# *Latin American Development Models – Parallel Between Brazil and Mexico*

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### *Introduction*

Brazil and Mexico have followed quite different development strategies. This paper focuses on a parallel between their trade policies since the 80's as a proxy to an interventionist/reformist and a liberal/oligopolistic development model.

Major differences emerged with the fatigue of Import Substitution Industrialization in the late 70's. Since the 1982 moratorium, Mexico embarked on liberal reforms leading to the NAFTA: small value added exports, little innovation and concentration on the US market.

Brazil preserved interventionist policies. Extensive trade liberalization came about only in 1990. "Real Plan" closed out inflation and launched sustainable stabilization. Mercosur´s dynamism came to a halt but commodity exports to China boomed.

Crucial tests came in the years 2000. Brazil sailed well, outperformed Mexico and became one of the largest emerging economies. A more gradualist opening of the economy, diversified markets and innovation may explain the distinct results.

The decisive element in development differentials between the two countries was the emergence of a wide, deep rooted reformist movement in Brazil. Laid down in the mid 90's with the Real Plan, implemented along eight years under Cardoso, its basic features were not abandoned by Lula.

## *Exhaustion of a Similar Model (Import Substitution Industrialization - ISI). Emergence of Distinct Trade Policies Patterns*

### *Similarities in ISI but Differences in Stabilization Policies*

Import Substitution Industrialization (ISI) prevailed both in Brazil and Mexico from the 50's to the 70's. It was structured on high tariff rates, important foreign direct investment (the so-called "tariff jumping"), heavy public investment and, as a consequence, high rates of economic growth.

ISI guaranteed a domestic market practically free from external competition and generated high rates of profits and investment. Its instruments included high ad valorem tariffs and import licensing, both typical non- tariff barriers. Import licensing was not only targeted at protectionism, but also at exchange rate market management and availability of foreign currency. Signs of exhaustion of the ISI model were already visible by the end of the 70's, when rates of economic growth started declining. In 1985 it was already discarded as a prevailing foreign trade model, while in Brazil only later in 1990.

One important difference between Brazil and Mexico already prevailed in the distant eras of the 50's and the early 60's: stabilization policies. Whereas in Mexico the ISI model was known as "an era of growth with stabilization", in Brazil it was accompanied by structural high inflation rates. They resulted from expansionary monetary and fiscal policies, associated with high foreign direct investment in sectors such as automotive industries. There were also significant public investment in large hydroelectric power plants (Paulo Afonso and Três Marias), and key highways linking the inland with the coast. The most controversial and inflationary project was the construction of a new capital, Brasilia, from 1956 to 1960. In the late 50's, President Kubitschek, the archetype of Brazilian "desenvolvimentismo", broke ties with the IMF. Brazil lived under chronic high inflation rates for long four decades up to the mid- 90's, when the Real Plan, a turning point in Brazilian history, inaugurated a new era of reformism which paved the way for stabilization, modernization, sustainable macroeconomic fundamentals, economic growth and social policies prevailing up to now.

### *Differences in the 70's and 80's*

### *MEXICO*

A very significant difference, with visible trade policy effects, is related to the roots of the 1982 moratorium. Mexico, with recent huge oil reserves, practiced at that time expansionary monetary and fiscal policy under the assumption that high international oil prices would continue. With drastic fall in oil prices after 1981 (oil accounted then for 71% of total exports) and high expansionary fiscal policy, the government had to implement strong protectionist policies, reversing some liberal measures introduced in the late 70's. A halt of foreign capital inflow combined high interest rates in the international market, led Mexico to exhaust its foreign reserves, default service payments of its foreign debt and declare a moratorium.

In the mid 80's it embarked on a reassessment of its previous protectionist policies of ISI and initiated a period of deep structural reform leading to generalized trade liberalization. In 1986 Mexico joined GATT and later, in 1994 became a member of OECD, a typical developed countries' organization.

