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In what areas and with what successes the participation in international trade agreements affect socio-economic and political development in Brazil?

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In what ways and with what success the participations in international trade agreements affect socio-economic and political development in Brazil?

A Capstone Project Submitted in Partial Fulfillment of the Requirements of the Renée Crown University Honors Program at Syracuse University

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Honors Capstone Project in International Relations

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Abstract

This paper examines the effects of international trade agreements on Brazil's socio-economic and political development. It specifically analyzes multilateral trade agreements such as Southern Common Market (MERCOSUR), the World Trade Organization (WTO), bilateral agreement with the European Union and multilateral agreement with China, Russia, India and South-Africa (BRICS). This research uses Brazil as a case study because of its rapid growth, young democracy and important economic role it plays in the region and the world. The relatively recent date of Brazil's trade liberalization, the 1991, allows comparing data on Brazil before and after it. The purpose of the research is to assess the effectiveness of trade agreements and international partnership as one of the means of development. This research is relevant to many developing countries, especially those struggling with low standards of living and unstable democracy. The paper analyzes various economic statistical data including but not limited to annual GDP growth, GNI, FDI, unemployment rate, HDI rate, GINI coefficient, poverty rate, infant mortality rate, life expectancy and Democracy Index. My research also includes the analysis of the scholarly works. Through the analysis of quantitative and qualitative data this research reveals that international trade agreements are highly beneficial not only for Brazil's economic, but also political and human development.

Executive Summary

In 1991, the Brazilian government challenged its economic status quo and liberated the country's trade. Instead of pursuing its former policy of protectionism, or the policy of closed economy, Brazil became an active participant of international trade. It joined several trade organizations and entered numerous bilateral and multilateral trade agreements. This paper examines several of them, namely, Southern Common Market (MERCOSUR), the World Trade Organization (WTO), bilateral agreement with the European Union and multilateral agreement with China, Russia, India and South-Africa (BRICS).

The purpose of this research is to analyze how these organizations and trade agreements affected Brazil's development. It is specifically concerned with international trade's impacts on Brazil's economy, society and politics. This paper assesses various aspects of development such as Brazil's economic growth, employment, poverty, infrastructure, health, democratization and many others. The research incorporates the analysis of quantitative and qualitative data found on the databases of various trade organizations as well as the World Bank's website. The relatively recent liberalization of Brazil's trade in 1991 makes it an excellent case study. It allows assessing sufficient economic statistics and other data, and thereby comparing Brazil's development before and after the country embraced international trade.

Understanding how the participation in international trade affects development is very important. Most scholars, who have done a similar research on the topic, focus on economic effects of international trade agreements. They usually agree that trade plays

a major role in facilitating economic development. However, it is even more crucial to analyze international trade's impact on human and political developments. Although the correlation between trade and social development might not be as obvious, this paper shows that it exists. In fact, there is a direct connection between international trade agreements and Brazil's advancement in industrialization, health and education. This research also reveals feasible contribution of trade agreements on stabilization of democracy and peace maintenance. These findings are valuable for countries struggling with development and unstable democracies, especially those in Latin America. Brazil followed a path of a neo-liberal transition from colonialism to modernity and from highly state-controlled economy to capitalism, which typical for many Latin American countries. Hence, this analysis might give insight in what ways and with what successes the governments of such countries can utilize international trade to obtain a post-neoliberal, equal society with modernized economy.

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Chapter 1: Introduction

Brazil is the biggest developing country in the western hemisphere. It is the South American regional leader and the world's main exporter of many products such as soya beans, sugar, coffee and orange juice. Its economic freedom started in the first decades of the 19th century. After Brazil gained independence from Portugal in 1808, it experienced a period of rapid economic and political development.

Between 1964 and 1985 the Brazil was under a brutal military dictatorship, which left the country with a large foreign debt and high levels of wealth inequality. Although, the military leaders of that period prioritized economic growth and industrialization, the positive changes only affected the top 20% of society. The remaining 80%, especially the rural poor, continued to suffer from underdeveloped infrastructure, lack of political power, high illiteracy rates and low life expectancy (Brown University). During the military dictatorship and up until 1991 Brazil followed a policy of protectionism characterized by important restrictions, high modal tariffs and regional economic specializations in terms of production.

Beginning in the early 90s, a tariff reform program accompanied by the Real Plan and more bilateral and multilateral trade agreements significantly liberated Brazilian trade opening up the economy. In some industries the import tariffs fell from 90% to 20% (Araújo, Flaig 287). The country joined MERCOSUR in 1991 and WTO in 1995. Consequently, Brazil experienced a sharp increase in trade, which increased from 16.4% of the country's GDP in 1998 to 29.7% of GDP in 2004.

Today Brazil enjoys an export-oriented economy with the emphasis on raw materials, which account for 46% of Brazil's total exports. Brazil's most important export partners are China, the United States, the European Union and Japan. According to the World Economic Forum, in 2016 Brazil's Global Competitiveness Index was 78 out of 138. I chose Brazil as my case study because of its rapid development, young democracy and the important economic role it plays in the region as well as the world.

Methodology

The purpose of my research is to analyze the effectiveness of trade agreements as a means of development in Brazil. In order to do so, I first assessed Brazil's development before it embraced international trade in 1991, especially during the period of protectionism between 1974 and 1985. I used the 1991 trade liberalization and monetary reforms as a turning point. I then analyzed Brazil's specific post-1991 trade agreements as my case studies: MERCOSUR, WTO, Brazil-EU and BRICS. By studying each trade agreement separately and chronologically, I evaluated their terms, benefits and costs. Most information used in this analysis came from official websites of different international trade organizations as well as some scholarly articles and books. Finally, through analyzing statistical data and specific cases, I evaluated the possible direct and indirect consequences of the studied trade agreements on Brazilian economic, human and political development. I used the following indicators of economic development: annual GDP growth, exports of goods and services (% of GDP), FDI and unemployment rate.

To assess social development, I analyzed HDI rate, GINI coefficient, GNI per capita, poverty rate, infant mortality rate, life expectancy, access to improved sanitation and water source and expected years of schooling. For political development, I looked at two types of Democracy Indexes (from the Economist and from the Polity IV database) as well as the data on Brazil's military conflicts. Most of the quantitative data used in my capstone comes from the World Bank database. I also considered some quantitative and qualitative data from other sources such as Gap Minder, UNDP database, European Commission, scientific publications and credible news agencies. Additionally, I referred to the already existing research of professional economists and anthropologists.

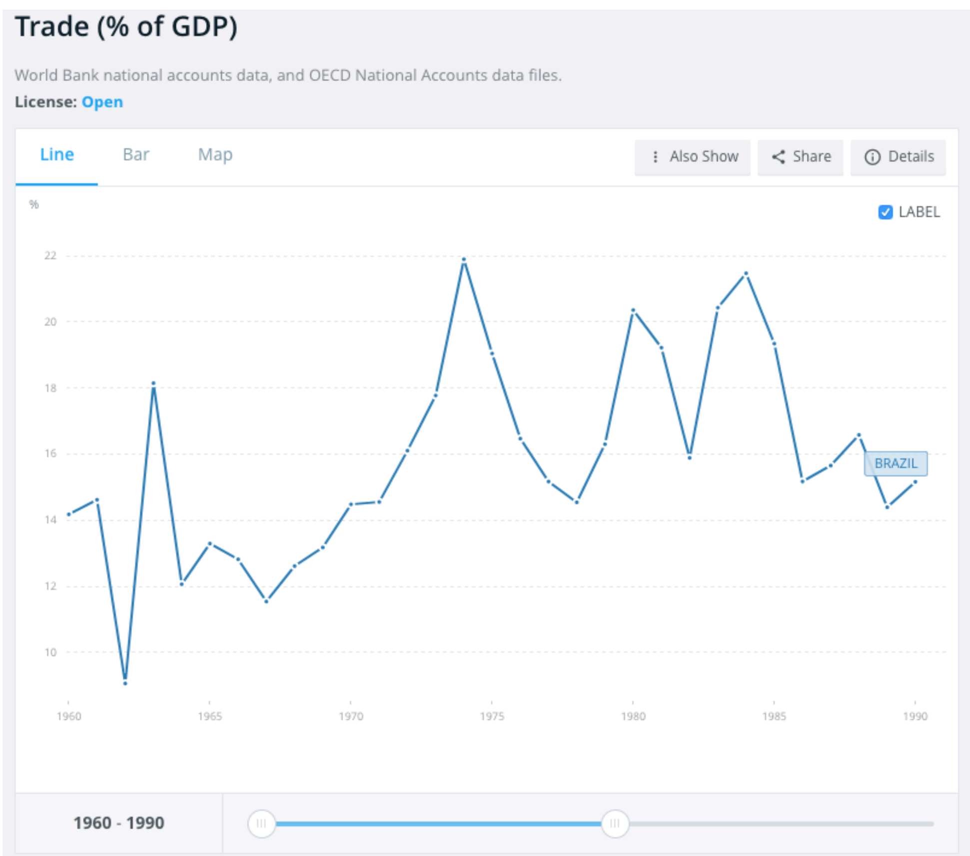
Argument

Through the approach described above, I reveal that Brazil's participation in the MERCOSUR, WTO, EU-Brazil and BRICS trade agreements had many overall positive, long-termed effects on the country's socio-economic and political development. This involvement boosted Brazil's GDP through creating more job opportunities, fostering competition, and bringing foreign direct investment (FDI) to local industries. Trade liberalization required price stability and therefore gave the government more incentive to launch its 1991 monitory reforms, which reduced inflation and increased income. Furthermore, MERCOSUR, WTO, EU-Brazil and BRICS helped Brazil consolidate its democracy, maintain peace and enjoy more geopolitical power and independence. International trade also directly impacted Brazil's human development and enchanted its social welfare. Although initially the partnerships between Brazil and international trade organizations mentioned above exclusively focused on economics, the nature of the partnerships eventually expanded to social spheres. Namely, in combination with president Lula's socialist reforms in the early 2000s, the international trade agreements improved Brazil's infrastructure, communications, health and education. Most importantly, this socio-economic development improved the standard of living for all social classes, especially the least affluent.

Chapter 2: Brazil Before Trade Liberalization

It is important to consider Brazil's development prior to the 1991 liberation of trade, especially during the import-substitution period between 1974 and 1985. Before the implementation of Real Plan and the tariff reforms of 1994, Brazil's involvement in international trade was historically low compared to now. After the end of the World War II, the country pursued a policy of import-substitution through means such as protection of key domestic industries, subsidies, tariffs, quotas, an overvalued exchange rate and import licensing. As graph 1 shows, from 1960 to 1974 on average the country's trade accounted for only 11.9% of GDP.

Graph 1



Source: World Bank

Although, between 1968 and 1973 IS policies contributed to the so-called "Brazilian Miracle" - characterized by 10% GDP growth, industrialization and urbanization - it was mostly the upper classes who enjoyed its benefits. "In 1960 the top five percent of the population received 27.4% of the national income as opposed to 36.3% in 1970. During the same period, the lowest 40% of the population suffered a decline in its share of income from 11.2% in 1960 to 9% in 1970" (Pang 7). Because of the inequitable distribution of income, the working class and the poor were still suffering from a decline in wages and worsening living conditions.

In 1974, in response to the global oil shock, president Ernesto Geisel adopted a policy of "pragmatic nationalism" to insure self-sufficiency to fight overvalued currency. Under this policy, Brazil's economic priorities shifted from exports to the development and governmental control of major domestic industries such as agriculture, transportation, mining and energy. Geisel's goal was to achieve self-sufficiency of Brazil's oil industry through independence from foreign energy, capital and technology. The "pragmatic nationalism" as well as earlier IS policies resulted in small demand in the limited domestic market. It prevented the Brazilian markets from taking advantage of the economies of scales, making production costly and inefficient. Consequently, the country experienced a steady fall in GDP growth. As the graph 2 demonstrates, the annual GDP growth drastically decreased from 14% in 1973 to -4.4% in 1981 and -3.1% in 1990.

