EXTERNAL INTEGRATION: A SYNONYM FOR INTERNAL DISINTEGRATION?

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What is the greatest of all the "dilemmas and challenges" facing Brazil on the threshold of the third millennium? What is the first cause that determines, if not the sum total of our problems, then at least a large part of them? Attempting to answer this question might be a waste of time, but there can be no doubt that the issue of external integration, a country's integration into the globalized economy, is a strong contender.

As to the most pressing economic problem, surely none is more serious than the trade and current account deficits, the strangling of the external sector, compared to which many previous predicaments – including inflation control, fiscal adjustment and foreign exchange reforms – appear far less acute, having all been more or less remedied by now.

In historical terms, at least since Caio Prado Júnior[1] and Fernando No-

1. Caio Prado Júnior (1907-1990) was perhaps the most distinguished Brazilian Marxist historian of the 20th century. He disagreed with the orthodox Communist interpretation of Brazil's colonial past as a form of feudalism, arguing in his books, particularly *Formação do Brasil Contemporâneo* (1942), that the kind of colonial system applied by the Portuguese in Brazil was an integral part of mercantilism. Based on the plantation system – the combination of slave labour and large landholdings for the production of tropical com-

vais[2] we have learned that, more than any other single factor, what made us what we are today was the nature of the colonial system prevalent in Brazil – that is, our status as a colony to be exploited for providing tropical products to foreign markets.

Would it be too outlandish to suggest that the manner by which we unravel the question of international integration might pose the solution to other impasses? That this issue is a kind of "condition of possibility" that will help us resolve other issues?

I phrased the question in the title of my paper in terms of a dilemma: does integration with the world necessarily lead to a country's inner disintegration? Of what use is it to us if we gain the world but lose our soul?

This dilemma is by no means imaginary, because Brazil's history, in a nutshell, is nothing but a long process of integration into the world economy that has led to the creation of a highly unintegrated society. Is it possible to avoid repeating this pattern from the past at a time of intrusive globalization, when there seem to be even fewer alternatives to external integration than there were throughout most of our history?

Unlike Japan and China, which managed to maintain their relative isolation until 200 years ago, what characterizes the historical experience of Brazil, the United States, Argentina or Australia is that the very existence of these countries is derivative. The Chinese and Japanese had constituted well-defined nations long before they were forced to become part of an economy dominated by Europeans, whereas in the new countries, which were nothing more than the product of the expansion of Europe's political/economic and religious/cultural system since the 15th century, the issue of integration or non-integration into an all-embracing for-

modities destined for the European market – this type of socio-economic organization could be described as a "colony of exploitation", in contrast to the kind of settlement colony that prevailed in New England, for example.

2. Fernando A. Novais, former Professor of Brazilian History at the University of São Paulo and the University of Campinas, in his most famous work, *Portugal e Brasil na Crise do Antigo Sistema Colonial, 1777-1808* (1979), examined how the crisis of the mercantilist colonial system paved the way for Brazil's independence.

eign context does not even arise. The sway of incipient mercantilism was paramount and was experienced in unexpected ways, as the lands discovered by the Portuguese were to be christened not according to ideological/religious criteria[3] but by borrowing the name of a capitalist commodity of the time[4] . Except for the questionable case of Argentina, Brazil is perhaps the only country named after a commodity….

The organic principle that defined colonial social and economic structures was the type of integration into the world economy – in Brazil's case, the existence of a market with strong demand for such products as sugar, which could be produced by the plantation system combining slave labour and *latifundia*. That is why this mode of organization would be implemented in more or less the same fashion not only in Brazil but also in the Spanish, French, English and Dutch Antilles, as well as in the south of the future United States – equally adopted by colonizers who differed in practically every other respect.