Mexico realized that its main economic shortcomings were associated both with external factors outside its control - fluctuations in oil prices - and flawed economic policies. Both led to overvalued Peso and high dependence on oil exports. The country fulfilled a deep structural reform having trade liberalization as one of its main pillars. Important results were quickly achieved: oil exports as a percentage of total exports had declined from 78% in 1982 to 32% in 1988[1].

Prior to the 1985 trade liberalization, Mexico had already travelled a long journey of macroeconomic discipline. To face the effects of the moratorium, it achieved a fiscal adjustment of great proportions and the current account reverted into a surplus already in 1983. Instrumental to such adjustment was a maxi-devaluation of around 250% in 1982, GDP contraction of 4.2% in 1983, downfall of imports and moderate export growth[2].

Since 1985 President De la Madrid started trade liberalization, privatization and a friendly foreign investment environment. These policies were underpinned by Salinas de Gortari, former Plan and Budget Secretary and later President, following widely recognized fraudulent elections. A Harvard graduate, he led a team of PhDs from Harvard/MIT who introduced sweeping economic reforms with two main pillars: overcoming the long standing debt crisis and negotiating a FTA with the US. The first came with the Brady Plan and its bonuses with smaller nominal values which were accepted by creditors and opened the way to new foreign investment in Mexico. The second came true with Nafta.

## ***BRAZIL***

Brazil's path was quite different. Stagnation in 1981-83, like Mexico's, resulted from high foreign debt associated with large international loans contracted throughout the 70's. However, in a marked difference from Mexico, Brazil's foreign debt was channeled toward productive investments in new and diversified sectors, under the Second National Development Plan (II PND). In the latter half of the 70's, they were decisive in creating a more solid physical and industrial infrastructure and promoting outstanding advances in science and technology applied to agriculture and energy by the Brazilian Enterprise for Agricultural Research (EMBRAPA) and PETROBRAS. However, not all initiatives invigorated infrastructure or arouse gains in productivity. A few squandered public funds lavishly: nuclear program with Germany was a failure; *ferrovia do aço,* a Northern railway; and the utopia of creating a nationally based

[1] Nolan, Kimberly. Política Comercial Mexicana de 1985 a 2010. Mimeo. CIDE. 2010. P. 6.
[2] Mostafa, Joana. México: Paradigma de Dependência Regional, de Trajetórias Recentes de Desenvolvimento, Estudos de Experiências Internacionais Selecionadas. 2009. P. 92.

information technology (IT) cluster in the early 80's, when PC's were sprawling globally, was a flawed policy, but finally abandoned.

There was a process of substantial investments in key areas, such as telecommunication, transportation, hydroelectric power plants (Itaipu, the largest in the world until the construction of the Three Gorges in China), petrochemicals, alumina, paper and pulp, steel and capital goods. A policy of export promotion of industrialized goods with heavy subsidies and incentives was put into effect in the 70's and 80's, but later abandoned following the Tokyo Round of multilateral trade negotiations. Therefore, with strict external constraints, Brazil developed its domestic market, following a policy of substantial public investment in infrastructure and basic industries. Such policy paved the way for exports of industrialized, semi-industrialized goods and highly competitive agribusiness products in the following decades.

Until the end of the 80's, Brazil continued to follow the same protectionist trade policy based on a tariff rate structure set up in 1957, as well as on a number of taxes, on financial operations, improving harbors, fostering the merchant fleet, to name a few. There was a generalized application of non-tariff barriers apart from the existence of 42 special import regimes, with tariff exemption or reduction. These policies underpinned growth of diversified manufacturing sectors, although not to a level compatible with a solid integration with the international market[3].

Under the threat of a serious exchange rate crisis starting in 1982, associated with the high exchange rates following the second oil shock(1999) and the Mexican moratorium, Brazil had to look for IMF assistance and was supposed to implement its adjustment policy. In spite of IMF conditionalities, Brazil lived throughout the 80's and up to the beginning of the 90's an extended high inflationary period, interrupted by a sequence of five failed stabilization plans and a moratorium in 1986. The adjustment process had important trade policy effects. In order to honor international commitments, Brazil had to produce mega trade surpluses. There was a substantial drop in GDP and domestic aggregate demand leading to a huge import reduction. Several types of import control mechanisms were introduced. In 1983 a maxi-devaluation was put in effect to further trade surpluses. Ever since, a system of mini-devaluation was implemented, so as to avoid an inflation-led erosion of the previous maxi devaluation. High inflation rates prevailed in spite of the IMF conditionalities.

