

The International Crisis Challenges the Brazilian Model of Economic Opening and Liberalization

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Strong Impacts, Surprising Reactions

THE INTERNATIONAL CRISIS places enormous challenges on the economic model that took shape in Brazil since the 1990s. The model had been tested by financial crises in the past decade and by the exchange rate instability that accompanied the rise of the Lula candidacy in the first half of 2002. During the crises of the 1990s, however, the defenders of the model could allege that the economy still carried the problems caused by the inheritance of the previous model, and the crisis of 2002 could be attributed to the risk that the future PT government would alter economic policy. In this way, the current crisis directly questions the basic premises of the model, particularly the alleged advantage of foreign opening in situations of international crisis.

The questioning is relevant exactly because one of the main arguments presented by its defenders to justify the break with the previous developmentalist model was the inability of the Brazilian economy to avoid exchange rate crises, and the internal turbulence they cause, at times of international instability. The crisis that began in 2007 questions if the country is effectively in better condition to confront the adversities of a strong international retraction and take advantage of the opportunities that every crisis raises.

As is known, the impact on the Brazilian economy was very strong, as the crisis worsened in the second semester of 2008. The rapid and accentuated drop in production and employment, the cut in foreign financing and the retraction of domestic credit reduced investments and corporate production decisions. GNP should decline in 2009, or in the best hypothesis, any growth will be minimal. Nevertheless, there has been no currency crisis: despite the drop in exports, a surplus continues in the balance of trade and the capital entering the country led to a rise in value of the real in April and May. The impact on government financing was small and there has been no disruption of the Brazilian financial system. The government maintained a capacity to react sufficiently to

adopt measures such as selective tax cuts, programs to support and stimulate the economy and even reduced interest rates. To accomplish this, the Lula government sought to broaden the range of support that it enjoyed, from the right wing of the political spectrum and business leaders to union centers, and there have been no significant protests.

These are signs of strength far greater than were expected, in light of the international crisis considered to be one of the broadest and most intense since the depression of the 1930s. The unprecedented nature of the reaction of the Brazilian economy is even more evident when compared with what occurred in Brazil and nearly all of Latin America at the beginning of the 1980s, when the eclosion of the foreign debt crisis gave way to ten years of strong economic instability. It is important to highlight that these observations were written in the middle of May 2009, and there is no assurance that the situation will not change, because of changes in the international crisis.

The hypothesis adopted here is that much of the Brazilian economy's capacity to react is due to a combination of two types of factors. On the external front, the country benefits both from the way that the global crisis is being confronted by the U.S. government, which enacted a strong rise in the money supply to sustain the financial system, as well as by the maintenance of growth in China. These factors can reach a limit or become much weaker, particularly because this world crisis has appeared in quite original forms, as do all processes of this scope. On the domestic front, the Brazilian economy has benefitted from the ability of the government to execute anti-cyclic policies such as reducing taxes and its budget surplus, while also lowering interest rates. There has thus been an unprecedented combination of the consequences of the crisis and some essential traces of the opening and liberalization consolidated in recent years in Brazil.

This essay is an effort to contribute to the analysis of the effects of the crisis on Brazil, and highlights issues less tied to the current situation than those that are related to changes that have taken place in the Brazilian economy since the change of orientation of the economic policy in the previous decade. The purpose is to improve understanding of the ability of this model to react to external instability and the possibilities that the crisis can be overcome even with the strengthening of the model's presumptions and objectives.

The article is organized in three sections in addition to this introduction. The second section presents a framework of the principal issues to be analyzed about the international crisis, in order to better locate its possible effects on Brazil. The third section discusses the relations between the liberalization model and the economy's response to the crisis. The fourth and last provides some notes for reflection on all these issues.

Controversies about the Nature and Development of the Crisis

Within the broad range of issues raised by the crisis, four questions about its nature and possible consequences can be presented: (i) is the crisis "only"

financial or does it also affect the arrangement of the international production system that has been configured in recent years; (ii) will the singular position of the United States be affected; (iii) will China be able to “take off” from its strong burst of growth generated by exports to the United States; (iv) will the U.S. government’s intervention strategy be successful in preventing the failure of the banking system and in stimulating demand, by means of increasing the money supply and government debt. It is worth emphasizing that these four controversies are related and establish a framework of references that can be used to analyze the current outlook for the peripheral countries. The number of unknown variables and the high degree of uncertainty obviously hamper the establishment of precise prognoses, but offer a number of issues to be watched.