The symbiosis "external market/slavery-cum-*latifundia*" may be better understood by examining its negative- or mirror-opposite in the United States. In the north, although slavery did exist for a time, it did not thrive, lacking the means to sustain itself — namely, a commodity suitable for the plantation system and with guaranteed international demand (e.g., cotton in the south). Lacking the adequate soil and climate, the development of New England and of the so-called Middle Colonies had to rely on small farms, crafts and industry, and the dynamic impulse came above all from commercial intermediation, as evidenced in the triangular scheme "northern and eastern America/Antilles/England". Thus, not so much *choice* as *need* moulded two distinct kinds of colonization. And what seemed initially less attractive turned out in the long run to have a more solid development potential. It is interesting to note, as Morison and Commager stated in their classic *The Growth of the American Republic* (1942, vol. I, p. 69) that "In the year 1698, seven-eighths of England's American trade was with the West Indies, Virginia,

3. Two initial names for Brazil were *Terra de Vera Cruz* (Land of the True Cross) and *Terra de Santa Cruz* (Land of the Holy Cross).
4. The reddish *brazilwood* was an important source of dye, being also used for violin bows.

Maryland, and the Carolinas; the New England and Middle Colonies, with Newfoundland and Hudson Bay, accounted for only one-eighth. As time went on, and the Northern Colonies *acquired wealth through the West Indies trade* [italics mine], this unequal balance was redressed. By 1747 half of England's colonial exports were to the colonies north of Maryland; and by 1767, two-thirds". As may be seen, well before England's Industrial Revolution, colonization by settlement, for lack of a better name, had already shown its ability to promote a qualitatively superior development than colonization by exploitation, despite the superficial grandeur of the latter.

I believe no one disputes these facts. The conclusion is that the kind of integration that moulded Brazil – and allowed the perpetuation, long after our independence (in 1822), of the colonial pattern "slavery-cum-*latifundia*" – on the one hand integrated the country into the external world but on the other "disintegrated" it internally by dividing society into masters and slaves and by concentrating in the hands of a few that other major factor of production, land. By exporting almost all the sugar and coffee it produced, Brazil, far from remaining at the margin of the exchange of commodities, was fully integrated into the system. If the country suffered, it was from an excess, not a lack, of integration into the economic system – an excess of *poor-quality* integration, it must be stressed, which hampered instead of facilitating our internal integration and cohesion. This point must not be overlooked: contrary to what is superficially asserted, not every kind of integration makes for a desirable goal, but rather only that external integration which reinforces and develops internal confluence.

The Current Dilemma

The existence of alternatives to integration, some more desirable than others, presumes there is also some leeway to choose among the alternatives, however conditioned or limited by various factors. It was precisely this latitude that Brazil turned to good account between 1930 and 1980, promoting industrialization and developing its domestic market within the context of the kind of international integration it then enjoyed, strongly dependant on coffee and the advantages thereof. As this course of action was exhausted, both for internal reasons and because of intensified globalization, the overriding issue now is to ascertain whether the limi-

tations imposed by today's globalization eliminate the possibility of choice and impose a single, unwavering pattern of integration that may worsen our already distressing problems of inequality.

No one has defined this dilemma better than Celso Furtado, in *A Construção Interrompida,* 10 years ago: "When the engine of growth ceases to be the development of the domestic market and is replaced instead by integration into the international economy, the synergy effects generated by the interdependence among a country's various regions disappear, substantially weakening the bonds of solidarity between these regions [...]. [T]he undermining of national decision-making systems will have unforeseeable consequences for the political ordering of vast regions of the world [...]. [T]he predominance of the logic of transnational corporations in the organization of economic activity will almost inevitably lead to inter-regional tensions [...] all pointing to the unviability of our country as a national vision".

In this description, the alternative poles of the antinomies are well contrasted. In terms of dynamic impulse for growth, the choice would be between "development of the domestic market" and "integration into the international economy". In terms of seeking synergy or gains from increased interdependence, is it the regions that should be favoured within the national realm, or the relationship between each region and foreign economies? In terms of governance, the question is whether to stay with "national decision-making systems" or to opt for the "logic of transnational corporations".