The adjustment process negotiated with the IMF produced mega trade surpluses (supported by heavy export subsidies), which was one of IMF's top priority policy objectives. This implied a strong fiscal deterioration in the first half of the 80's[4]. In order to achieve that strategic objective, there was a substantial drop in domestic aggregate demand. However, production continued to grow, as generalized use of

[3] Cardoso, Eliana. A Brief History of Trade Policies in Brazil: from ISI, Export Promotion and Import Liberalization to Multilateral and Regional Agreements, 2009. P. 7.

[4] Baer, Monica. El rumbo perdido: la crisis final y financiera del Estado brasileño. São Paulo: Paz y Terra, 1993. P.74.

indexation, which preserved high profits and investments. Brazilian crawling peg was also known as "inflation without tears". This is a half truth: no tears for industries up to a point, since it had a feedback on inflation; but a disaster for income distribution.

Trade mechanisms, such as heavy subsidies and tax exemptions applied to promote exports, contributed to aggravate the fiscal debt. In a context of ISI, with a non competitive industrial sector and the need to generate mega trade surpluses, the State made generalized use of those mechanisms. In spite of its negative fiscal effects, they were effective in increasing industrial goods exports and in creating mega trade surpluses. However, exports accounted then for a minor share of GDP.

Such trade policies implemented until the first half of the 80's aggravated the process of income concentration in a historically unequal economy. Actually, they benefited directly exporters of industrial goods and victimized workers, whose real salaries were continuously reduced by an indexation-led inflation rate. Several Memoranda of Understanding were signed with the IMF, but never fully implemented.

In synthesis, trade policies in the first half of the 80's in Brazil followed a non-orthodox adjustment process which did not open the economy, but achieved high trade surpluses, by means of indexation and export subsidies. The inflation rate was high, but indexation neutralized its negative effects on production. This policy was formally structured on IMF's conditionalities, but in practice, has not followed them. Brazil consistently maintained those disequilibria which favored the export sector at the expenses of domestic consumption and the living standard of the middle and lower classes. Obviously this strategy was only possible in the political context of an authoritarian regime. From 1964 to 1985, under military rule, there were no real democratic mechanisms, neither effective political parties nor active labor unions.

### ***Consolidation of Mexican Trade Liberalization Policy. NAFTA as a Watershed***

In the 90's, under the Baker Plan (1995) and later the Brady Plan (1997), Mexico underwent broad, deep structural adjustment reforms. Some of its components included opening the economy, adoption of a maximum tariff rate of 20%, promotion of foreign direct investment, financial liberalization since 1989 and the privatization of the three largest banks (Banamex, Bancomer and Serfim), of Aeromexico and Mexicana[5].

In 1993, as stated by Krugman, "the most important restrictions were lifted, foreign investors were welcome, enthusiasm over Mexico´s potential grew"[6]. Then came the bad year of 1994: riots in Chiapas; mounting dollar indexed *tesobonos* debt; Tequila

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[5] Mostafa, Joana. 2009. Idem. P. 94

[6] Krugman, Paul R. De Vuelta a la Economia de la Gran Depression. Grupo Editorial Norma, 1999. P. 84.

Crisis; American financial rescue worth US$ 50 billion. One and half year later, once more Mexico was a great place for American investors. Therefore, if one abstracts the Tequila Crisis, the Mexican economy did pretty well in terms of macroeconomic fundamentals, open foreign trade and credibility for Foreign Direct Investment (FDI).