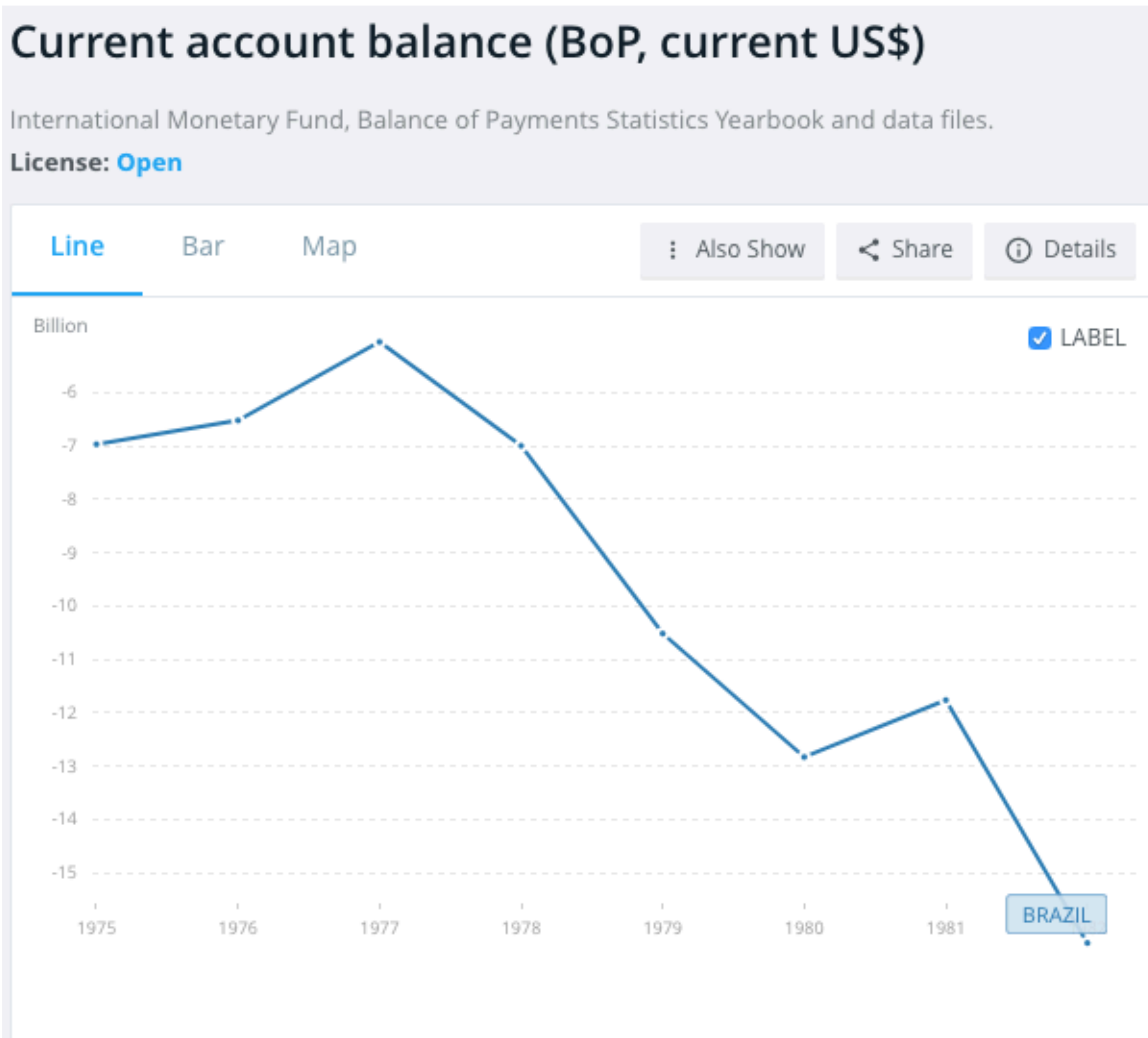
Graph 2

Source: World Bank

In their study, Abreu, Bevilaqua and Pinho argue that two thirds of this decrease were related to the increase in the capital-output ration, which was caused by the import substitution and protection of domestic industries. The country also suffered from an increase in current account deficits, which were already high. This increase was caused by the decrease of current account balances from -6.968 billion UDS in 1975 to -15 billion USD in 1982 (Graph 3). Once again, it was the poor who were affected the most.

By 1980 the GINI coefficient that measures income inequality (at which 10 signifies perfect equality and 100 signifies total inequality) ranged around 60 per capita. In contrast, the average 1980s GINI coefficient ranged around 35 in the U.S. and around 45 in neighboring Argentina.

Graph 3

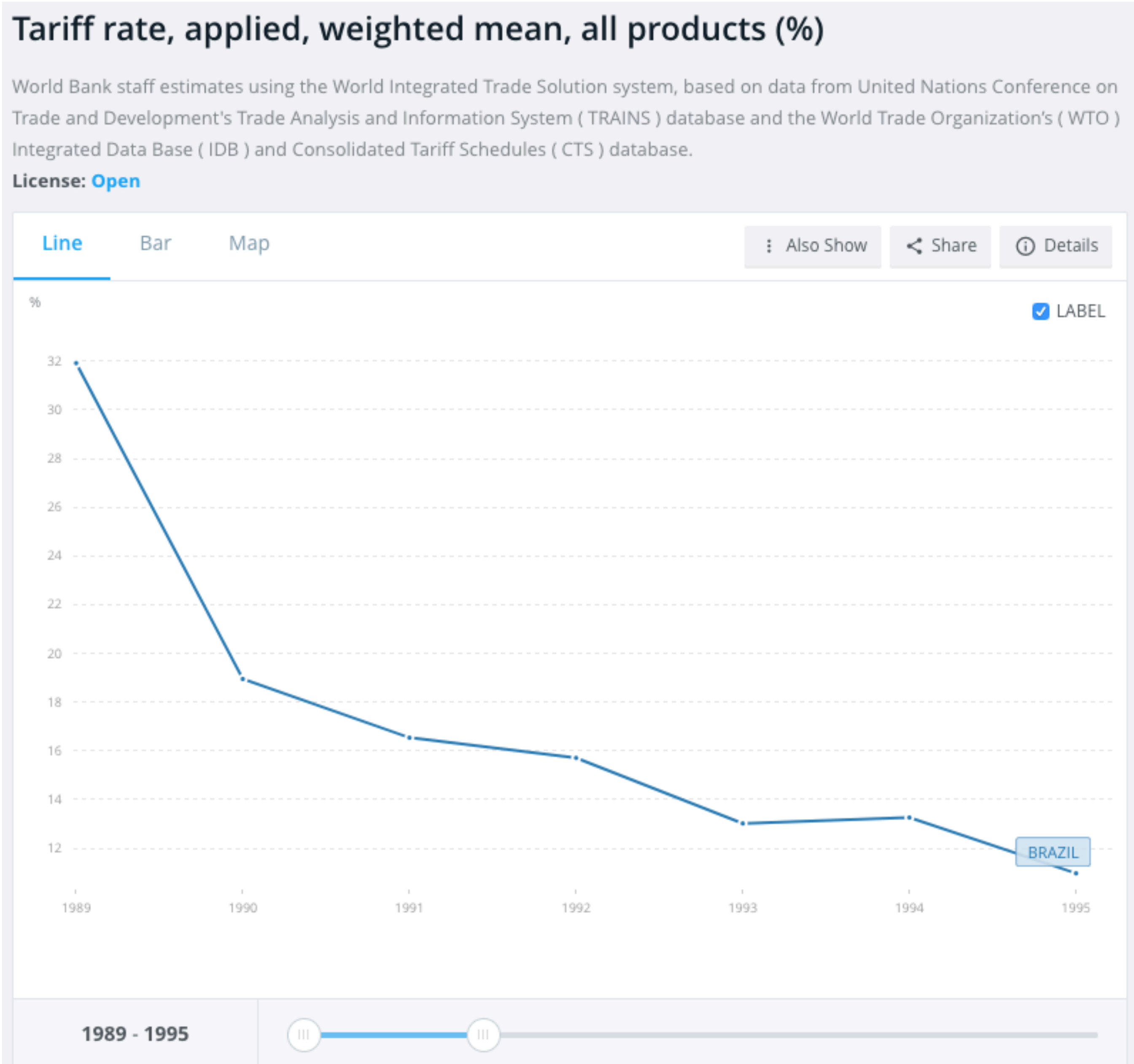


Source: World Bank

Chapter 3: Tariff Reforms, Trade Liberalization and Real Plan

Between 1988 and 1993, under the presidency of José Sarney, the Brazilian economy took an entirely different turn. The government established the *Industrial and Foreign Trade Policy Program*, which abolished all non-trade barriers, gradually decreased the protection of some domestic industries and unified the taxes of foreign consumptions. The average tariff rate fell from 31.92% in 1989 to 10.97% in 1995 (Graph 4). In 1994, to achieve the price stability necessary for international trade, the government adopted the Real Plan. It introduced a new stronger currency (the *real*), established quarterly limits for monitory expansions, temporarily froze the public-sector prices and tightened monitory policies (Clements 45). As the graph 5 shows, the *Industrial and Foreign Trade Policy Program* and the Real Plan reduced the annual inflation rate from 2302.84% in 1994 to 93.52% in 1995 and 7.73% in 1997.

Graph 4



Source: World Bank

Graph 5

Source: World Bank

These economic changes came in line with so-called “new regionalism” – a 1990s international trend characterized by the abolishment of autarky policies (self-sufficiency), establishment of multilateral agreements, growth of foreign direct investments in developing nations and liberalization of trade of manufactured goods (Averbug 7). The Brazilian case of “new regionalism” created favorable conditions for its future international trade agreements discussed and analyzed below.

Chapter 4: Trade Agreements

Southern Common Market (MERCOSUR)

MERCOSUR, or *Mercado Comun del Sur,* was one of Brazil's first international trade agreements. It was initiated in 1991 by Brazil and Argentina, and later on joined by two other full members, Paraguay and Uruguay, and seven associate members: Bolivia, Chile, Peru, Colombia, Ecuador, Guyana and Suriname, which all gained preferential trade access to MERCOSUR markets. According to Castro Neves, for Brazil the initial purpose of MERCOSUR was the modernization of the Brazilian economy after the era of protectionism. Brasilia wanted to prepare the country's economy for international trade by first exposing it to regional competition.

The main goal of the agreement is to increase economic activity for all the participating nations and to facilitate regional trade. As noted by Augusto de Castro Neves, as a result of MERCOSUR, "Latin American countries now trade much more among themselves. Argentina, for instance, may soon replace the United States as Brazil's second largest trading partner" (Augusto de Castro Neves 2). MERCOSUR is a full customs union with common market elements. Its members engage in the free movement of goods, services and factors of production among each other, and observe common trade policies between them and non-members. Each member must commit to such policies, as changes to them can be only achieved through the consensus of all members.

At the same time, each country retains its rights to exempt some products from the treaty to protect certain local industries – a right which Brazil often takes advantage of. Furthermore, MERCOSUR's common external tariff is flexible and subject to changes. Brazil, which has been traditionally interested in higher external tariffs, on many occasions has been successful in raising them if needed. For example, during the 2009 financial crisis, Brazil achieved a tariff increase of up to 35% on 200 products.