The first question is if the crisis is limited “only” to the financial sector or if it is also a crisis of the entire productive arrangement that stimulated the global economy in recent years. With all of the provisos that must be made about making analytic distinctions between the financial and productive “sectors,” the question is very important for the evaluation of the crisis’ impacts on the peripheral countries.

For those who emphasize the predominantly financial character of the crisis, the unchecked expansion of unregulated finance (credit, derivatives, etc), created a bubble that distorted markets and then burst, causing an abrupt contraction. In this line, after the deflation of the bubbles concluded and the cleansing of the financial circuits (with the failure and restructuring of the banks) the real economy would return to growth, in a more orderly and healthy manner.

The argument is presented in an intentionally simplified manner, and certainly deserves a number of qualifications, but allows emphasizing the questions to be raised. It is evident that the crisis resulted from the reversal of an expansion of unsustainable credit, but this expansion accompanied, triggered or made viable (the three terms are possible and each implies a particular interpretation) the strong growth of the world economy in these years, and at the center of this growth was the large U.S. deficit.

This deficit led various economists to classify the United States as a “consumer of last resort” during this long expansion period. The designation is very suggestive. The function of borrower of last resort is attributed to the central banks, for their capacity (and attribution) of creating money “from nothing” in situations of crisis, as they have done intensely until now. To use the expression in relation to consumption is obviously an impropriety, but is an attempt to consider the surprising capacity of the U.S. economy to generate giant commercial deficits and finance these deficits by the creation of means of payment and of credit in dollars.

By maintaining its deficits and paying for them, the United States, in addition to attracting exports from around the world, generated the dollars that returned to its markets in the form of investments in U.S. Treasury Bonds and other instruments with low return, the highly secure and low risk bonds in which

the exporting countries of the periphery accumulated their large foreign reserves. The system operated as if the United States could choose the size of its debt, since it automatically created the dollars with which the exporters financed their own balance of trade.

The crisis questions the maintenance of this arrangement and thus the possibility that the peripheral economies can return to growth based on exports and high trade surpluses. As long as the recession continues in the United States, the arrangement loses strength, with a variety of effects on the peripheral countries – the most aggressive exporters suffer in the first place, but the shock wave also hits those that grow by exporting primary products to East Asia and the United States. In this sense it can be said that the crisis is also that of a certain arrangement of the global productive structure, anchored or strongly dependent on a position of the economic leader that may prove to be unsustainable.

With the deepest phase of the crisis over, it is not clear if it will be possible to return to the previous arrangement. The forced adaptation to the drop in demand for imports and the U.S. commercial deficits may be very difficult for various countries, which suffered from disruptions or disarticulations of links of the production chain - the recovery from which is uncertain - or because of social and political tension. These risks increase if the cooling of the U.S. economy is prolonged. The problems will obviously be much greater, and of a more complex nature, if the United States loses the capacity to maintain its position as issuer of global currency and the ability to finance its foreign debt by issuing its own money and its own securities.

This is the second question about the crisis that must be analyzed. Until the beginning of 2009, there were no signs of questioning of the international role of the dollar. The intense issue of currency by the Federal Reserve System (FED), the U.S. central bank, and the expressive increase in the total government debt and its fiscal debt did not reduce the preference of detainers of wealth from around the world for the dollar and U.S. Treasury bonds. To the contrary, the reduction of interest rates in the United States was facilitated by the enormous demand for short term Treasury bonds and was accompanied by a rise of the risk premium on interbank interest rates in global markets.

The continuity of this role of the dollar as the global currency maintained the United States' room for maneuver in managing the crisis and reduced the risk of unimaginable disorder in the global economy, in the case of a chaotic flight of wealth in search of protection outside the dollar or U.S. Treasury bonds. This scenario is in fact unimaginable, because there are no real assets, financial or monetary, capable of supporting a massive run from the dollar. The occurrence of a progressive run, with the transfer of reserves of some countries to the Euro, for example, could trigger unpredictable reactions from the United States and Europe.

The controversy around this question is linked in various ways to the previous question. The reaffirmation of the role of the dollar as the global

currency in the early 1980s, with the interest rate shock enacted by then U.S. Central Bank President Paul Volcker, established the current configuration of the international monetary system. The designation of the system as one based on a flexible dollar is appropriate, because it emphasizes its unique quality: the absence of a metallic guarantee for the global currency and of any fixed reference for its value, in terms of gold or any other currency. In other words, the system can be characterized by the absence of any commitment of the issuer of global currency to convert it into anything or to defend its price in relation to other currencies or any other reference.