In spite of those reforms, it became clear that liberalization by itself would not attract enough foreign capital to honor its foreign debt. Thus, free trade agreements (FTA's) with important partners became a priority for President Salinas, who took power in 1990 under a strict liberal banner. As the first attempt of a FTA failed, following the European Economic Community's refusal, Mexico started negotiations with the US (later with Canada) in 1991. The North American Free Trade Agreement (NAFTA) was signed in 1992, but became effective only on January 1st, 1994, after the approval of side agreements on labor and environment.

Large enterprises provided the main support for the negotiation process. For them, NAFTA was an instrument for effective implementation of open economic policies, preserving trade liberalization and removing further tariff barriers, which would make them more competitive. A new representative body was created, the Coordinating Agency of Foreign Trade Enterprise Organizations – COECE. Opposition to NAFTA came mostly from small and medium size enterprises (gathered around the National Chamber of Processing Industries – CANACINTRA), which were apprehensive with the possible elimination of still existing protectionist barriers which favored them. The government strategy consisted of excluding CANACINTRA from the negotiation process. Therefore, sectors such as textiles, furniture, metals and shoes have not played a relevant role in the negotiation process and were later provided with further credit and other benefits, as compensation[7].

An assessment of NAFTA must recognize that exports boomed, being multiplied by four from 1994 to 1998. However, dependence on the US market soared, from 65% of total trade in 1980 to 80% when the treaty was finalized. Attempts to reduce undesirable dependence on a sole market were not fruitful. Agreements with Central American countries (the Central American Free Trade Area - CAFTA) have not generated significant trade flows, given its political motivation and the small scale of the economies. Mexico signed an FTA with Chile in 1992 and later with Uruguay, maybe contemplating to be an associate member of Mercosur.

Efforts to diversify Mexican foreign trade have not shown substantial concrete results, even with large economies such as those of the European Union (Global Agreement of 2000) and Japan (FTA signed in 2004)[8]. Brazil's experience was quite the opposite. No Free Trade Agreement (FTA) was finalized with any large economy, but the country consolidated its profile as a global trader.

[7] Nolan, Kimberly. 2010. Idem, P. 9.
[8] Nolan, Kimberly. 2010. Idem. P. 14.

An objective assessment of present day Mexican trade policy seems to suggest that diversification should be further pursued. Two factors recommend additional efforts towards trade diversification. The first is related to the aftermath of the 2008 international economic crisis, which revealed Mexico as the most negatively affected Latin American economy, with a 6.5% GDP decline in 2009. The second is associated with the fact that the large emerging economies are growing faster than those of developed countries and are leading international economic recovery.

In a context where diversification of Mexico's foreign trade is needed and should focus on large emerging economies, it would be advisable to continue negotiations of Free Trade Agreements (FTAs) with Brazil. It should be stressed that Brazil faces strong hurdles to negotiate FTAs which stem from two main factors. First, as member of a Customs Union within Mercosur, negotiations have to include all four members, a circumstance which obviously makes things more complex. Second, there are non negligible ideological resistances on the part of some segments of the present government towards FTAs, which are viewed as a "neoliberal" instrument. In the specific case of an FTA with Mexico, there is an agreement within Mercosur allowing member states to negotiate on individual bases. Uruguay, for instance, already has an FTA with Mexico.

Mexico may profit from such an agreement by diversifying its trade. Brazil certainly would benefit by concluding its first FTA with an economy with dimensions similar to its own. Up to now Brazil has no significant FTA, a circumstance which adversely affects its access to foreign markets by eroding its margin of preference in bilateral trade vis-à-vis other countries having signed FTAs.

### *Brazil's Trade Liberalization in 1990. The Rise of Mercosur*

1990 was the year when Brazil made its most radical move toward tariff reduction and opening its economy. Ideologically, this was the result of President Collor's determination to abolish "nacional-desarrollismo" and to move firmly towards a global liberal path under the banner of modernization[9].

