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LESSONS FROM BRAZIL'S REGIONAL DEVELOPMENT PROGRAMS

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ABBREVIATIONS

ABDIB – Associação Brasileira de Infra-Estrutura e Indústrias de Base (Brazilian Association of Infrastructure and Base Industries)

ADA – Agência para o Desenvolvimento da Amazônia (Amazon Development Agency)

ADENE – Agência para o Desenvolvimento do Nordeste (Northeast Development Agency)

ALCA – Área de livre Comércio das Américas (America's Free Trade Area-AFTA)

BACEN – Banco Central do Brasil (Central Bank of Brazil)

CHESF – Companhia Hidrelétrica do São Francisco (São Francisco Hydroelectric Company)

CODEVASF – Companhia de Desenvolvimento do Vale do São Francisco (São Francisco Valley Development Company)

CVSF – Comissão do Vale do São Francisco (São Francisco Valley Authority)

DNOCS – Departamento Nacional de Obras Contra as Secas (0)

EUA – Estados Unidos da América (United States of America – USA)

FINAM – Fundo de Desenvolvimento da Amazônia (Amazon Development Fund)

FINOR – Fundo de Desenvolvimento do Nordeste (Northeast Development Fund)

FNA – Fundo Constitucional do Norte (Constitutional Fund of the North)

FNDR – Fundo Nacional de Desenvolvimento Regional (Regional Development National Fund)

FNE – Fundo Constitucional do Nordeste (Constitutional Fund of the Northeast)

FNO – Fundo Constitucional do Centro-Oeste (Constitutional Fund of the Center West)

IAA – Instituto de Açúcar e Alcool (Sugar and Alcohol Institute)

IBGE – Instituto Brasileiro de Geografia e Estatística (Brazilian Institute of Geography and Statistics)

IDH – Índice de Desenvolvimento Humano (Human Development Index –HDI)

IOCS – Inspectoria de Obras contra as Secas (Inspectorship of Works to Combat Droughts)

IPEA – Instituto de Pesquisa Econômica Aplicada (Applied Economic Research Institute)

MERCOSUL – Mercado Comum do Sul (South Cone Market)

ONU – Organização das Nações Unidas (United Nations Organization)

PAPP – Programa de Apoio ao Pequeno Produtor (Small Producer Supporting Program)

PIB – Produto Interno Bruto (Gross Domestic Product-GDP)

PIN- Plano de Integração Nacional (National Integration Plan)

PNUD – Programa das Nações Unidas para o Desenvolvimento (United Nations Development Program)

POLAMAZÔNIA – Programa de Pólos Agropecuários e Agrominerais da Amazônia (Amazon Farming and Cattle-Raising and Agro-Mineral Pole Program)

POLOCENTRO – Programa Especial de Desenvolvimento dos Cerrados na região Centro-Oeste (Special Development Program of the Cerrados in the Center West Region)

POLONORDESTE – Programa de Desenvolvimento de Áreas Integradas do Nordeste (Development Program of Integrated Areas of the Northeast)

PRODEPAN – Programa de Desenvolvimento do Pantanal (Pantanal Development Program)

PRODETUR – Programa para o Desenvolvimento do Turismo (Tourism Development Program)

PROTERRA – Programa de Redistribuição de Terras e de Estímulo à Agropecuária do Nordeste (Program of Land Distribution and Incentive to Farming and Cattle-Raising in the Northeast))

SERSE – Secretaria Especial da Região Sudeste (Special Secretariat of the Southeast Region)

SPVEA – Superintendência de Valorização Econômica da Amazônia (Superintendence of Economic Valorization of the Amazon)

SUDAM – Superintendência do Desenvolvimento da Amazônia (Superintendence of the Amazon Development)

SUDECO – Superintendência do Centro-Oeste (Superintendence of the Center West)

SUDENE – Superintendência do Desenvolvimento do Nordeste (Superintendence of the Northeast Development)

SUDESUL – Superintendência do Desenvolvimento do Extremo-Sul (Superintendence of the Far-South Development)

SUFRAMA – Superintendência da Zona Franca de Manaus (Superintendence of Manaus Free Zone)

UNICEF – Fundo das Nações Unidas para a Infância (United Nations Children's Fund-UNICEF)

ZMF – Zona Franca de Manaus (Manaus Free Zone)

LESSONS FROM BRAZIL'S REGIONAL DEVELOPMENT POLICIES

1. Introduction – Social and Regional Inequalities in Brazil

1. Since the beginning of the Brazilian development process, the economic growth has generated extreme conditions of spatial and social inequalities among regions, states, rural and urban areas, between center and periphery and among races. Those disparities are reflected especially on the quality of life of the population: life expectancy, infant mortality and illiteracy among other aspects.