For Brazil, MERCOSUR'S membership has been highly beneficial. According to Siroen and Yucer, "MERCOSUR had a trade creation effect within the area, without triggering either a decrease in trade among Brazilian states or a decrease in Brazilian trade with third countries" (Siroen, Yucer, 566). It also increased competition, lowered prices for Brazilian consumers and stimulated net consumer gain. Brazil is the MERCOSUR member with the highest representation in the organization's parliament, at which Brazilian parliamentarians account for 76 out of the total 188 members. According to the economist Orlando Ferreres, by 2012 Brazil had benefited from MERCOSUR with an intra-zone surplus of 36.8 billion dollars.

The World Trade Organization (WTO)

In 1995, Brazil became one of the founding members of the World Trade Organization (WTO). The WTO originated from General Agreement on Tariffs and Trade (GATT) – an international organization functioning between 1948 and 1994, which was responsible for multilateral trade agreements. Its members accounted for 83% of all countries. The WTO has a very similar purpose to that of GATT. It is a global organization that operates a system of rules and regulation to ensure that international "trade moves smoothly, predictable and as freely as possible" (wto.org). Its members commit to the following principles: non-discrimination, trade openness (lower trade barriers), predictability and transparency (the prohibition of sudden trade barriers), higher competitiveness (the discouragement of "unfair" policies like export subsidies and dumping), higher benefits for less developed countries (allowing them more time to adapt) and protection of the environment. Consequently, Brazil has enjoyed many benefits provided by the WTO membership. First, WTO members have lower trade barriers among themselves. This provides Brazil with a larger market for its goods, boosting its production and generating more jobs. Second, as a developing country, through the WTO Brazil gets access to the markets of more developed countries at lower tariff rates. Finally, the WTO grants all its members the status of Most Favored Nation, meaning that members equally enjoy preferential trade benefits. Furthermore, Brazil can rely on the WTO to resolve trade disputes. For example, in 2002, Brazil initiated a case against the U.S., accusing it of implementing cotton subsidies and failing to commit to the Uruguay Round Agreement on Agriculture. As a result, the U.S. was ordered to pay 300 million USD to the Brazilian Cotton Institute (Bridges).

The European Union – Brazil Bilateral Trade Agreement

The European Union (the EU) is a very important trading partner and the most significant foreign investor for Brazil, bringing monetary flows to many sectors of its economy. Their close economic partnership originated in 2007 with the Strategic Partnership Agreement – a bilateral trade agreement with the potential of becoming a free trade agreement. “Around of all the FDI flows which Brazil received between 2008 and 2012 came from the European Union” (Otero-Iglesias 164). “By 2016, the EU became Brazil’s first trade partner, accounting for 19.6% of its total trade, while Brazil is the EU’s eleventh trading partner, accounting for 1.7% of total EU trade. The total trade between two partners estimated as 60.3 billion euros” (European Commission). This economic partnership has also fostered international cooperation between Brazil and the EU countries in other areas such as health, infrastructure, energy and technology. During Lula’s administration, Brazil advanced in South-South cooperation with African countries, which resulted in many European states’ expressing their interest to participate in triangular cooperation projects with Brazil. The process was guided by the EU’s Organization for Economic Cooperation and Development (Gomez Saraiva 58).

Graph 6

Source: "European Commission Directorate-General for Trade." Brazil - Trade - European Commission 22 May 2017, ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/.

Chart 1

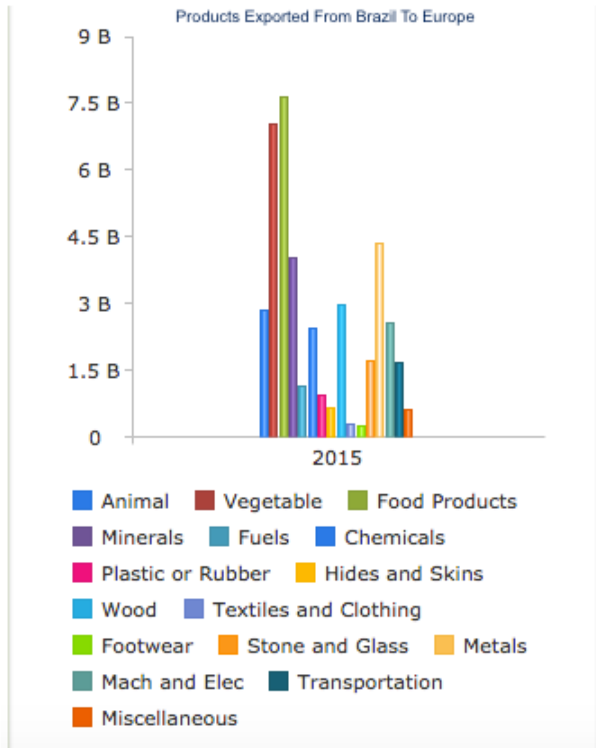
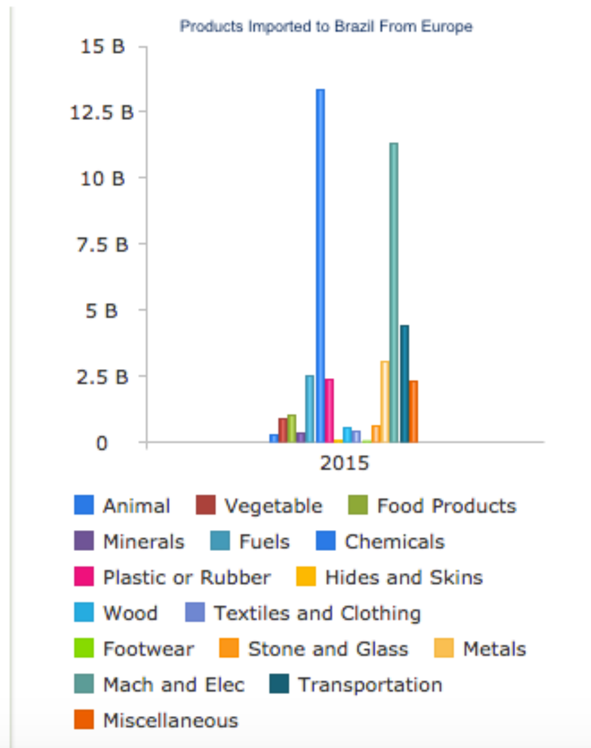


Chart 2



Source: "MERCOSUR-European Union." SICE: Trade Policy Developments: MERCOSUR-EU, Foreign Trade Information System , www.sice.oas.org/TPD/MER_EU/MER_EU_e.asp.

As the charts above demonstrate, Brazil's main imports from the EU are intermediate goods (37.49% Import Product Share), capital goods (25.12%) and chemicals (30.78%). Brazil's main exports to the EU are intermediate goods (40.45% of Export Product Share), raw materials (37.48%) and food products (18.16%). Right now, the EU is in the process of negotiating a free trade agreement with Brazil as a part of MERCOSUR. For Brazil, the free trade agreement will signify a boost in its economy, as the EU is especially interested in access to public contracts in the Brazilian market. Brazil in its turn is hoping to enter the EU's agricultural markets (Bartunek).

Brazil, Russia, India, China and South Africa (BRICS)

Brazil joined BRICS (an acronym for Brazil, Russia, India, China and South Africa) in 2010 when the association was established. The countries cooperate in areas such as “agriculture, science and technology, international security, culture, social welfare and many others” (brics.itamaraty.gov.br). Part of this cooperation was the creation and maintenance of the New Development Bank (NDB), which is a multilateral development bank with the purpose of landing up to 34 billion USD annually. Some western critics believe that the bank’s ultimate purpose is “to challenge World Bank - IMF hegemony” (Desai, Vreeland). BRICS also established the Contingent Reserve Arrangement (CRA) – a 100 billion USD reserve fund, which serves to protect the members from liquidity shortages and financial crises.

According to the United Nations, BRICS countries account for 40% of the global population and 20% of the world’s GDP. Due to lower labor and production costs, they are attractive countries for foreign investment. In this year’s annual BRICS Business Summit, the president of China Xi Jinping revealed plans for investing 80 million USD in BRICS projects and 500 million USD in South-South collaborations.

Chapter 5: Overall Effects of Trade Liberalization

Consequently, between 1991 and 2016 Brazil's trade (% of GDP) increased from 16.59 to 24.61, while its exports of goods and services (% of GDP) increased from 8.67 to 12.8. International trade generated by Brazil's involvement in MECOSUR, the WTO, Brazil-EU trade and BRICS affected Brazil's socio-economic development in multiple ways, which were overall positive. The 1990s trade liberalization and trade agreements that followed directly stimulated economic growth, created more job opportunities, increased competitiveness of domestic companies, improved infrastructure, increased variety of goods and brought up the living standards. All these changes are evident in GDP annual growth, annual GNI per capita, GINI coefficient, HDI rate, poverty rate, infant mortality and life expectancy. Most importantly, the positive changes brought by international trade to some extent have touched all social classes.

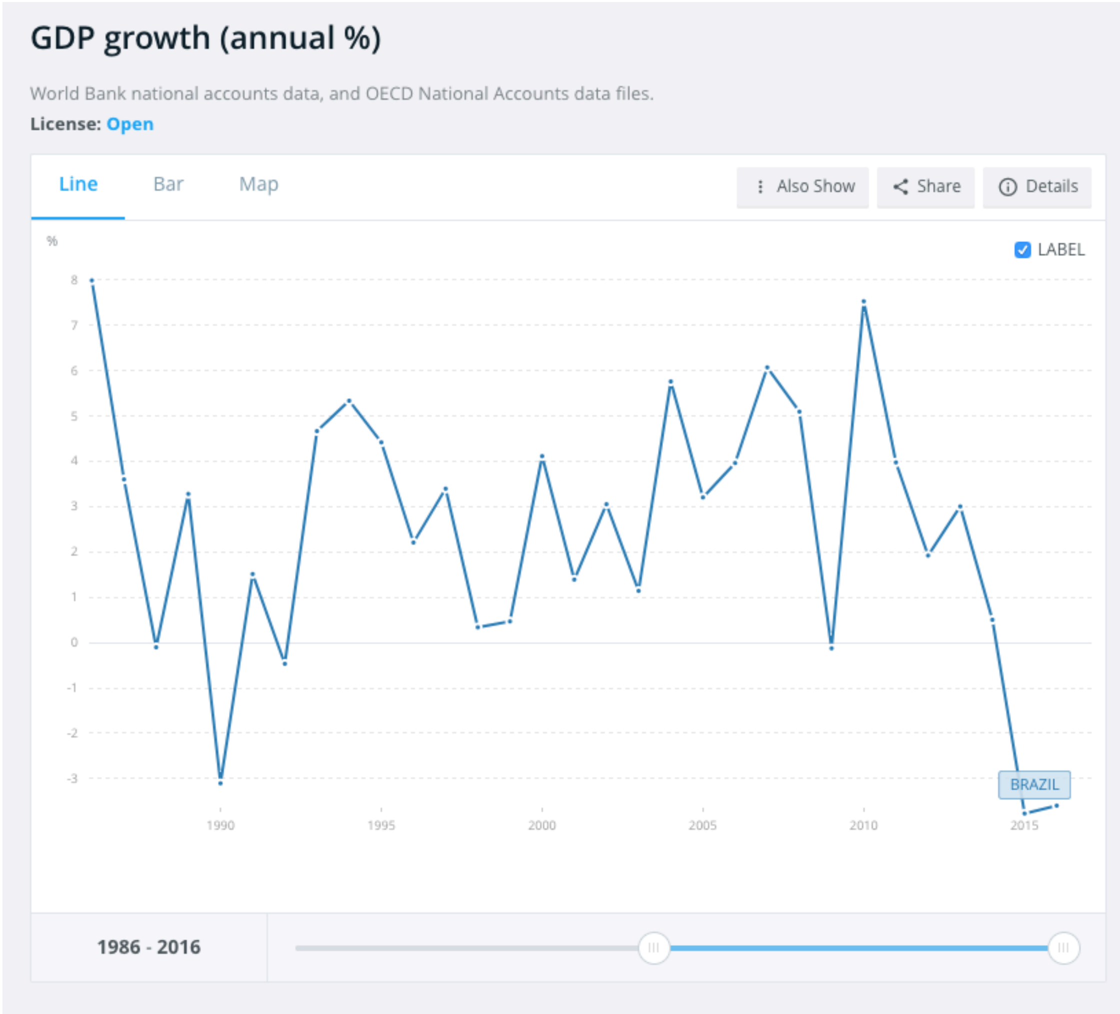
Chapter 6: Economic Development

Growth, Competition and Employment

Immediately after the 1990s Industrial and Foreign Trade Policy reforms Brazil experienced a sharp growth in Gross Domestic Product (GDP). As the graph 7 demonstrates, in the first five years of trade liberalization the annual GDP growth increased from -3.1% in 1990 to 4.4% in 1995. GDP continued growing until 2008 financial crisis, when it reached 6% in 2007. A significant portion of this growth can be attributed to the participation in international trade agreements, which increased production efficiency, created jobs, reduced market fluctuations and fostered competition and resource specialization.