By previous standards, this system should have made difficult the international flows of capital and trade, because of the absence of reliable reference values, as in the 1930s, when the central countries relinquished coordination of currency exchange rates. This time the reverse took place, with a prolonged expansion of trade and of financial internationalization since the 1990s. At the base of this surprising result, was certainly the financial sophistication of the markets in derivatives, insurance and other forms of risk transfer, all now questioned by the crisis that is linked to the atrophy of these markets. It is not inappropriate to question if there would have been growth in trade and production without fixed exchange of the principal currencies if these financial markets for the transfer and coverage of risks did not exist.

The third controversial question involves the sustentation of high growth rates in China. Without highlighting the numerous and complex questions linked to China's accelerated economic development model, it is evident that the prolonged reduction of the U.S. foreign deficit would remove one of the bases on which the model has been based until now. Can China maintain rapid growth based on investments in its own market, in its already large and diversified productive base? If the answer is yes, the recovery of commodity prices and those of various industrial goods and services imported by China would be faster, with a possible increase of tensions with the United States, even over the accumulation of its reserves in U.S. securities. This scenario also supposes a continuity of improvements in China, including more diversified demand of manufactured goods and services as well as growing competition in various industrial segments in which the Chinese were importers until recently.

The fourth controversial question involves the effectiveness and consequences of the decision of the United States and other governments to confront the crisis by means of heavy financial assistance programs to banks and the financial system in general. Money has been issued in unprecedented quantities and forecasts for growth of the public debt are also very high. A similar process has been taking place in other countries, such as the United Kingdom.

The governments of these countries appear convinced that the basic formula for managing the crisis is to expand government spending and issue money as much as seems necessary. It is as if they were seeking to avoid the errors of the Hoover Government in the early 1930s, which had aggravated the

depression by refusing to issue money and to use fiscal policy to sustain demand. Even if it is accepted that this was the principal cause of the deepening of the depression, it should not be forgotten that the effectiveness of the Roosevelt Government's policies was only relative, because the U.S. economy only recovered with the war, while the German economy escaped the crisis much more quickly, but based on rearmament. In addition, and perhaps more importantly, the "Keynesian" programs of the 1930s were applied in economies with low levels of public debt and with a much lower tax burden than today, a factor that has received very little attention.

These two characteristics suggest that the U.S. intervention policy can be compared not only with that of the Roosevelt years but also with those of Japan in the 1990s. As is known, the serious Japanese banking crisis generated by the bursting of bubbles in stock and real estate markets at the end of the previous decade was confronted with policies similar to those now adopted in the United States. Nevertheless, the Japanese economy remained practically stagnant for more than 10 years. One of the causes of the paralysis was the weight of the "zombi banks," which were kept standing and capable of generating profit with the help of public support, but which remained incapable of unleashing credit and leveraging growth. Another problem was the concerns caused by the high public debt, including doubts about the ability to honor future pensions, which substantially depressed the willingness to spend by a large portion of the population. In sum, for years, the Japanese government tried to revive the economy with policies to stimulate demand, elevate liquidity and maintain interest rates close to zero. But the strongest result was the growth of the public debt with no return to spending and investing in the private sector.

It can be argued that the large increase in the money supply and the very low interest rates in the United States can lead to very different effects, because of the characteristics of the country, including its financial system, and because of its condition as issuer of the global currency. The abundance of dollars may lead to a search for profitable investments throughout the world, which would encourage the recovery of commodity markets and investment in various markets. In addition to risking the creation of new bubbles, the global economy could experience a new wave of international liquidity without the recovery of the public sector in the central countries.

The possibility of a return of inflationary pressures should also be considered in this situation of slow growth in the central economies, pushed by commodities and by high liquidity, but also by a possible lack of confidence in the high government debt in the central countries. Although it is a still distant possibility, it is worth noting that in this case, moderate inflation would be a suitable solution for reducing the debts – or that is, inflation would be an alternative for the economic policy of the countries affected by the "Japanese disease."¹

Liberalization Brazilian Style: the 1990s Model

To examine the issues discussed in this essay, the model of opening and flexibilization should be questioned from its capacity to confront foreign crises in two principal areas: (i) the adjustment of foreign accounts in light of reduced demand for goods and services and of the supply of credit and direct investment in global markets; (ii) the preservation of domestic financial stability and of the fiscal capacity of the public sector to act in a counter-cyclic manner. At least until the middle of the first semester of 2009, in both instances the model displayed a high capacity to respond to the crisis without compromising its objectives and its essential characteristics.