This concern with sharp distinctions may be misleading, creating the impression that we will always face either/or situations, whereas most of the time it is perhaps possible to reconcile both elements in varying proportions – except in matters concerning the power to decide, which must not leave the hands of the State if collective interests are to prevail over those of corporate shareholders.

If things are so in theory, how should they be in practice in today's world? What room is there still for the autonomy of "national decision-making systems"?

Does it make sense to speak of a "national vision"? Furthermore, if this plan demands prior integration into the world system, will there be a margin to choose among its various modes, to determine the speed and sequence of integration, or will we have to accept a single, unchanging formula that results from a "single, unchanging way of thinking"?

A Variety of Responses

Not much can be added to the well-known theoretical arguments on the limits and conditions imposed by globalization and on the degree of autonomy that nevertheless remains. An empirical approach might perhaps be more interesting. It would show, from a historical point of view, that in somewhat comparable situations in the past the options were almost as numerous as the countries that adopted them. The spread of the Industrial Revolution beyond England, first to Western Europe and the United States, then to Japan and more recently Korea and the neo-industrial countries of Asia, did not replicate the British model, and identical formulas were practically never repeated.

The same may be said of the multitudinous ways by which countries today strive to meet the challenge of integration into the globalized economy. The reality from which we must begin is that there are approximately 200 States in the world today, that is, decision centres with greater or lesser power and autonomy – 150 of them created in the 20th century. Yet as Hobsbawn underlines, three-quarters of the world population lives in 25 States with 50 million inhabitants or more each.

Of this grand total, an even smaller number would qualify for the category George Kennan named "monster countries", those which combine a territory as large as a continent with a huge population of some 200 million. It is not enough to fulfil just one of these conditions, either territory (e.g., Canada and Australia) or population (e.g., Japan). Both must be met, because the designation "monster" is not simply a metaphor; it refers to the extreme heterogeneity and complexity ensuing not only from an arithmetical sum but also from the interaction between people and space. Rigorously, Kennan admits only five "monsters": United States, Russia, China, India and Brazil. With some pliancy, we might also include the European Union (actually a commercial unit *vis-à-vis* the rest of the world, with no internal barriers) and Indonesia (whose population is spread out over thousands of islands).

Obviously, the opportunities and risks, the possibilities and limitations of globalization, will never be equal or comparable for both the monster countries, in one extreme, and the city-States (Singapore, Hong Kong), in the other – not to mention the micro-States that survive by issuing stamps, lending their name to the Internet or being turned into tax havens.

For us in Brazil, the comparisons that matters are those that are made with some of the extremely large countries, but not all of them: the US and Europe, for instance, as inventors and beneficiaries of globalization, were already internally integrated into the production and marketing systems long before the advent of present-day globalization. The relevant countries are those that share the challenge of adjusting their national plans to the new conditions created by globalization: China and India, the fastest-growing; Indonesia, in the throes of a political/economic crisis unleashed during Asia's financial problems in 1997; and Russia, still taking a beating and despairing of emerging from the dark tunnel into which it has been plunged since the disintegration of the Soviet Union.

The contrasting fates of each of these countries show how diverse the possible responses are to a common challenge. Should there be any doubts about this, they should be dispelled by the antipodal performance of the best and worst students in the class, China and Russia, the two most representative examples of former socialist, former centrally planned economies struggling to make the same transition toward a reconstructed economy but with widely differing methods and results. Initially, the Chinese transition sought economic impetus by liberalizing the rural sector – the internal drive mentioned by Celso Furtado. Only later did the external dimension make its dynamic effects felt, turning China into one of the best examples of the ability to grow by fully exploiting the opportunities provided by globalization for exports based on low-cost labour and investments from the Chinese Diaspora. Unlike Russia, in China the process never slipped through the fingers of its leadership, nor did it follow the reckless advice for sudden changes proffered by western countries and financial organizations – the so-called "Big Bang" shock treatment. As Joseph Stiglitz has observed, in some respects the Chinese Government did the exact opposite of what had been recommended by the Washington Consensus, something that did not prevent it from boasting the world's highest growth rates for 20 years.