For example, according to Siroën and Yucer, because of MERCOSUR Brazilian states experienced substantial trade creation as well as “preference erosion,” meaning that some uncompetitive Brazilian producers became subjected to new international competition and the necessity to improve the quality of their goods and innovate to survive the competition (Siroën and Yucer, 555). But even for successful national producers like Petrobras, the largest Brazilian public oil company, resource specialization and competition against the international companies turned out to be highly profitable. Petrobras’ monopoly and protectionism ended in 1997 and by 2008, the company surpassed Microsoft, becoming “the third company in the American continent in market value and the third most profitable company of continent. In 2011, Petrobras broke two other records: the first one was its net profit, that reached BRL 10,94 billion in the second quarter of the year; the other one was the BRL 21,9 billion on the first semester of 2011” (Novais).

Graph 7



Source: World Bank

MERCOSUR allowed Brazilian government to gradually get rid of protectionism, by first subjecting the country to regional competition, and only then to the international one. As it proved to be successful, Brazil opened its market to the WTO and the European Union members, giving Brazilian producers an access to huge world markets of developed countries. In 2016 alone, Brazilian farmers produced and exported to the European Union agricultural products worth of 11,953 million euros (European Commission, Table 1).

Table 1

European Commission | Directorate-General for Trade

European Union, Trade with Brazil

Key Figures

Indicator	Unit	Period	Imports	Exports	Total trade	Balance
Last year	Mio euros	2016	29,624	30,874	60,498	1,249
Rank as EU partner		2016	11	17	11	
Share in EU trade	%	2016	1.7	1.8	1.8	
Annual growth rate	%	2015 - 2016	-4.9	-10.6		
Annual average growth rate	%	2012 - 2016	-6.0	-6.1		

Imports 2016 / Exports 2016

AMA/NAMA product Groups

Product	Value Mio €	% Total	Product	Value Mio €	% Total
Agricultural products (WTO AoA)	11,953	40.3	Agricultural products (WTO AoA)	1,555	5.0
Fishery products	54	0.2	Fishery products	65	0.2
Industrial products	17,618	59.5	Industrial products	29,253	94.8
Total	29,624	100.0	Total	30,874	100.0

Source:

http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113359.pdf

Although, such trade creation eventually resulted in more jobs emerging in the local economy, the first seven years after trade liberalization were characterized by the economic hardship. As a natural response to economic transformation, unemployment went up, reaching 14.7% in 1998 (Graph 8). In Simone Buechler's anthropological research she interviewed Marcia, a home worker from Sao Paulo, who said that during the first three years after the opening of the market, it felt like the economic situation deteriorated. "All opportunities for work have been closed. Brazil is finished. Everyone is unemployed" (Buechler 58).

However, as it evident from the graphs 7 and 8, this hardship was only short-termed during the period of economic transition. After 1999, unemployment sharply fell, getting to a healthy 6.8% before the 2014 financial crisis.

Graph 8

Source: World Bank

According to Araújo and Flaig, MERCOSUR membership increased employment in all sectors of economy. Similarly, according to the European Commission, "it is estimated that Foreign direct investment of EU companies created more than 278,000 jobs in the Brazilian economy in the period 2006 – 2015, which accounts for half (50.7%) of all estimates of jobs generated by greenfield investments announced by foreign companies in Brazil." Increased employment was evident in all types of labor (European Commission). It goes in line with the research of Araújo and Flaig on MERCOSUR, who wrote that "while Carneiro and Arbache (2003) find positive employment effects mainly amongst the most skilled workers in the most trade-oriented sectors, our results show that employment increases in all labor categories, with the highest number of jobs being created in unskilled labor categories. In addition, about 50% of the new jobs are in the services sectors that are less trade related, that is, not subject to trade policies investigated in this study" (Araújo, Flaig 285).

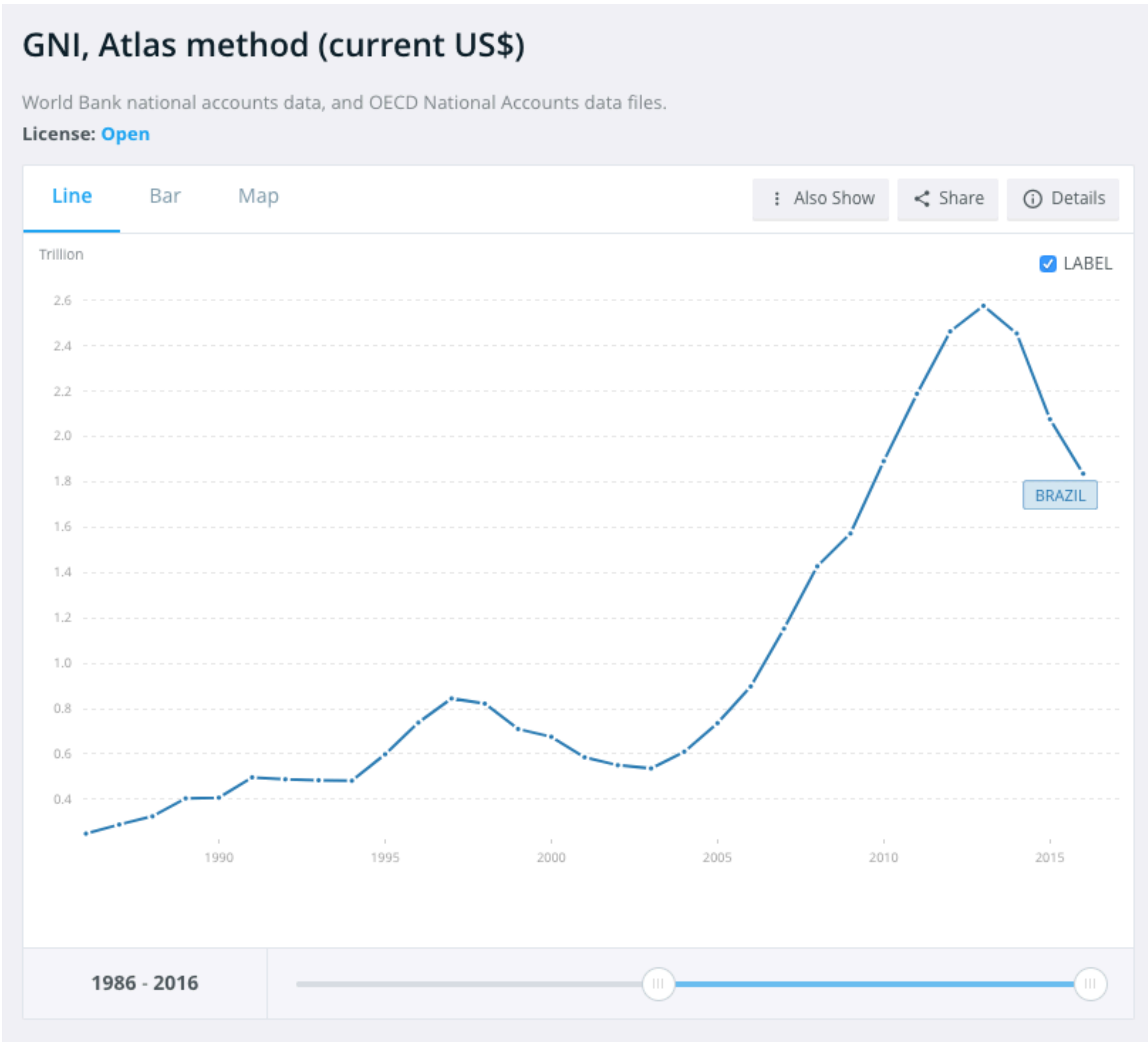
BRICS also contributed to this favorable trend. It gave Brazil the access to the markets of the world's most rapidly developing economies like India and China, boosting its exports and creating higher labor demand. For example, China's 2000s and early 2010s fast development caused demand for natural resources that pushed the price of commodities to record-high levels, greatly benefiting the Brazilian export sector. Trade between China and Brazil increased exponentially, and China surpassed the U.S., becoming Brazil's key trading partner (Castro Neves 3). Higher demand for natural resources expanded the Brazilian oil and gas industries, creating more jobs. This trend is likely to continue in the future. On September 2nd, 2017 Petrobras signed an agreement with the Chinese Development Bank allowing the company "to seek new financing options in China and make use of the second half of a $10 billion credit line opened last year by China Development Bank and guaranteed by Brazilian oil exports" (Reuters). Although the trade liberalization has initially painful effects on the society, in a long-term it fostered the employment and improved living conditions of the population.

Chapter 7: Human Development

Income, Living Standards, Infrastructure, Health and Education

International trade agreements also had direct effects on social development. After the adaptation of the Real Plan reforms necessary for trade liberalization, Brazil experienced a sharp increase in gross national income (GNI). It increased from 248,979 billion USD in 1986 to 2,576 trillion USD in 2013 before the financial crisis (Graph 9). GNI measures country's income earned by local residents and businesses, including those operating abroad, but excluding foreigners operating within the country. That challenges the argument that it is mostly the foreigners, who benefit from trade liberalization of developing countries. In fact, Buechler argues that after the trade liberalization, even poor residents of the Sao Paulo favelas eventualy experienced a noticeable increase of income. "They could buy goods on credit more easily and thus have the chance to buy television sets, stereos and kitchen appliances" (Buechler 57). Trade liberalization flooded Brazilian markets with a huge variety of cheaper goods, which became more affordable due to the monetary reforms enacted in the Real Plan. The woman Buechler interviewed said, "the situation improved because if we continued to have such a high inflation [like we had before the Real Plan], I think it would not have been possible to build my house" (Buechler 57). Higher income and employment generated from international trade accompanied with FDI from Brazil's new economic partners subsequently brought higher living standards across the whole population. Brazil's Human Development Index (at which "1" represents the most development and "0" the least) drastically increased from 0.57 in 1985 to 0.75 in 2015 (Graph 10). It coincides with the Infant Mortality Rate fell from 53.4 (per 1000 live births) in 1990 to 14 in 2015 (Graph 11), and the life expectancy increased from 65.3 in 1990 to 74.7 in 2015 (Table 2).