Before examining the two questions, it is worth highlighting that the period from 2006 until the first semester of 2008 was the time of the best performance of the model in terms of economic growth, after having been characterized by low growth in its first 15 years. The few moments of strong expansion were soon reversed by external crises or by domestic problems. Even with the prolonged foreign calm beginning in 2002-2003, the model delayed in reacting and only began to show robust growth after 2006. The virtual economic stagnation of 1990-2005 aggravated various problems raised by the model (very high interest rates, growing taxes, high public debt resistant to any reduction, deterioration of salaried income) or inherited from the past, such as poor living conditions for much of the population, problems in the productive structure and the concentration of income and wealth. Struck by the foreign turbulence at its best moment, the model of opening and flexibility should now show if it is capable of confronting the foreign adversities better than the developmentalist model that it sought to dismantle.

The formation of the model of opening and flexibilization began with various measures adopted during the Sarney Government, but it was the so-called New Brazil Plan, announced at the beginning of the Presidency of Fernando Collor de Mello in March 1990, which effectively broke the pillars of the old developmentalist model. In a single blow, the government announced a unilateral and drastic commercial opening, a broad privatization program, reduction of the scope of action of the public sector and reorientation of its role in the economy and liberalization of price formation. These orientations were maintained in the following years and complemented by the financial opening, by the effort to attract foreign capital and by various measures to resolve fiscal and financial problems inherited from the past.

We understand a model to be a set of strategic economic policy guidelines that are maintained in a more or less coherent manner for a long period of time, which are strong enough to condition the choices of the various successive governments. The concept supposes that a model has the capacity to support changes in the economic conjuncture with alterations in basic economic policy (currency exchange rate, interest, spending and taxes) without having these changes compromise the set of orientations that define the model. In this sense,

the late 1980s and the early 1990s marked the passage of the Brazilian economy to a distinct economic model. Since the first decades of the 20th century, Brazilian economic policy was guided by the objectives maintained by nearly all governments in the period – industrialization, autonomy of the productive structure and development. These objectives disappeared with the Collor Government and were substituted by other basic concepts.

Despite the weak performance in terms of growth and generation of well-being, the model demonstrated surprising strength and was able to achieve adhesion from Lula and PT in the second half of 2002, although they had been strong critics of the model since its initial phase. The visualization of a strong probability of victory in the presidential elections of 2002 led the current president to abruptly change position, with the famous “Letter to Brazilians.” The adhesion was quick and practically a consensus within PT, without any demand for deep explanations from inside or outside the party. Since then, the model has found reduced opposition, with generalized acceptance of its essential presumptions and components.

Concerning the country’s international insertion, the strategy for opening and attraction of direct foreign investment was defended with two basic arguments: the stimulus to technological development and the adjustment of the balance of trade in light of international market fluctuations that had always led the country to difficult currency situations.

The defenders of the new model maintained that the developmentalist policies implied a permanent closing of the economy, which impeded development by driving away competitive productive structures and technological impulses generated in the central countries. With the opening in the 1990s, the internationalization of the productive structure and the substantial entrance of direct foreign investment should have generated a more competitive productive base better integrated to the central dynamics.

The arguments were presented with great clarity by Gustavo Franco, one of the main formulators of the Real Plan and an important figure in President Fernando Henrique Cardoso’s first term. In a polemic text that was broadly discussed at the time of its publication, Franco (1998, p.127) maintained that industrialization by import substitution necessarily generated a stagnation in productivity and that the greater presence of transnational companies would increase productivity and export capacity.

Despite the success achieved in breaking the high inflation in 1994, soon after the introduction of the new currency, the real, the new model had frustrating results in terms of economic growth and an ability to promote foreign adjustment. The economy grew little during Cardoso’s two terms (from 1995 - 2002) and the country had a series of problems hampered by successive external crises during the period.

Only in 2003 did the model begin to perform as its defenders expected. Now in the Lula government, foreign trade grew vigorously and the risks of

exchange crises continued to decline, with an accumulation of reserves and a rise in value of the real. There was finally proof that the model could generate the promised results. This conclusion is questioned, however, by the fact that world trade grew strongly at the same time, with the exacerbation of U.S. deficits and the accelerated growth in China. It could be maintained that Brazil only accompanied the vigorous global expansion, particularly because Brazilian participation in the total flow of goods did not grow significantly.