A Different Success Story

This does not mean that the "Chinese model", the peculiar concoction of political institutions and economic orientations followed by Beijing, can be recommended for all cases. India, for instance, has been expanding for years at a rate of

6% to 7% without forfeiting its parliamentary democracy and with exports accounting for only 8% of GDP.

Indian economists even ponder whether their country will be the first to embody the development model of a "new economy" based on knowledge and services, instead of reproducing the strategy of exporting manufactured goods that was a key to the success of China and the Asian tigers.

The comparative advantage of India lies not in its cheap and relatively well-educated labour force (the illiteracy rate is still quite high, and primary education is still in short supply), but rather in the elite segment of the population, highly proficient in science and technology and whose wage expectations are – so far — modest. The result is a clear competitive advantage in knowledge-intensive industries – computer software, to be sure, but also pharmaceutical products and others.

Vive la Différence

India's case demonstrates that the challenge of globalization does not negate the possibility for diversified solutions. Indeed, one must always begin with a specific advantage: Singapore's was its geo-economic location, which made it the transportation and communication hub between eastern/south-eastern Asia and the rest of the world, and Hong Kong's was its status as gateway to China. For these city-States, where foreign trade represents more than 130% of GDP (because of the weight of business intermediation), and for such small States as the Netherlands or Belgium, full integration into the globalized economy was the solution, not the problem. The same, however, is not true for the continent-sized countries, whose external integration must take other factors into account, such as the internal integration of heterogeneous regions. The particularities of each case vary considerably. What never varies is the importance of political leadership in formulating and applying public policies. In the long run, the difference between success and failure lies in political craftsmanship, in the competence and dexterity of the leadership, and in the regulation and coordination of government. In other words, the challenge of development has to do with acquiring skills to manage increasingly sophisticated and complex social systems. This involves not only the economy, but also equitable distribution, respect for human rights and the environment, and cultural activity.

Ultimately, this means inferring the practical consequences of what was suggested in Celso Furtado's work: "A national economic system is nothing more than the prevalence of political criteria over the rigid logic of economics in an attempt to provide for collective well-being".

Lessons from Success Stories

Radical pessimists – who deny the possibility of reconciling globalization and development – are apparently not justified in refuting the evidence of growth in China and other Asian countries. At the other extreme, the euphoria of the "globalizers", for whom 10 or 12 relative successes are worth more than 150 failures, is equally unwarranted. The protagonists in a dozen success stories – the Asian tigers, China, India, Chile and perhaps Mexico – differ in almost every respect, from the importance of agriculture (essential in Thailand, not at all in Hong Kong) and the degree of economic openness (almost absolute in the latter, limited in India and China) to the role of foreign capital (central in Hong Kong and Singapore, modest in Korea and Taiwan). What do they have in common? In addition to a minimum of political and macroeconomic stability (low inflation, moderate budget deficits or none at all), they all share three traits:

– A State with relative autonomy, endowed with a reasonably competent technocracy;

– A clear national plan or direction, not to be confused with the idea that the right macroeconomics is all that is required, with everything else falling into place automatically as a result of "market forces" and passive integration; and

– Above all, in the most revealing examples – those from Asia – the presence from the outset of equitable distribution of wealth (land reforms in post-war Japan, Korea and Taiwan) and income.