Graph 9



Source: World Bank

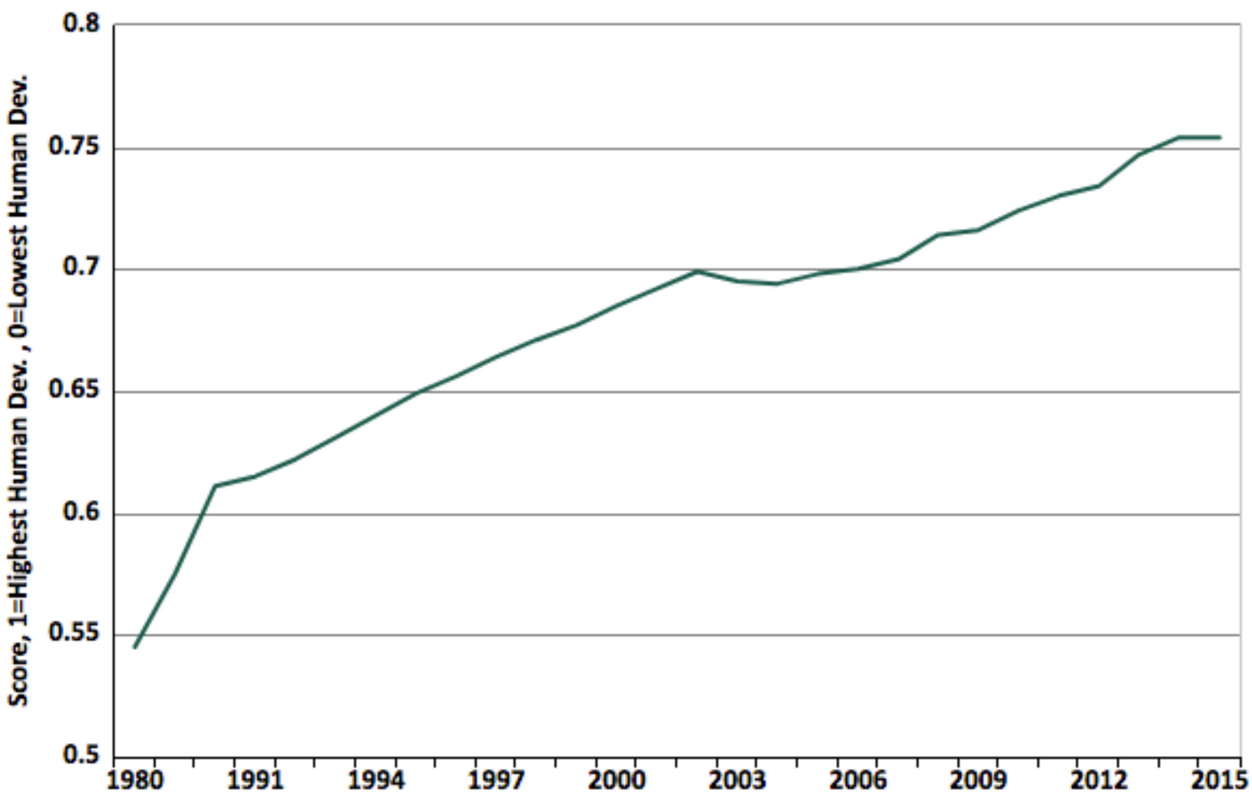
Table 2

Table A: Brazil's HDI trends based on consistent time series data

	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011 PPP$)	HDI value
1990	65.3	12.2	3.8	10,746	0.611
1995	67.6	13.3	4.6	11,238	0.649
2000	70.1	14.3	5.6	11,339	0.685
2005	71.9	13.8	6.1	12,117	0.698
2010	73.3	14.0	6.9	14,173	0.724
2011	73.6	14.2	7.0	14,580	0.730
2012	73.9	14.2	7.2	14,472	0.734
2013	74.2	15.2	7.3	14,582	0.747
2014	74.5	15.2	7.7	14,858	0.754
2015	74.7	15.2	7.8	14,145	0.754

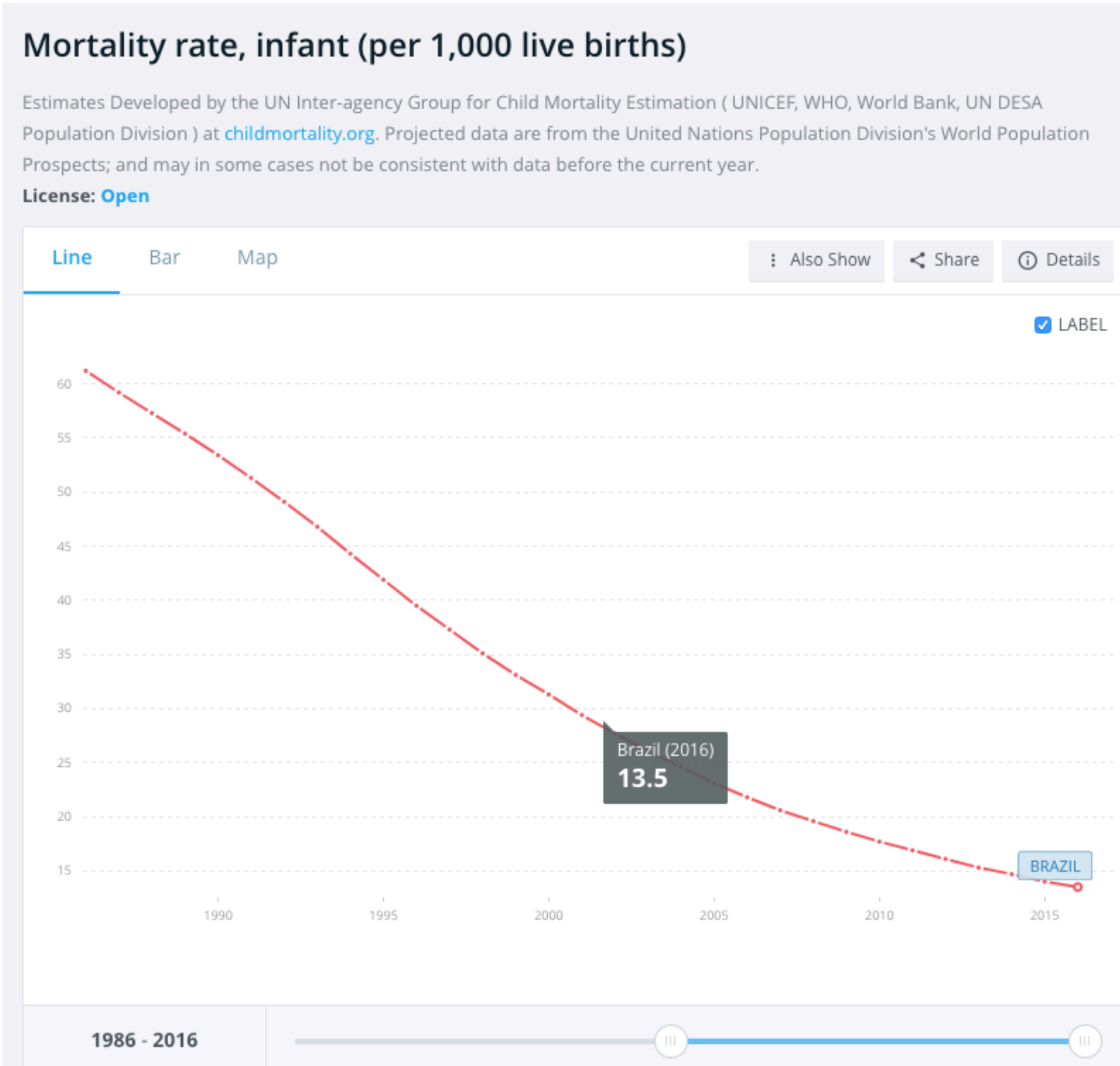
Source: UNDP. "Human Development Report 2016. Brazil."
doi:http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/BRA.pdf.

Graph 10



Source: "Brazil Human Development Index, 1980-2017." Knoema, knoema.com/atlas/Brazil/topics/World-Rankings/World-Rankings/Human-development-index