Trade liberalization measures resulted in substantial reduction of the effective average tariff rate in 1990-1993, from 37% to 15%, and in 1994 it reached an average of 12.3%[10]. The openness of the economy (X+M/GDP) doubled in the period 1990-2008, moving from 13.6% to 26%[11]. Trade surpluses also revealed drastic moves in three

[9] Cervo, Amado L. Política de Comercio Exterior y Desarrollo: La Experiencia Brasileña. Revista Brasileña de Política Internacional. 40 (2): 5-26. 1997. P. 15.
[10] Cardoso, Eliana. 2009. Idem. P. 10.
[11] Baumann, Renato. Brazilian External Sector so far in the XXI Century, Economic Commission for Latin America and the Caribbean-ECLAC. 2010. PP. 1 y 5.

different moments. In 1988, during the mega surpluses period, it reached US$19.1 billion; during the first period of the Real Plan (created in mid-1994) and in the year of the introduction of a floating exchange rate policy (1998), which prevailed ever since, there was a trade deficit of US$6.4 billion. In the boom years of commodity prices and growth of the international economy (2008), it reached a peak of US$25 billion[12].

This paper supports the view that trade liberalization of 1990 had positive effects on boosting productivity, based on Eliana Cardoso[13] and Marcelo Paiva Abreu[14]. However, the issue is still controversial, as reflected in Miranda skeptical approach about links between trade opening and productivity gains[15]

In 1991, Brazil made a political and economic option for Mercosur. Its roots date back to a series of economic bilateral agreements with Argentina in 1986-88 and to the 1990 Buenos Aires Protocol. But for the first time the 1991 Treaty of Asunción defines a chronogram for a defined tariff reduction every six months.

The 90's was the golden age of Mercosur. Intra-bloc trade was multiplied by five from 1990 (one year previous to its creation) to 1998 (one year prior to the Brazilian exchange rate crisis, the major devaluation of the Real and the downfall of Argentina's economy), going from US$4 billion to US$20 billion. Obviously, part of this robust growth was associated with trade diversion, but Brazilian investments in the other economies, mostly Argentina, but Uruguay and Paraguay as well, contributed to trade creation.

Immediately after that initial period, intra-Mercosur trade declined as a result Argentina's long and severe crisis in 2000. As argued by Baumann[16], later Mercosur was no longer a source of dynamism for Brazil. This argument is in part explained by the much faster growth of the Brazilian economy in contrast with the slowdown in its major partner, Argentina. The Center for Studies of Integration and Development (Cebri/Cides) points out that deficit of implementation of the free trade zone combined with lack of coordination of macroeconomic policies led to insufficient export dynamism by the smaller partners. In contrast with modest intra-bloc trade growth, Mercosur social agenda expanded forcefully and foreign policy coordination process among members within South America gained weight and importance.

In the 90's and in the first decade of 2000 Mercosur's opposition to the Free Trade Area of the Americas (FTAA) was in sharp contrast with Mexico's support. The initiative, sponsored by the US and involving 34 countries, was finally abandoned.

[12] Averburg, André. Apertura e Integración Comercial Brasileña en la Década de los 90, en La Economía Brasileña en los 90. Organizadores: Fabio Giambiagi y Mauricio Mesquita Moreira. BNDES. P.49 y Baumman. Idem. P. 2.
[13] Cardoso, Eliana. 2009. Idem.
[14] Abreu, Marcelo De Paiva. Comercio Exterior. Interesses Do Brasil. 2007.
[15] Miranda, José Carlos. Apertura Comercial, Reestructuración Industrial y exportaciones Brasileñas en la Década de 1990. 2001. IPEA. Texto para Discusión 829. P.11.
[16] Abreu e Lima Florêncio, Sérgio. Treinta Años de Política de Comercio Exterior de Brasil. Intervencionismo, Apertura Comercial y Estabilización Económica. 2010. Mimeo. P. 24.

Substantially different views on key issues between Brazil and the US explain its failure. Brazil favored an agenda focused on technical standards, agricultural subsidies and dispute settlement, whereas the US attributed higher priority to market access for goods and services, intellectual property rights, government purchases and competition policies[17].