2. In the last few years, income inequality in Brazil can be attributed to social-economic structural factors, like the high concentration of security and real estate wealth aggravated by the decrease of real wages and the persistence of high interest rates. The country's energy crisis, announced last May, together with the deterioration of economy foundations and the risks of contagion from Argentina's crisis, negatively affect the Brazilian productive potential and reduce the entry of external investments¹, limiting even more the chances for employment and income generation and distribution in Brazil. Inequality has become the main brand of Brazilian society.

3. The 2001, United Nations Program for the Development (PNUD)² about HDI (Human Development Index) of 162 countries, referring to the 1988/99, period in which recessions occurred in Brazil, has pointed that that country grew from position 74th in the world ranking, in 1988, to the 69th position. Even so, Brazil continued behind its main South-American neighbors: Argentina (34th) and Uruguay (37th). According to the report, the changes in the indicators of life improvement of the Brazilian population have not changed significantly, tending to stability. On other side, in 2000, the social policies in the country consumed 23% of the federal budget, but a small part of that amount really got to the needy. The report also indicates that while 9% of the population live with less than US\$1 a day, 46.7% of the national income is concentrated in the hands of only 10% of the population. Brazilians' life expectancy rate has practically remained unchanged since the last report, indicating the average of 67.2 years of life expectancy for the population.

¹ "Before the energy rationing, the Central Bank expected that the foreign investments into the country would amount to US\$23, 5 billion. Although the new official estimate is not ready yet, market analysts say that this number should not go beyond US\$20 billion" *Jornal Folha de São Paulo*, 20/05/2001

²For more information see: www.undp.org

4. In order to understand the origins of such disparities in Brazil, it is necessary to introduce a broader perspective, comprehending the historical past, without disregarding the continental dimensions of the country. We could try to explain those problems through the most evident factor: slavery, which is the paroxysm of exclusion. Brazil has imported the greatest number of slaves from Africa among all colonies in the New World, and, with Cuba, it was one of the last countries to let them free (in 1888). Even considering the rising movements in the social scale – the immigrants are an eloquent example of such -, the great mass did not have the conditions to impose to the élites a less unequal distribution of the work gains. Neither did it efficiently succeed in demanding from the State the fulfillment of its basic objectives, among which is included, in the first line, the education. The consequences of this fact represent a huge obstacle for a less inequitable distribution of wealth and lasts until today.

5. The Brazilian experience is rich in programs and projects to diminish regional and social inequalities. Even if the majority of programs have not obtained the expected results, there are examples of social policies which are having a favorable impact: the minimum wage, the rural pension, the scholarship for poor students, the minimum income program and the agrarian reform. However, those initiatives have not been enough to solve the inequality problems in Brazil, and lacks a proper management.

6. This paper aims to introduce Brazil and the country's regional and social policies, choosing the Northeast as a case study, pointing out possible suggestions for the development of new approaches that can be adopted to diminish the national disparities.

II. Introducing Brazil: a Country of Continental Dimensions...

7. Brazil is the fifth largest country in the world in territorial dimension (5.7% of the Planet's lands) and in population (about 170 million people, what corresponds to 2.8% of the Earth's population). The Amazon rain forest, the main biodiversity reserve in the Earth, covers almost half of Brazil's territory. The largest tropical country in the world, Brazil features a variety of landscapes, such as the *cerrado* (low brush lands), *caatinga* (vegetation adapted to dry lands), the Atlantic Forest and the Mato Grosso Pantanal (Swamp). The Brazilian population is the result of an intense miscegenation, since the XVI century, among indians, whites and blacks – the latter brought in mass during the colonization and the first decades after Brazil's political independence (1822). In the South and Southeast regions, the country has received a strong influence from the European immigration in the last 120 years. The national culture expresses this multiplicity, especially in festivals like Carnival and in brazilian music, which is internationally recognized.