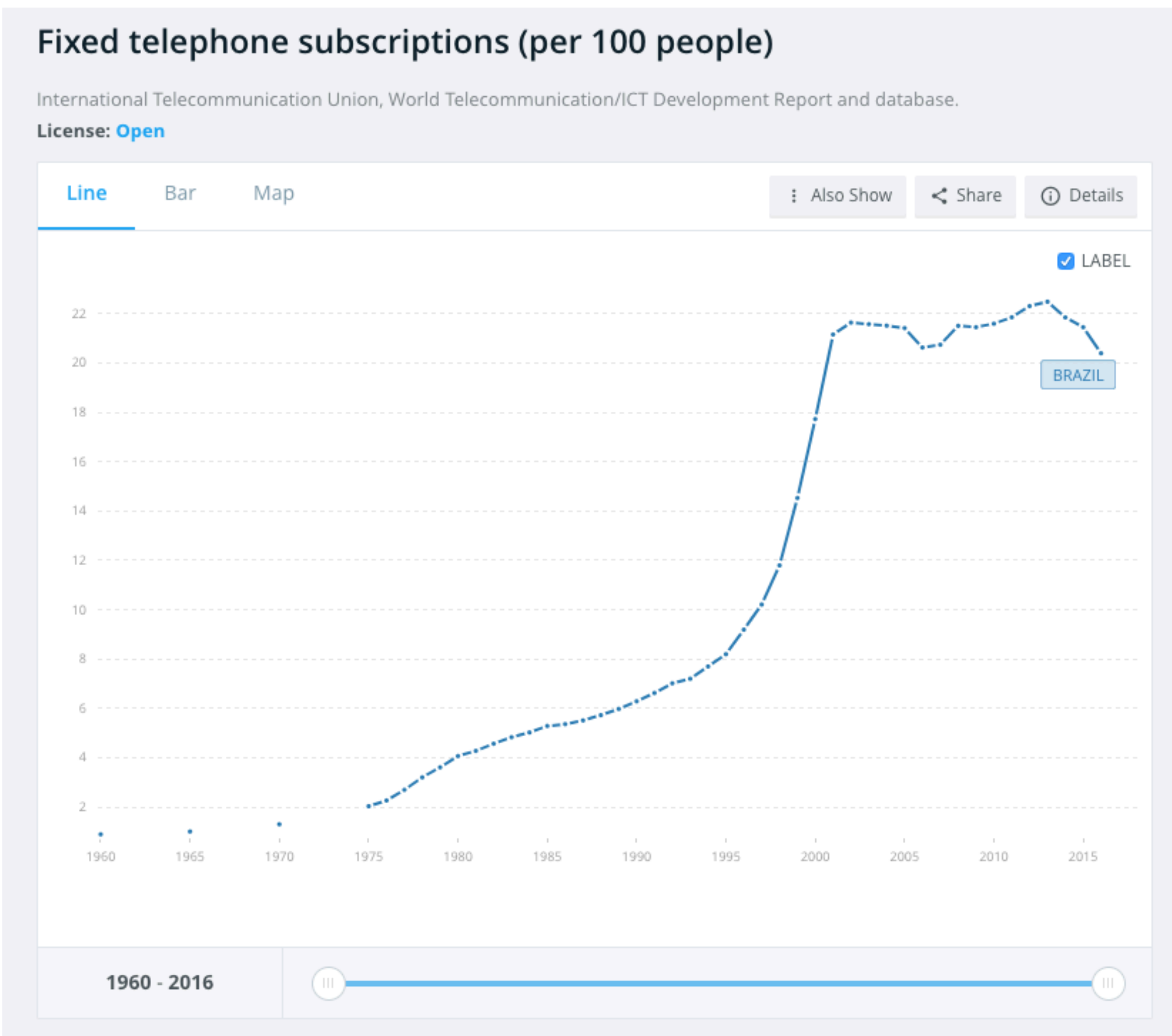
Graph 11



Source: World Bank

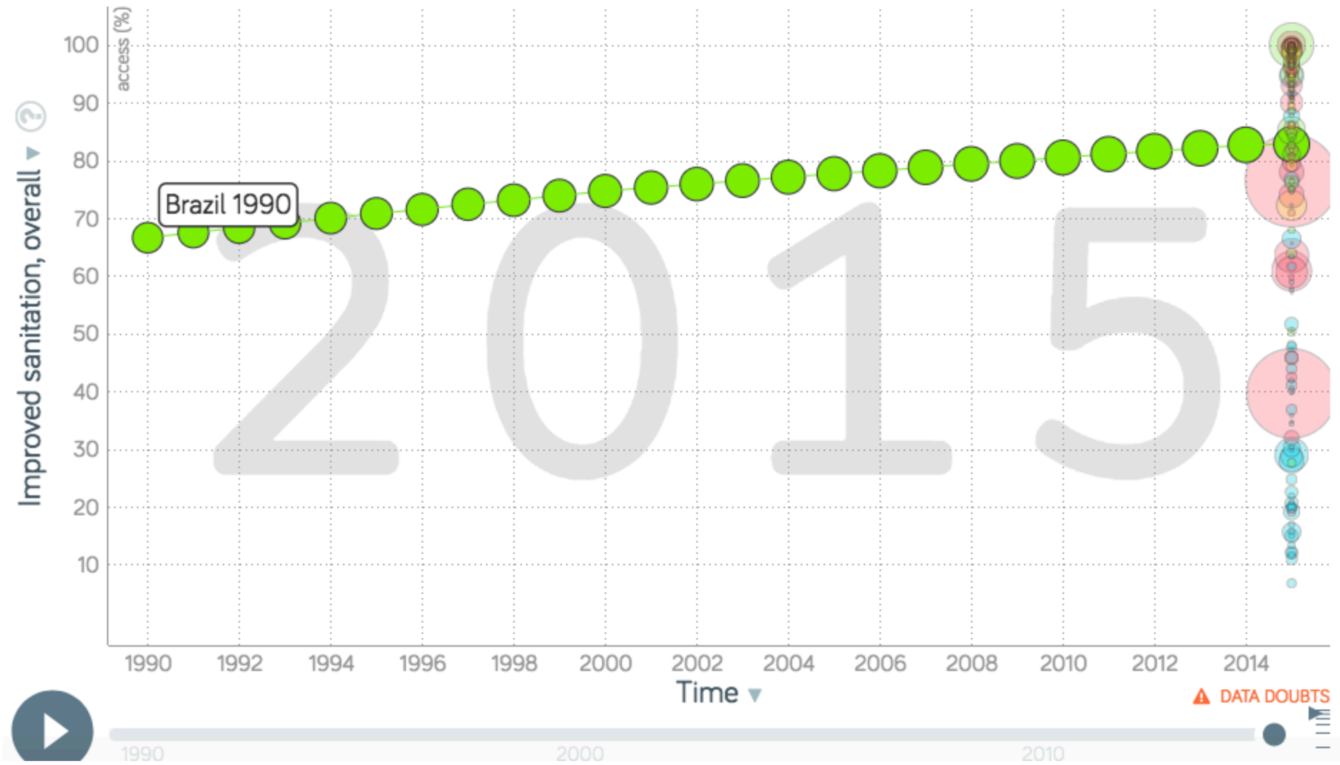
A significant portion of foreign direct investment went towards many Brazilian industries important for human development such as infrastructure. For example, the European Union, as a part of the Join Action's Plan to cooperate in spheres of infrastructure, between 2006 and 2015 invested 102,731 million euros in Brazil's various industries (see Table 3 below). The communications industry alone received 18,628 million euros (Apex-Brazil 20). As the graph 12 shows between 2006 and 2013 the number of fixed telephone subscriptions (per 100 people) increased from 20.624 to 22.478. At the same time, access to improved sanitation facilities increased from 66.6% (of the population with the access to the improved sanitation) in 1990 to 82.8% in 2015 (Gap Minder) and the access to improved water source also increased from 88.5% in 1990 to 98.1% in 2015 (World Banks). These developments are demonstrated in graphs 13 and 14.

Graph 12



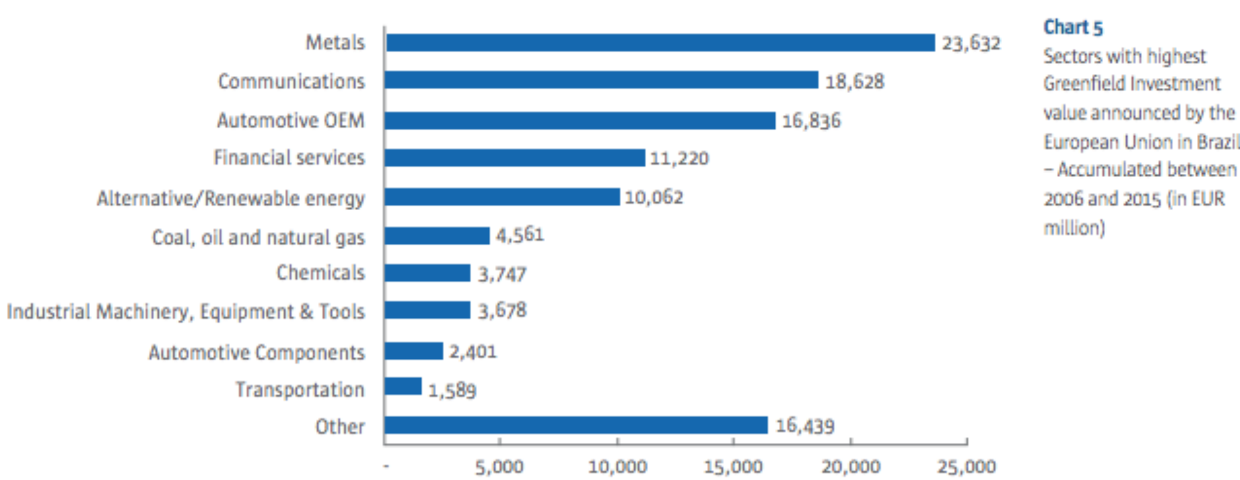
Source: World Bank

Graph 13



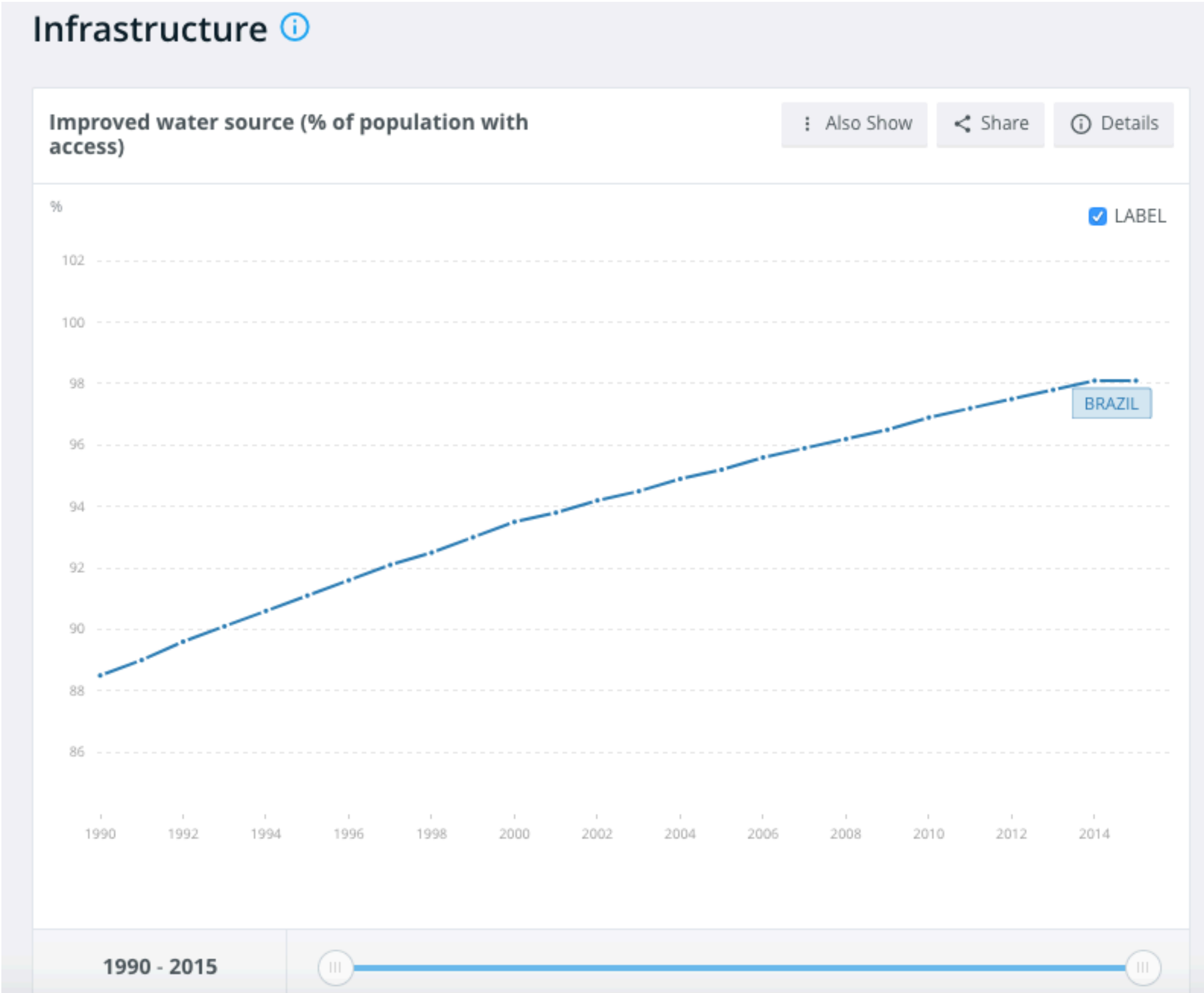
Source: Gap Minder

Table 3



Source: APEX-Brazil. "EU, Brazil, Bilateral Investment Map." 21 Sept. 2017, doi:https://eeas.europa.eu/sites/eeas/files/mapa_de_investimentos_brasil-ue_eng_final_0.pdf

Graph 14



Source: World Bank

However, FDI is not the only way through which international trade agreements affect Brazil's human development. MERCOSUR's members often collaborate on the matters concerning health and sanitation. For instance, in November 2015 the health ministers of MERCOSUR and the Associate countries created a negotiating mechanism to procure expensive medicines, which is an important challenge to MERCOSUR'S health system. This mechanism now allows the public to purchase important medicines, including anti-HIV *daranavir* at affordable costs through the PAHO Strategic Fund, resulting in 20 million USD savings. It is estimated it will help save millions of lives (Pan American Health Organization).