### *Final Remarks*

Five conclusions on development strategies may be drawn from a parallel between Brazilian and Mexican trade policies over the last thirty years.

*First.* The late opening of the Brazilian economy was a comparative advantage, since it was precisely in the late 70´s and throughout the 80´s that the industrial infrastructure and the innovation process most strongly advanced. These two features contributed to substantial productivity gains in following decades and until now.

This paper does not advocate at all the defense of a state-run inward looking development. Late opening was an advantage since it was temporary and followed by a substantial trade liberalization in the year 1990, which brought about a rupture with Import Substitution Industrialization (ISI). Trade liberalization did not bring disindustrialization. On the contrary, it forced Brazil's industrial sector to modernize, gain efficiency, and compete regionally and globally. Exponential competitiveness of Brazilian agribusiness today would not have materialized without modern, productive domestic sectors such as transportation equipment and capital goods. A large domestic market has fostered scale and productivity in the early stages of industrialization, but became obviously insufficient to promote competitiveness on a global scale.

Mexico, in contrast, after several decades of ISI similar to Brazil and many other Latin American countries, followed a different pattern in the last thirty years. Open trade policy in the 80´s became a clear priority. Ultimate results were: no space for industrial policies; lack of incentives for innovation; small value added industrial exports as the most dynamic sector; loss of market share in the US as a result of Chinese competition; strong dependence on a slow growing US economy; and few links with dynamic large emerging economies.

*Second*. IMF's role in stabilization process in Brazil and Mexico was quite different. In the case of Mexico macroeconomic policies since the 1982 moratorium have followed a pattern dictated by the international institution. Open foreign trade policies and IMF's structural adjustment process became a clear policy under De la Madrid since 1985. Those features solidified following the American US$50 billion rescue to

[17] Abreu, Marcelo de Paiva. 2007. Idem. P. 62.

overcome the Tequila Crisis in 1994. Mexico’s new President Salinas de Gortari, a Harvard graduate, led a team of PhD´s from Harvard/ MIT who introduced sweeping economic reforms with two main pillars: overcoming the long standing debt crisis and negotiating a FTA with the US. The first came with the Brady Plan and its bonuses with smaller nominal values which were accepted by creditors and opened the way to new foreign investment in Mexico. The second came true with Nafta.

Brazil during the 70´s, 80´s and mid 90´s was erratic but never strictly followed IMF´s orthodoxy. Letters of intent were signed but systematically bypassed. Actually this is almost a tradition dating back to the late 50´s, when a visionary President built the new capital, launched a long cycle of rampant inflation and ostensibly cut ties with the IMF.

Throughout the mid 80’s and mid 90´s – with the exception of the 1994 Tequila Crisis – Mexico was seen as a successful economic model: open, dynamic, stable. Brazil was then the victim of traditional vices: chronic rampant inflation; obsolete overprotected industries; populist macroeconomics; unstable democracy. Only in the mid 90’s the Real Plan broke with four decades of high inflation and inaugurated a long cycle of sustainable growth structured on sound macroeconomic fundamentals.

*Third*. Mercosur and Nafta have generated great initial expectations. Now they are a source of great frustrations. Both are irreversible, both require deep adjustments.

In terms of trade agreements, a Mercosur - Nafta parallel is a kind of David - Golias exercise. Nafta means for Mexico: scale; export oriented growth; low-value added exports; high foreign direct investment (FDI) flows; financial rescue during adversities such as the 1994 Tequila Crisis; macroeconomic discipline; and dependence. Mercosur has brought to Brazil: an initial decade of accelerated industrial goods export; sluggish growth in intra-bloc trade ever since; negligible source of foreign trade dynamism; serious constraints for Free Trade Agreements (FTAs) negotiations; no macroeconomic coordination; dense cultural and technical cooperation agenda in different areas; and quite relevant foreign policy coordination mechanism, especially in the South America arena.