Other difficulties in the analysis arose with the rise and diversification of Chinese imports, with the strong pressure on commodities markets and the diversification of the range of imports and exports of manufactured goods. The vigorous growth of Brazilian exports can be attributed largely to the effects of China on primary products that we export and of other countries that export primary products to which Brazil sells industrialized products, such as many of our trade partners in Latin America.

The result was not in keeping with the forecast that had been made by defenders of the new model. It is difficult to maintain that the expansion of the presence of multinational companies in various industrial segments was the most important factor for Brazil's rise in exports. In a number of these segments, exports grew, but were accompanied by strong growth in imports, and the balance of trade surplus was generated mostly by primary goods in which Brazil has significant natural advantages and in which Brazilian producers dominate.

This performance gave way to questions about a trend towards renewed emphasis on primary goods in Brazil's foreign trade. Was there a relative decline occurring in the sale of products with higher technology content, or a shift from these products to less dynamic markets, in exchange for an increased weight of primary and semi-processed goods to the central markets? The growing weight of products with higher technology content in Chinese imports points in the same direction. The debate is inconclusive, in part because of the difficulties in measuring technology content, because of the diversification of intra-sectoral imports and those within companies. Nevertheless, it seems certain that it cannot be affirmed that the greater presence of multinational companies in the industrial structure has induced the beneficial effects that their defenders maintained about the increased quality of exports.²

Where the defenders of the model appear to have been right is in the greater resistance of the balance of trade to fluctuations in foreign demand. The consequences of the global crisis in the first months of 2009 reveal that the drop in exports was compensated for by even greater reduction in imports. Nevertheless, the drop in exports would have been greater if not for the strong sales of primary goods, once again because of sustained Chinese demand. It is as if Brazil had returned to the past, when the sales of products intense in natural resources sustained imports and guaranteed the solvency of the foreign sector, as long as there is demand to absorb them.

Does the model have its merits? This is an instigating question. It can be said that the model had the merit of adapting Brazil to the prolonged change in the relative price of its exports, provoked by the rise of China, although its defenders do not make this argument when defending the opening. The argument appears more linked to the old polemic about the country's vocation for exports of primary goods, an issue that is surprisingly current in Latin America's present situation. We need simply note that among the countries with medium and large economies, the one hit hardest by the crisis is Mexico, exactly that which has the largest participation of manufactured goods in its exports. The greater dependency of exports on primary products reinstates the problem of incorporation and diffusion of technical progress, in addition to the generation of employment, issues that the defenders of the model sustain would be resolved by the greater presence of multinationals and by the greater participation in international trade flows.

In addition, the resistance of the Brazilian economy to the crisis in the first months of 2009 is closely linked to the strong entrance of foreign capital, with a trend towards appreciation of the exchange rate and recovery of the stock exchange and demand for Brazilian securities. The government and defenders of the model maintain that Brazil is well positioned to confront the crisis and that the entrance of dollars confirms that the country is in a favorable position to benefit with the crisis in the central countries.

Once again, it is difficult to identify the weight of each of the basic factors that can explain the surprising performance of the entrance of foreign capital. In addition to the positive expectations about the future of the Brazilian economy, there is large surplus liquidity in the world, the fruit of the aggressive market rescue policies enacted by the United States and other countries of the center. This capital looking for investments may be forming a new speculative wave, now focused on securities in "emerging" countries. There is also the attraction of high real interest rates that Brazil continues to offer: despite the nominal cut in interest rates since late 2008, real interest rates in Brazil continue very high in relation to other countries in the world. In addition, and as occurred in 2004 - 2007, the expectation that the real will increase in value makes investment in Brazilian interest rates even more attractive.

The high interest rates were an important part of the Brazilian liberalization model, and not only because they attracted foreign capital that helped to develop a favorable exchange position, with the high accumulation of foreign reserves. The high interest rates sustain a process of transfer of resources from the Treasury to the banks, large companies and government creditors, a process at the foundation of the oft-mentioned solidity of the Brazilian banking system. The banks in these years had strong earnings from the interest on government bonds, paid by the Treasury, and expanded credit in a secure and selective manner.