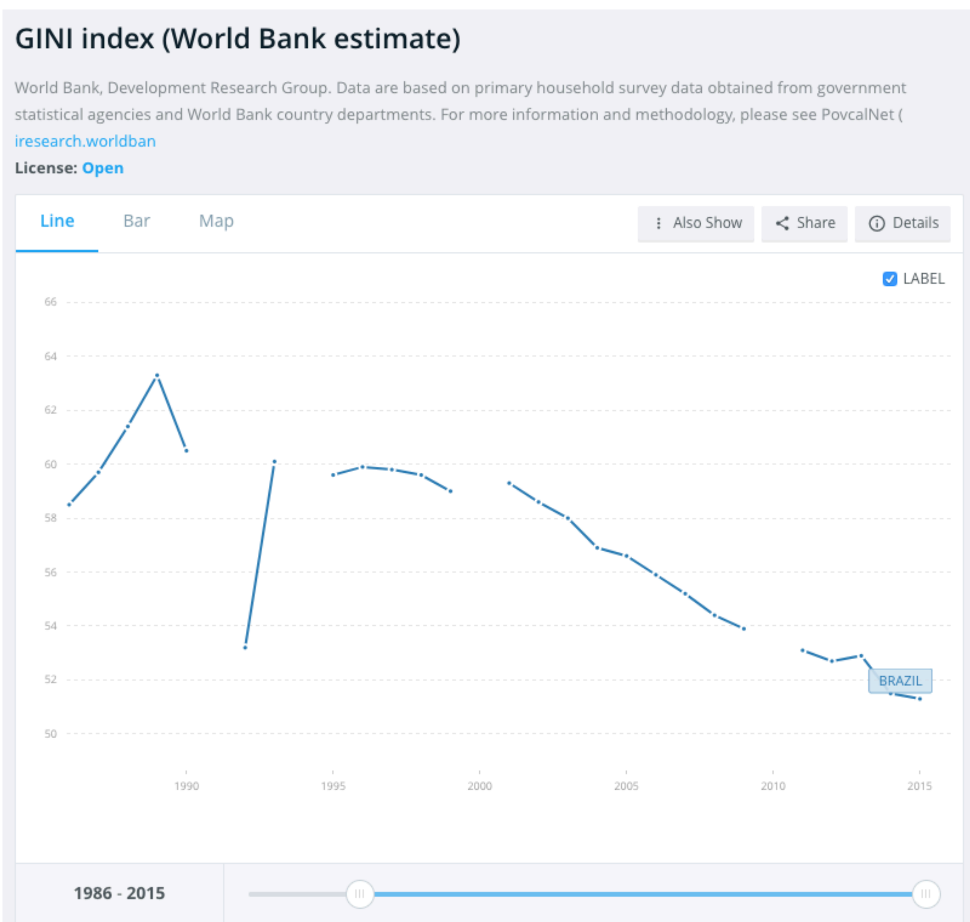
Brazil's economic partnerships also transcended on the education. In 2012 the EU and Brazil committed to IBRASIL education project, which allows Brazilian students to study in Europe and vice versa. Annually about 180 scholarships are available in the fields such as engineering, education and technology. The program permits its participants to study tuition-free and is funded by the European Union. In 2014 the Brazil and the EU have also initiated the SMART2 project, which provides mobility scholarships exclusively for Brazilian students. The projects made world-class education more available for Brazilian students and might have contributed to the increase in the expected years of schooling from 12.2 in 1990 to 15.5 in 2015 (Table 2). Agreement with the EU is not the only economic partnership, which has positive effects on Brazil's education. For example, BRICS encourages its members to exchange knowledge and co-operate in improving the education in their countries. In July 2017 BRICS held a meeting for its ministers of education, at which they discussed reforming education, making it more equal and higher-quality. "Ministers agreed to cooperate on language education, support the professional development of academics working in higher education, promote teacher exchanges, develop joint projects in Technical and Vocational Education (TVET), expand student scholarship opportunities, and organize youth camps" (Paul).

Chapter 8: Target Audience

Who benefited from the socio-economic development?

Even though it resulted in the initial economic hardship on a long-term scale it significantly fostered the development. Most importantly, the development affected all social classes not just the elite. Partially this became possible because of president Lula de Silva's socialist treatment of trade liberalization. As shown on the graph 15 after 1991 the Brazilian society became more equal. The GINI coefficient gradually decreased from 63.3 in 1989 to 51.3 in 2015. For the exception of 1992 - 1993 period, this transition was very consistent.

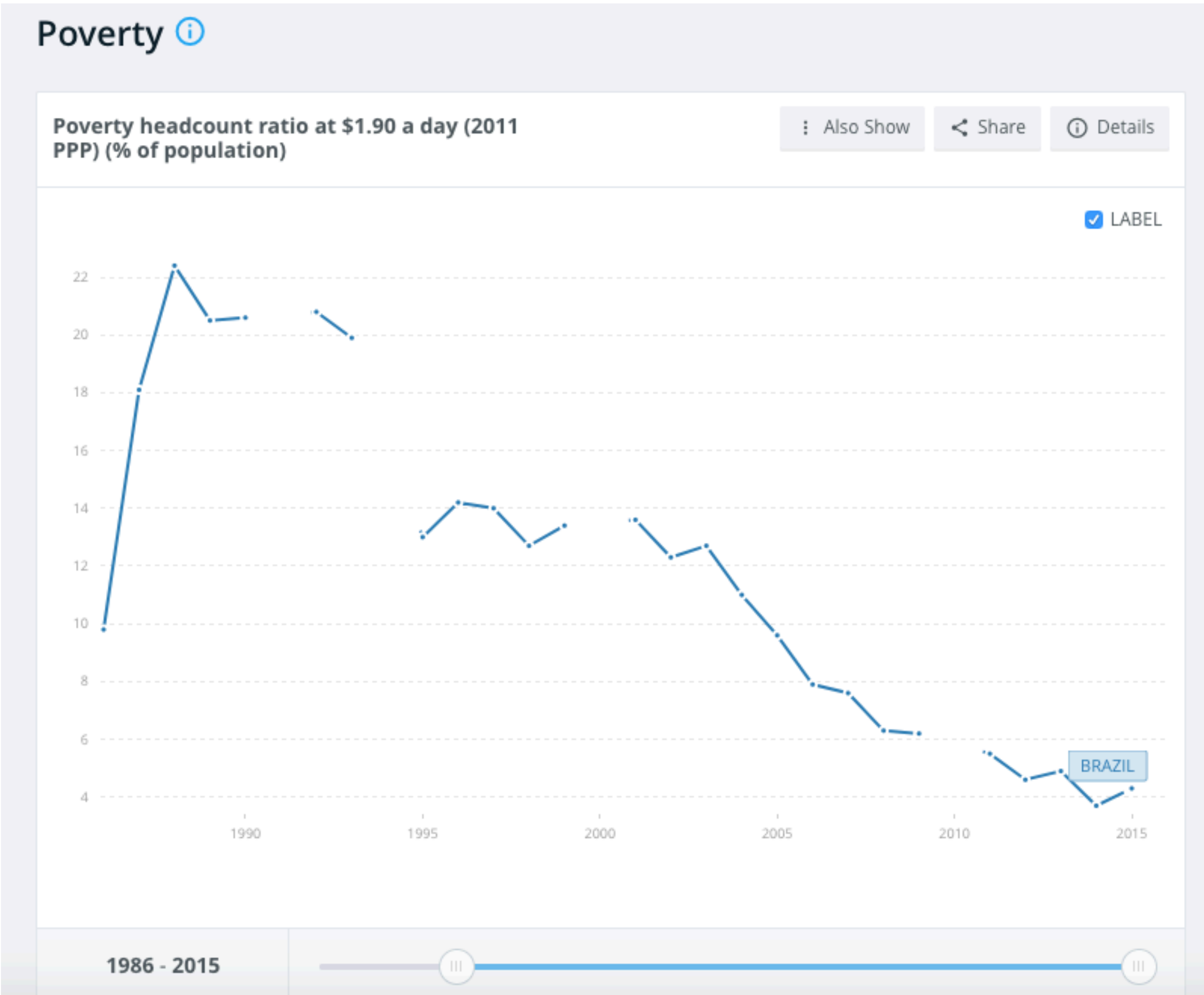
Graph 15



Source: World Bank

Neoliberalism in the 1990s established values of efficiency, privatization and individualization, which significantly influenced Lula's social reforms (2003 – 2010) (Ansell). Among them a cash-transfer program, aid to small farmers and pension reforms were the most successful. They specifically targeted the extremely poor, indigenous and African-Brazilian populations, the residents of the favelas and farmers suffering from unfavorable weather conditions, allowing all these groups to assess profits from international trade. As anthropologist Ansell noted, "even though Lula's cash-transfer programs were paradigmatically neoliberal, they have succeeded in reducing poverty and inequality" (Ansell). The poverty rate drastically fell from 20.6% in 1990 to 4.3% in 2015 (Graph 16). Furthermore, the positive impacts of development also affected middle and upper classes. For example, Buechler argues that small businessmen benefited from gaining access to cheaper goods, which became available in Brazil after trade liberalization.

Graph 16

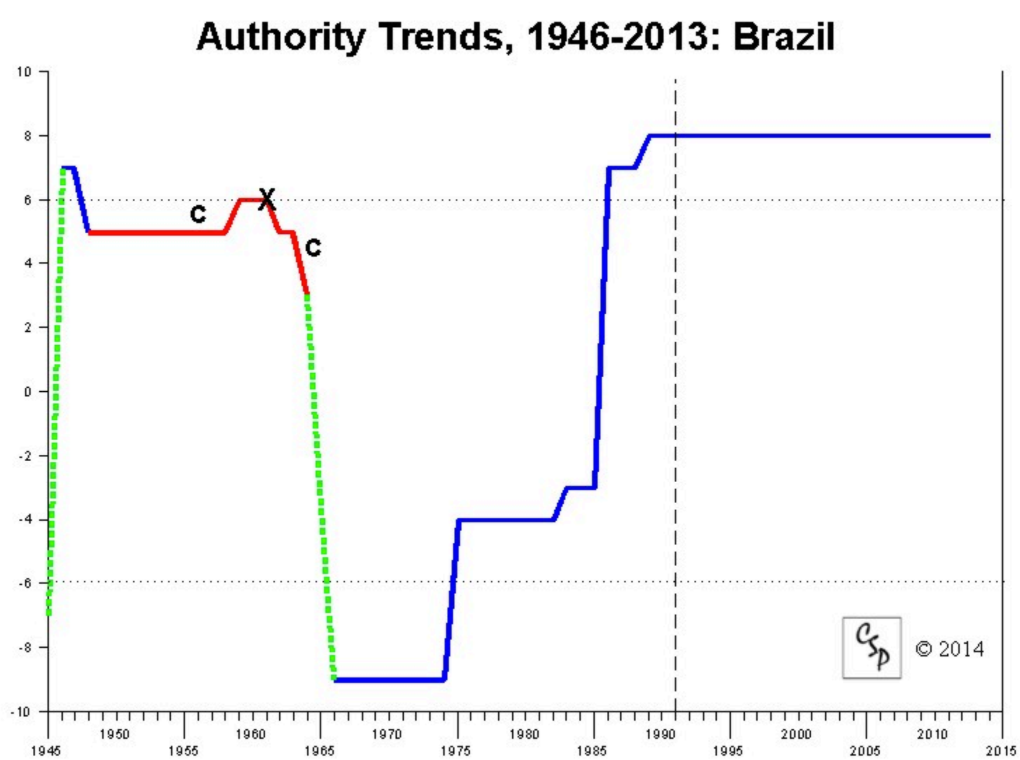


Source: World Bank

Chapter 9: Political effects

The trade liberalization effects were not solely socio-economic in nature but had also some positive political impacts. Namely, it helped to consolidate Brazil's young and unstable democracy. Between 1964 and 1985, Brazil was under a military dictatorship characterized by a very closed economy. However, since late 90s Brazil has been successfully following the democratic path and free trade. According to Polity IV dataset, which measures country's democracy (10 being most democratic and minus 10 the least democratic), Brazil's score increased from -3 in 1986 to 8 in 1991. Polity IV criteria included the indicators such as "autocratic backsliding, executive auto-coup, revolutions, collapse of central authority, and successful military coup (Graph 17).