8. The Brazilian economy is the eighth largest in the world, totaling, according to the 2001 PNUD's report data, to US\$1,182 trillion (measured in terms of purchasing power parity). An essentially agricultural country for more than 450 years, Brazil has carried out in the last five decades an intense industrialization process, which made the secondary sector responsible for one third of the national GDP. The social inequalities, however, persist and the country presents one of the highest income concentrations in the world, according to the UN. On the turn to the XXI Century (2000 Census), 81.2% of the Brazilian population lived in urban areas, while, according to the 1991 Census data, that percentage was only 75,6%.

9. Geographically and economically, the country is divided into five regions³: (1) the North, with seven states, and encloses the Amazon rain forest ; (2) the Northeast, with nine states, considered as the poorest region in the country, since more than 60% of its territory is semi-arid and suffers from periodic droughts; (3) the Southeast, the most industrialized region, made up of four states, in which three of them are considered the most developed in Brazil; (4) the Center West, which is the last farming frontier in the country and with recent economic occupation, is made up of three states, and the capital of the country, Brasilia, Federal District; the city with the highest "per capita" income, and finally, (5) the South, comprising three states, with strong European influence, competitive agriculture, and the best life quality rates in Brazil. (Map 1 and TABLE I).

...Which could be divided into at least two Brazils with very different realities...

10. In 1999, the National Congress, when reviewing the study produced in 1993 by a Commission of Representatives and Senators, led by Mr. Beni Beny Veras - "The Brazilian Inter-Regional Economic Imbalance"⁴ divided Brazil into two separate countries: "Brazil One", or rather, the rich Brazil, and "Brazil Two", the poor one (MAP 2). The term "Brazil One" was used to identify the South and Southeast regions, and the developed part of the Center West (South of the state of Goiás State and the State of Mato Grosso do Sul). According to that study, together they comprehend 26% of the national territory and concentrated 63% of all population of the country. According to data from the Brazilian Institute of Geography and Statistics (IBGE), in 1998, the combined GDP of the Southeast and South regions, represented 75.6% of the Brazilian GDP (See table I). These two regions were responsible for 80% of the country's exports.

³ The regions are abstract spaces in political terms, since they do not hold a differentiated administration. At most, they have regional development agencies (SUDENE, SUDAM) today undergoing a restructuring process. The states make part of the Federation and are ruled by governors, elected by direct vote at every four years. The system of government is Presidential, and the President has a five year mandate.

⁴This study was prepared by the National Congress Mixed Commission in 1993 and updated in 1999: Senator Beni Veras: site - www.senado.gov.br/web/senador/beniver/desequilibrio. Alfredo Lopes Neto was the Technical Coordinator.

Brazil One

a. Southeast Region

11. Shaped by the States of Espírito Santo, Minas Gerais, São Paulo and Rio de Janeiro, its economy is the most developed and industrialized among the five regions, and concentrates more than half of the national production. Led by the main car assemblers, steel mills and refineries in the country, the industrial production of the region is diversified and considered advanced. The State of São Paulo concentrates the industry that represented 36.5% of the Brazilian Gross Domestic Product (GDP) in 1999. Although the footwear and textile branches are considered important, it was noticed by the end of the nineties, a relative drop of investments in the industrial sector, due, mainly, to the several incentives adopted by the State Government of other regions. Even so, the Southeast was able to keep its participation high in the industrial GDP, with little variation for more than ten years, from 65.7%, in 1985, to 66.2% in 1998. The interior of São Paulo emerges, in the course of the decade, as one of the main attractive poles for investments.

12. Agriculture in the Southeast shows a high technical standard and good productivity. The production of coffee, sugar cane, orange, and other fruits is considered one of the most important in the country. As to cattle-raising, the Southeast region loses position in the last decade: the participation in farming and cattle-raising GDP drops from 38.9%, in 1985 to 36.3% in 1998. There is also the mineral wealth of the region. In the State of Minas Gerais, the exploration of a huge variety of minerals stands out – especially the iron and manganese reserves in the Espinhaço mountain range – and from the Campos Basin, in the State of Rio de Janeiro, comes out most of Brazil's petroleum. Brazil extracts oil from the bottom of the sea and imports between 23-25% of its consumption.