Mercosur was mainly a political project with a strong economic integration dimension. It was the recognition of Brazil´s expanding role in South America and later in Latin America, as well as a vehicle for trade integration. It experienced strong dynamism throughout the 90´s, in contrast with present modest growth. Its importance for Brazil´s foreign trade has been declining and is not anymore a significant source of trade creation. These new circumstances explain a tendency to reassess Brazilian policy and some paradigms. Brazil’s robust growth along 2004 - 2008, linked with the boom in commodity exports (China) widened asymmetries within Mercosur. As a customs union, it adopts a common external tariff. Negotiations of trade agreements with third countries must necessarily involve all members, adding complexity to such exercises. This paper advocates additional flexibility provided a customs union format prevails.

The goal is to provide more freedom to Brazil and other member states in trade agreements negotiations with third countries.

Nafta was a paramount shift. In Octavio Paz´s metaphor, Mexico turned its back to history and assumed its geography. It raised passionate debates. It diminished Mexican foreign policy influence in spite of efforts to counterbalance. Dependence to the US market was already a previous reality, but aggravated with the agreement. The most relevant aspect was to bring discipline to Mexican economic policies and thus create a predictable, favorable environment for foreign investment. It was a great step to firmly link both economies. However, for more than a decade, Mexico has been losing market share to Chinese goods in the US and suffering competition from China in the domestic market. At the moment of its creation, Nafta symbolized an agreement with a huge, fast growing country. Today it means dependence on a near stagnant economy. Efforts toward trade diversification have brought negligible results. Instead of a solution, Nafta became a problem. But it is obviously irreversible, like Mercosur.

*Fourth.* Sustainable macroeconomic policies were a latecomer in Brazil. They only materialized after four failed stabilization plans all implemented in short eight years, each one creating a new national currency. In the mid 90´s the Real Plan – initially an anathema for the IMF – made possible to surmount four decades of chronic high inflation. It inaugurated sustainable stabilization, promoted fiscal equilibrium, privatized key sectors (telecommunications, aviation, steel, iron ore), dissolved debt ridden state banks, introduced regulatory agencies, modernized civil service bureaucracy and introduced effective non-assistentialist social policies. These wide ranging reforms were formulated and implemented along Cardoso's two terms, a total of eight years. Lula gave continuity to previous macroeconomic policies, but introduced more laxity in the fiscal area. His Presidency halted the reform process, more than doubled the number of politically appointed public officers and significantly loosened public expenditures. This last point means that stabilization depends mostly on monetary policy, aggravating upward pressure on traditionally high interest rates.

Cardoso comprehensive reformist agenda was not circumscribed to macroeconomic adjustment and modernization of the economy. It covered many other key areas, such as: public administration enhancement; universal access to primary education and introduction of regular evaluation systems (*Enem and Provão)*; breakthrough in health (Unified Health System- SUS); and inauguration of modern social policies in the modality of Conditional Cash Transfer Payments, as *Bolsa Escola.*

Social policies under Lula were widened and deepened. *Bolsa Familia* brought visible positive results in terms of drastic decline in poverty and extreme poverty as well as inequality reduction. Commendable results of Lula's social policies were closely linked to a virtuous cycle combining vigorous rates of economic growth derived from extremely high commodity prices with Brazil's robust competitiveness in primary products.

Cardoso's solid, long standing reformist movement dating back to the mid 90´s was a turning point in Brazilian history. It paved the way for accelerated economic growth during 2004 – 2008, when the country benefited from high commodity prices and excess liquidity in financial markets. Significant trade surpluses and large inflow of foreign capital generated high international reserves which served as a cushion to mitigate the domestic effects of the international economic crisis.

*Fifth*. This paper has three fundamental messages: late trade liberalization was an asset; resilience to avoid IMF's orthodox structural adjustment policies proved right; and the decisive factor in development differentials between Brazil and Mexico was the comprehensive reformist movement led by Cardoso and followed by Lula with some economic pitfalls but social gains. Brazil's path since the Real Plan proves Victor Hugo's insight: "Nothing can stop an idea whose time has come".

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***Vancouver, September 2nd, 2011***