A model for "virtuous" integration into the globalized economy emerges from the best experiences, as follows: from the very outset, an attempt must be made to (a) reduce inequality of access to the means of production (land, credit, education); (b) exploit comparative advantages in natural resources (rubber, tin, palm oil in Malaysia) or cheap skilled labour (China, Asian countries) or both, so as gradually to incorporate more technological content and value added through the export of manufactured goods; (c) invest massively in education, technology and human

resources, either to develop a service economy (Hong Kong, Singapore) or to increase efficiency rates; and (d) in practically every instance, capture some of the demand dynamics of external markets in order to generate well-paid domestic jobs that can absorb the marginalized exiles from the rural economy. This was how Malaysia, Thailand and China substantially reduced (from 60% to about 10%-to-15%) their absolute poverty, namely, with "affirmative action" or "positive discrimination" policies that favoured disadvantaged groups, such as the Malay *vis-à-vis* the Chinese population in Malaysia.

In consequence, the answer to the question I raised at the start of this essay is a qualified "yes": yes, it is difficult, but nevertheless possible, to put external integration at the service of internal development and integration. This requires maintaining the autonomy of the national plan, which must be managed domestically and turned into a gradual process of integration through active policies to enhance competitiveness, including at the microeconomic level of firms. Concrete examples are easy to find.

Realistic Conclusions on Brazil

It is no exaggeration to assert that Brazil is well-equipped to meet the challenge of external integration. Its huge size, the magnitude of its domestic market, the equilibrium among comparable external markets (USA, Europe, Latin America, Asia) and the diversity of its still largely unexploited natural resources provide Brazil with more room to maneuvre than most other nations can hope for. With the exception of its serious social and regional disparities, Brazil suffers relatively less from the ailments that usually plague monster countries, such as the demographic pressures in China and India, or the extraordinary heterogeneity of, or even hostility between, cultures, ethnic groups, languages and religions in the two Asian giants, Indonesia and Russia. Because Brazil has no tradition of antagonism with its neighbours, it is one of the few "monster" countries that can call the shots in regional integration. This could become crucial, because regional agreements (such as Mercosur or its eventual extension to all of South America) might provide a sheltered space within which it is easier to acquire the competitiveness needed to survive in increasingly fierce markets – in other words, they reach the global market through the regional.

For this to happen, Brazil will have to close the gap separating it from more competitive exporters, a situation it shares with two other large developing nations, India and South Africa. In our case, the problem is largely one of supply: the composition of Brazil's export supply has barely changed in the past two decades and has been stagnant for many years, involving mainly intermediate goods with small added value, low demand and almost continuously declining prices. Unlike Mexico and China, there have been few investments, foreign or domestic, exclusively targeted at expanding our export capacity and upgrading its technological content. Thus, the solution will have to include an investment and technology policy aimed at conquering external markets. Now that economic stability has been attained, fiscal adjustment is close to being consolidated, the stranglehold of rigid foreign exchange regulations has been loosened and internal interest rates are gradually being reduced, some of the minimum prerequisites for adopting such a policy have apparently been met. However, such a course of action also depends on other indispensable factors: (a) the success of the current modernization of the government's science and technology policy; (b) systematic and massive investment in human resources; and (c) above all, a set of social policies to redistribute wealth and create jobs in order to eradicate absolute poverty and significantly reduce inequalities in wealth and income.

Such policies must not depend on enlarging the economic pie; on the contrary, they must become integral factors of a dynamic economy, flourishing thanks to the expansion and integration of the domestic market. This is the path to "virtuous integration"; and it is the only path open to integrate Brazil into the global economy while at the same time enabling us, as producers and consumers in a unified market, to integrate the millions of have-nots who have been marginalized for more than four centuries of "perverse integration". Only then will they become truly participating citizens, and only then will Joaquim Nabuco's[5] statement that Brazil is a country without a people, because a people cannot be composed of slaves, become an anachronism. Only then will we escape the vicious circle of the history of our integration into the world and put aside forever our last memories of colonization.

5. Joaquim Nabuco (1849-1910), Brazilian politician, diplomat and writer who played a central role in the struggle for the abolition of slavery in Brazil.

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