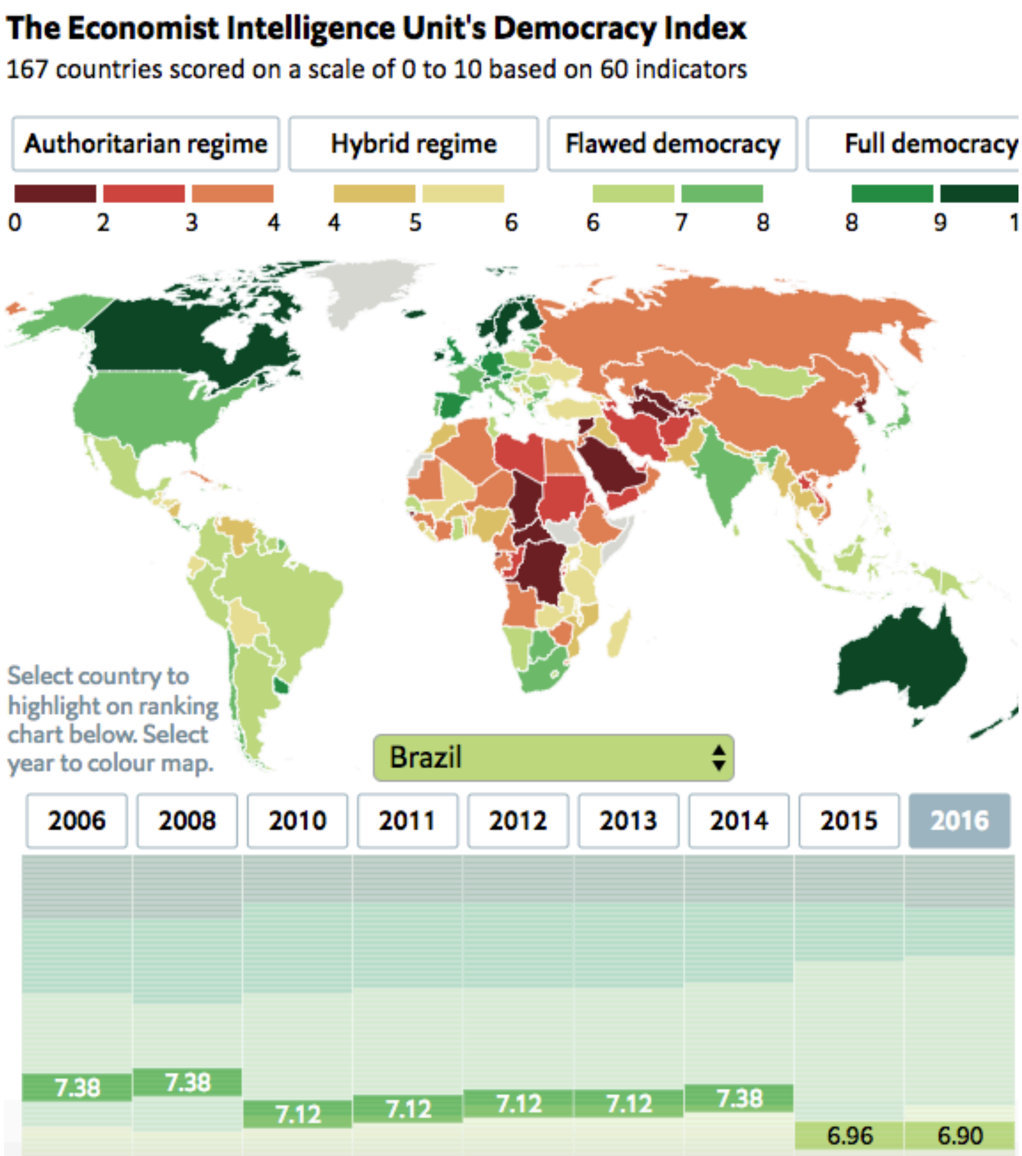
Graph 17



Source: "Authority Trends, Brazil." Polity IV Project: Country Reports 2013, Polity IV, www.systemicpeace.org/polity/polity4.htm.

Similarly, according to another measurement, the Democratic Index used by *The Economist*, over the past 10 years Brazil has been exhibiting a stable score ranging around 7 out of 10, with "10" representing the most democratic countries and "0" the least (Chart 3).

Chart 3



Source: "The Economist Intelligence Unit." Democracy Index 2016, The Economist, www.eiu.com/topic/democracy-index.

Brazil’s relatively stable democracy can be explained by Liu and Ornelas’ argument that “free trade agreements can critically reduce the incentive of authoritarian groups to seek power by destroying protectionist rents, thus making democracies last longer. This gives governments in unstable democracies an extra motive to form FTA. Hence greater democratic instability induces governments to boost their FTA commitment” (Liu, Ornelas, 29). Furthermore, some trade agreements, like MERCOSUR, require its participants to maintain a democracy. If Brazil were to fall under authoritarian leadership, it would lose its MERCOSUR’s membership and all the economic benefits associated with it.

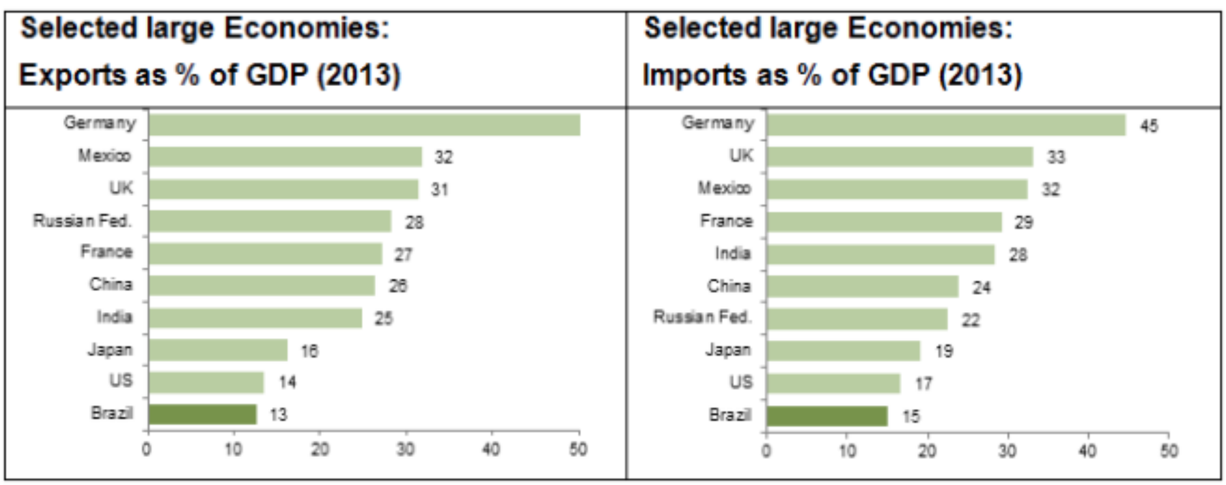
Trade liberalization also seemingly helped to maintain peace. Brazil’s last military conflict was in 1991 against the Colombian guerilla group FARC. According to research by Jackson and Nei, the states with strong international trade agreements seldom engage in military conflicts against each other, since their economic and political cost would be disastrous (Jackson and Nei).

In addition to internal stability, international trade agreements give Brazil external political power. The Head of the European Commission Andy Klom believes that Brazil is using MERCOSUR as a geostrategic weapon to confront other economic super-powers, such as the United States in the WTO and FTAA and the European countries in the EU-MERCOSUR (Klom, 353). Klom argues that MERCOSUR makes Brazil a regional leader capable of maintaining its economic and hence political independence from the United States. While MERCOSUR is solely about regional power, BRICS allows Brazil to push some of its international interests. In his studies, Bhagirath Singh Bijarnia concludes, that “BRICS members have a potential to reshape financial architecture of global governance and give voice to their concerns and interests" (Bijarnia 89). He also believes that together BRICS countries have enough power to impose the reforms on international financial institutions, which is necessary for their financial stability and development. The members of the bloc have already achieved some favorable terms at the United Nation global warming talks in 2015. Hence, international trade helped Brazil to consolidate its democracy, maintain peace and assert more geopolitical power and independence.

Chapter 10: Policy-making advice to Brazil

Despite the significant increase of international trade over the last 30 years, Brazil is now in a harsh economic crisis, which started in 2014. Moreover, Brazilian overall participation in international trade is still relatively low. Its trade only accounts for 25% of GDP (the World Bank). According to the World Economic Form's journalist Octaviano Canuto, "Brazil is unusually closed economy" (Canuto). Similarly, the researches Reis and Almeida argue that in 2014 only 35% of values-added produced in manufacturing Global Value Chains (activities needed for all the steps between developing product's concept and bringing it to the consumers) were produced for international markets.

Chart 4



Source: World Economic Forum

Hence, it is appropriate to suggest that Brazil should open up its economy more. Through decreasing its external tariffs on imports and entering more bilateral and multilateral trade agreements, Brazil can achieve trade creation and generate additional revenue needed to survive the economic crisis. Furthermore, according to Araújo and Flaig, "deeper integration into global value chains would raise economic efficiency, and the higher share of foreign intermediate goods, used in production, would lead to lower prices, boost international competitiveness, and also benefit Brazilian households" (Araújo, Flaig 284). At the same time, it is important to ensure that all Brazilian states equally participate and benefit from international trade. Siroën and Yucer in their 2012 research argue that Brazil's Central West region gained the most, meanwhile many other states fail to produce enough goods for exports (Siroën and Yucer, 555). Possible solutions to this problem include further resource specialization, niche manufacturing of each region, and improved infrastructure between the regions and the major cities. Finally, it is advisable that Brazil further expands its economic partnerships on non-economic spheres such as health, education and science. For example, during its current talks on agriculture with the EU, Brazil could propose co-joint social programs to support the EU's and its own small farmers. All the policy-making advice discussed above can be useful in amplifying the positive effects on international trade on Brazil's development.

Chapter 11: Conclusion

Therefore, the participation in MERCOSUR and the WTO, bilateral agreements with the European Union and a multilateral agreement with China, Russia, India and South-Africa (BRICS) have noticeable and overall positively affected Brazil's economic, social and political developments. Although, the 1991 trade liberalization and Real Plan reforms resulted in initial economic hardship and higher unemployment, on a long-term scale, they turned out to be highly beneficial for all members of society.

The trade agreements initiated the flows of foreign direct investment into Brazil's various industries. Consequently, they created more jobs for all types of labor and increased income across the population. With the increasing exports as percentage of GDP, Brazil's economy expanded. International trade made Brazil's economic production more efficient and not limited by the domestic markets. Some of its corporations like Petrobras became international leaders.

Trade liberalization also contributed to the consolidation of Brazil's young democracy and the beginning of its most peaceful era. BRICS membership gave Brazil an opportunity to better voice its concerns in the geopolitical arena, while the WTO allowed it to successfully protect its economic interests even when they coincide with the interests of superpowers, such as the US. Most previous scholarly studies on the topic deal only with the economic and more rarely political effects of international trade, ignoring the social impacts. My research on Brazil, however, shows that international trade agreements can directly foster human development. Brazil's initially exclusively economic partnerships with the EU, MERCOSUR and BRICS became a first step towards other non-economic conjoint projects. These projects include collaborations in public health, infrastructure and education. Their results have already been evident. As result of MERCOSUR's efforts to purchase cheaper medicine through PAHO Strategic Fond, millions of Brazilians gained access to the expensive live-saving medicine. In the frames of IBRAZIL project, hundreds of Brazilian students have been enjoying cost-free education in the best universities of the EU. Brazil's leading scientists have been enjoying the exchange of knowledge and innovations with the scientists from other BRICS countries. Over 80% of Brazilians now have access to safe water sources. Unfortunately, there is no way to show these projects' exact exclusive impact on health and education. However, there is an obvious correlation between the international trade agreements and increased expectations in terms of years of schooling, increased life expectancy, and decreased child mortality. All these indicators of human development experienced sharp improvements immediately after the 1991 trade liberalization and still continue to improve.

These findings are important for policymakers from many developing countries, especially those struggling with development and unstable democracies. My analysis suggests that countries should welcome international trade agreements, either bilateral or multilateral, regional or global. Furthermore, the state leaders should not hesitate to initiate deeper partnerships, which transcend social and political collaborations. Human development is often ignored when it comes to the analysis of international trade. Yet, it is important do similar research on other developing and developed countries. International trade could be an answer to human development struggles across the globe.

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