The high weight of interest, around 6% of GNP, can only be sustained by the government accounts because of the progressive increase in tax revenues, which began under the Real Plan. The ability to increase tax revenues without political conflict gave the government room to maneuver to accommodate increased current spending and the costs of policies essential to the success of the program, notably the increased value of the real and high interest, utilized intensely as anti-inflationary instruments and for equilibrium in foreign accounts. The continued increase in revenue also allowed avoiding the risk of an explosive trajectory for the public debt, particularly in 1998 and 1999 when the public sector assumed the costs of defending the currency regime and its later rupture, with the devaluation in January 1999. A similar process occurred in later years, with the absorption of the costs of rescuing the banking system and the consolidation of liabilities inherited from the past.³

In addition, the substantial increase in tax revenue through successive topical and emergency measures gave the government room to maneuver to avoid the grave conflicts of interest that could threaten parliamentary support for the economic policy, in case it had insisted in drastic spending cuts or in a broad reform of the tax structure. The counterpart of this flexibility and trajectory of accommodation was the permanence of elements harmful to the efficiency and competitiveness of the economy, both in the tax structure, as well as in the composition of public spending.

This same tax base now proved to be decisive in light of the crisis. The government has room to promote localized tax cuts and to alleviate the weight of the fiscal surplus, even playing with the fiscal gains provided by the cut in interest rates that weighed on the government debt. That debt, in turn, although it grew continuously internally, had a significant drop as a whole, because of the accumulation of foreign reserves in recent years, enough to nearly eliminate the public sector's net foreign debt.

The government's fiscal performance is one of the characteristics that can be called Brazilian-style liberalism. Despite all the discourse around the reduced role of the State and of accusations that neoliberalism had weakened the public sector, the Brazilian state has displayed strong power to react to the crisis and the government has powerful instruments from the past that were maintained by the Fernando Henrique Government, like the federal public banks and the public funds.

References from the Past and Attempts to See Ahead

The Brazilian economy has confronted considerable difficulties from the strongly adverse external situations, such as the Depression of the 1930s and the debt crises of the 1980s. The violent external shocks and the domestic consequences caused far reaching changes. These two cases led to changes in the economic development model with no return to the past. The rhythm of recovery, however, was much faster and much more intense in the first case, although the

foreign crisis was much more severe. The distinct behaviors stem from known factors, particularly the ability to react and structure of the central countries and the articulation of domestic economic and political forces capable of controlling and sustaining the changes in orientation imposed by the crisis. But the behavior also reflects attempts to exploit alternatives created by the unprecedented situation generated by the crisis.

The current crisis creates new opportunities and the ability to take advantage of this potential will depend on the correct identification of the determinants of reaction that the Brazilian economy has presented and other factors. It appears clear that until now the external insertion realized in recent years offers reasonable protection against the drop in demand of the central countries, as long as China maintains its dynamism. It is also evident that the Brazilian State has the ability to react to the crisis, with the fiscal and monetary arrangement that capitalized the banking system and allowed the Treasury greater margin of maneuver in applying anti-cyclic measures. It remains to be seen if this situation is capable of generating growth that is accompanied by technical progress and social inclusion.

Notes

- 1 Reflections presented by Henry Singer Gonzalez, of Fram Capital, in a seminar at PUC-SP, in April 2009.
- 2 In Rodrigues (2008), there is a sketch of the arguments involved in this polemic and an excellent empiric study of the changes in Brazil's trade structure since liberalization.
- 3 There is broad literature about the fiscal issues in the Real Plan. See, for example, Carvalho (2000).

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ABSTRACT – Reviewing the first months of 2009, it is surprising to see the Brazilian economy’s resistance to the international crisis. The declines in production and investment were intense, however, there has been neither a foreign exchange crisis nor fiscal and financial system disturbances. The government was able to apply anti-cyclic policies, such as tax cuts and interest rate reductions, assisted by the currently high tax revenues and strength in the banking sector, after years of high interest rates, and the ability to use public banks and public funds, valuable instruments inherited from the past. Regarding external factors, the capital inflow is stimulated by the higher liquidity generated by the recent U.S. policy for monetary expansion, while exports are due to the maintenance of Chinese demand, with a significant increase in the role of basic commodities and a decrease in manufactured products. The ability to react to the crises is a great test for the Brazilian model of economic opening, in the same way that the difficulties in sustaining the export of industrialized goods and recovering investment rates in manufacturing activities are considerable challenges.

KEYWORDS: International crisis, Brazilian economy, Brazilian model of economic opening and liberalization.

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