brazil's GDP is composed by agriculture, industry and services, as it is showed in the graphic below (figure 1) [1,3].

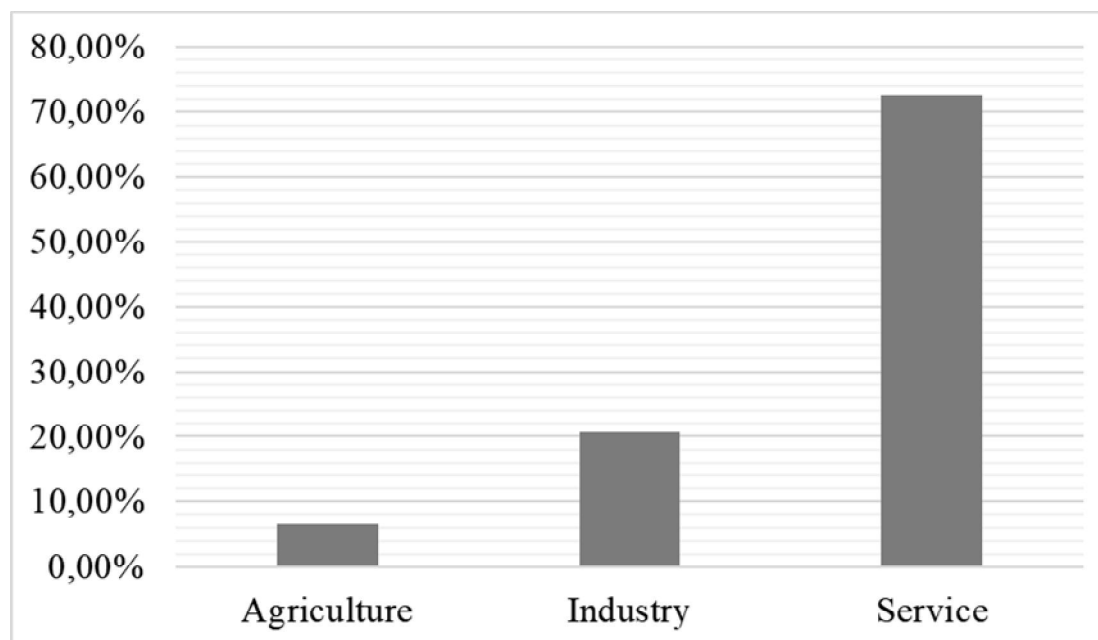


Figure 1 - Brazil's GDP composition by sector of origin in 2017

The main composition of the GDP by the end of use are exports of goods and services, investment in fixed capital, government consumption, household

consumption, investments in inventories and imports of goods and services. The percentage of this composition is show in the graphic (figure 2) [3]:

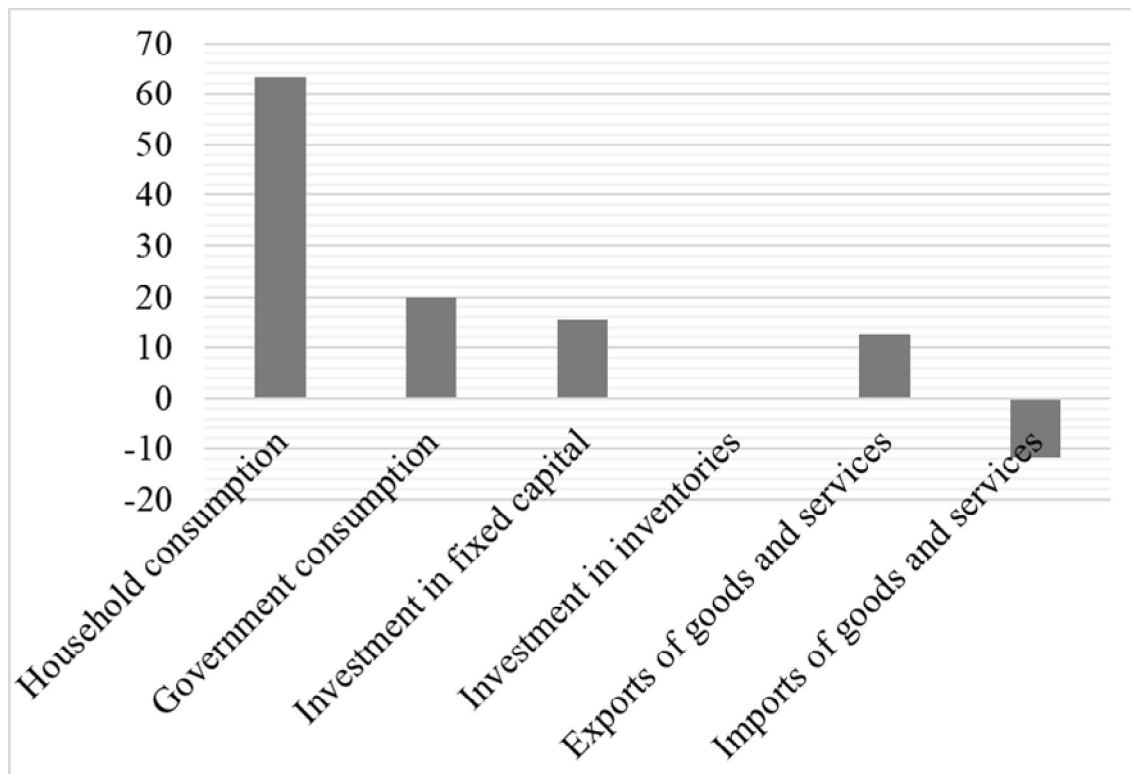


Figure 2 - Brazil's GDP composition by end of use in 2017, %

The principal export partners, in 2017, were China, United States, Argentina and Netherlands, exposed in the graphic (figure 3). In another hand, the principal import partners, in 2017 were again China, United States, then comes Argentina and Germany, as it is showed in the graphic (figure 3) [3].

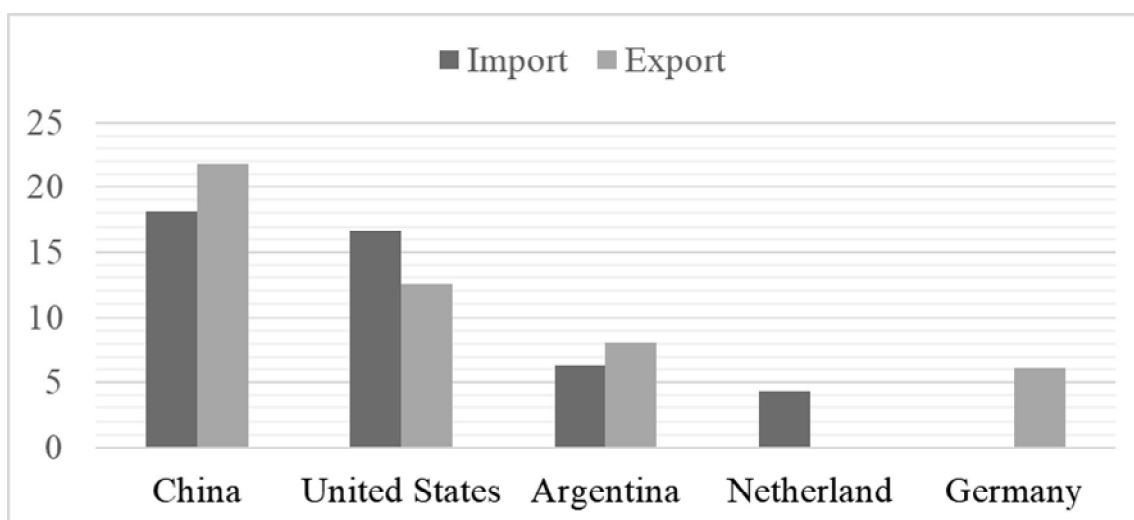


Figure 3 - Brazil's main import and exports partners in 2017, %

Consumption and investor confidence recovered, and GDP growth was positive in 2010. Favorable economic growth was affected by the recovery of exports, as it is in the (figure 4) [1]:

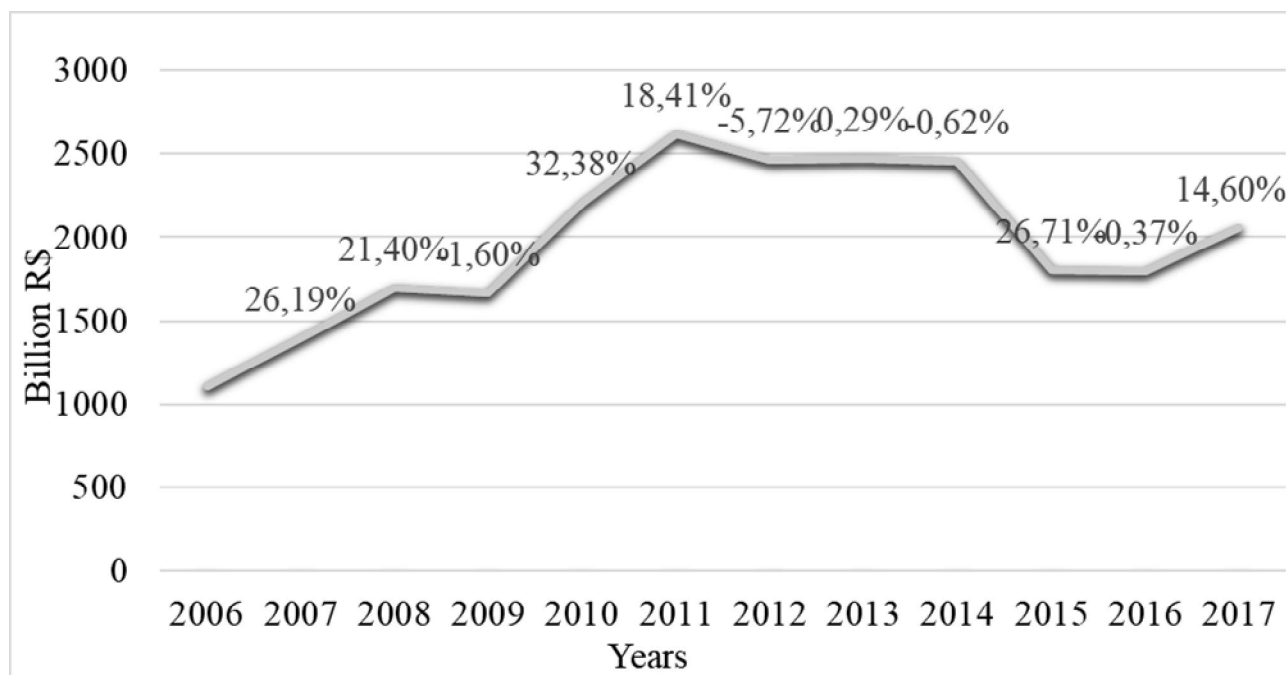


Figure 4 - Dynamics of GDP in Brazil

Analyzing the participation of industry in Brazil's GDP, we can notice that it decreased precipitously in 2012 reaching in 2017, the lowest level since 1996: 14,6%. Economists point out that ideally industry participation in GDP should be above 20%. It is worth mentioning that Brazil's economy is mainly agrarian and after the worst crisis in 2012-2016 it was agricultural sector that leapt by 13% in 2017 GDP growth in 2017, pulling the country's GDP by 1%. If it was not for the growth of the agricultural sector, Brazil's GDP would have increased by only 0,3%. But already in 2017, the unemployment rate in Brazil have a record of 13,32% [2,3].

The Brazilian Program to Accelerate Growth (Programa de Aceleração do Crescimento – PAC), adopted in January 2007, provided for the direction of the country's economy in the period 2007-2010 and invested about \$ 301 billion. The PAC priority areas are: construction of road, water and rail transport routes,

construction and reconstruction of ports and airports, sanitary treatment facilities, and hydroelectric power plants. After the expiry of the PAC projects, in 2010 a new phase of this program was adopted in Brazil – PAC-2. The government invested in program projects about 236 \$ billion) [2].

The government also invested in civil engineering as a priority sector, like program “My Home, My Life” (Minha Casa, Minha Vida) – building houses for low classes of the population, invested about 94 \$ billion. Unfortunately, all those programs weren't supposed to bring only good life to the low classes, but also it was high level of corruption in the government during the last 16 years that put country in a deep crisis [2].

During the last three years, government budget deficit has rate 8,4% of GDP, public debt 78,3% and government spending rise to 40,5% of output. In 2017, Brazil's GDP grew 1%, recovering from an economic decline which occurred in 2015 and 2016. The inflation fell to lows of 2,9%, and the Central Bank reduced the benchmark interest rates from 13,75% to 7%, in 2016 to 2017. The principal reason for the bad effect in economy was the multiple corruption scandals involving the impeachment, in august of 2016, of the President in charge at the time, the government officials and private companies, including former President. Some limitations in business opportunities were caused by sanctions against some of the greatest firms in Brazil involved in the scandal. A domino effect was caused on associated contractors and businesses, but it did also create some opportunities, as an opening in the closed market for foreign companies step into. Also, according to the Business Confidence Index (BCI), the business confidence had a huge rise. Between October and November 2018 it increased 9,5 points. Currently this is the highest value for the index since 63,3 recorded in September 2010, with the BCI value in 63,2 points in November 2018 [3,9,10,11].

A several fiscal and structural reform were implemented by the succeeding President to rebuild the government finances credibility, and to limit public spending, in December of 2016 the congress approved the legislation. At the end of 2017, the government spending growth had nudged to 73,7% of GDP of the public debt, above

more than 50% in 2012. Even after the financial crises in Asia and Russia, and Mercosur adopted a protectionist stance restricting imports from other countries, Brazil needed other economic reforms, proposed in 2016, aim to reduce barriers to foreign investment, and to improve labor conditions. To raise revenues, the government improve the natural resources auctions, such as oil and natural gas, also other infrastructure projects. To reinforce Brazil's workforce and industrial sector, some polices have promoted employment, but at the expense of investment [3,9,10].

Therefore, a declaration of the actual President's promised to "make the necessary adjustments to guarantee growth with low inflation and job generation". Brazil's stock market have risen more than 5% since the new President won the election. He does not intend to sell companies from strategic sectors, such as energetic, but the Brazil's minister of finance, indicated by him, is a liberal economics and defended privatizing some of the state companies. They also pretend to use the golden shares as a tool to trick «some political difficulties that could arise during the privatization process». The new minister of finance have some preferences to do the changes, eliminate the deficit and boost growth, such as pension reform, privatization, tax cuts (that will lead to spark private investment and create jobs) and trade deals (bilateral trade deals – criticizing the restrictive regional bloc Mercosur). As part of the foreign policy to expand trade, Brazil's trade policy is determined to negotiate technology, investments and trade deals with all partners, preventing the state interventionism and persecuting privatizations and tax reform and keeping the factual productive sector needs in focus [14].

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