13. Sheltering 42.5% of the Brazilian population and being responsible for 59.4% of the national gross domestic product (GDP), the Southeast also represents great contrasts. At the same time that it concentrates the biggest portion of the national wealth and income, it is the region that most suffers from unemployment and the growth of urban violence. Even so, its social indicators are the best ones in the country: the illiteracy rate in the region is 8.1%, treated water benefits 95.9% of the households and sanitation is collected from 83.8% of the households. For Brazil, these rates are 14.7%, 78.8% and 63.9%, respectively.⁵

⁵ Data: IBGE, Website: www.ibge.gov.br

b. South Region

14. It includes three states which have the best indicators in the area of education and health in the country: Paraná, Santa Catarina, and Rio Grande do Sul. Located on the border of Argentina, Paraguay and Uruguay, Brazil's main partners in the South Cone Market (Mercosul), the South Region has transformed its economy through the strong growth in the industrial sector. This fact happens, mainly in of the second half of the eighties, due to an aggressive policy of tax incentives provided to foreign companies willing to install their factories in these states. The most significant results are observed in the metropolitan regions of Curitiba and Porto Alegre, where some of the national assemblers concentrates and modifies the economic profile of these states. The region also has a great hydroelectric potential, standing out the Itaipu hydroelectric plant, still the biggest in the world and located in the Paraná River, on the border with Paraguay. According to the IBGE data, in 1998, the region was responsible for 17.5% of the national GDP.

15. The agriculture and agroindustry mechanization also provokes the expulsion of families from rural areas to cities. The immediate consequence of this exodus is the formation of poverty pockets in the main cities in the South. Presently, about 15% of the population of Curitiba, which has 1,4 million people, and is considered a world model of city, live under the poverty line.

16. Farming and cattle raising in the South, however, continue to play an important role in the regional economy. The use of modern techniques provides good productivity the crops, and the South states are the main producers of soy beans, rice and apple in the country. The low-growing vegetation, typical of the region, contributes to the breeding of bovine herds, especially in the "gaúchos pampas". Poultry and swine breeding is also significant, especially in Paraná – where the extractability, especially of pine wood - is also significant, and in the western part of Santa Catarina, which shelters major slaughterhouses and cold storage plants.

17. It is important to emphasize that, in spite of being among the ten greatest tax collectors in Brazil, the South and Southeast states receives less federal funds than the Northeast Region states, as part of the policy for reducing the regional inequalities. According to a national tendency, the southern state governments, attempting to balance their accounts launch privatization programs of their state-owned utility companies of energy, water and the official banks.

BRAZIL TWO

18. The "Brazil Two" term, denominates the poor region comprehended by the regions North, Northeast and by the state of Mato Grosso (Center West). This area concentrates 37% of the country's population and represents 74% of the national territory.

a. The North Region

19. Formed by the states of Acre, Amapá, Amazonas, Pará, Rondônia, Roraima and Tocantins, its area represents 45.35% of the Brazilian territory, although it shelters only 7.3% of the country's population. Its economy is based on vegetal extractability of products such as latex, açai, wood and Brazil's nut. The region is also rich in minerals, with the Carajás mountain range (Pará), being the most important mining area in the country for the extraction and exportation of iron ore and the Navio mountain range (Amapá), with its manganese. In the Tocantins River, in the state of Pará, the Tucuruí hydroelectric plant was built, the biggest in the region. There are also smaller plants, like the Balbina in the Uatumã River (Amazonas), and Samuel, in the Madeira River (Roraima).

20. Historically seen as a marginal area in economic terms (except during the Rubber Cycle), the North region has limited itself, along decades, to participate in the country's GDP with percentages which oscillated around 2%, as a result of its activities which are almost totally limited to extractability. After the maturation of projects favored by the Amazonas Investment Fund (FINAM)⁶, this participation rose to 3% in 1980, having reached its peak in 1963 (5.24%), due also to special credit support by the North Constitutional Fund (FNO). It should be noted, however, a small drop in 1998 to 4.47%, caused by the relative dynamism losses in national terms⁷.

21. According to the PNUD data, in 1996, the Human Development Index (HDI) of the North region was the second worst in the country (0.727), just ahead to that of the Northeast Region: 0.608. According to the IBGE data, from 1985 until 1998, the region has always registered also, the second worst per capita income in the country (around R\$3,447 in 1998).

22. The North Region has stimulated the supply and distribution of energy to its states. The state of Pará, for example, completed the Tramoeste Line in 1999, which transports energy from the Tucuruí hydroelectric, in the Tocantins River, up to the cities on the western part of Pará. In the state of Amazonas, because the flat Amazon basin makes the construction of hydroelectric plants difficult, the state invests in the production of natural gas. In the second semester of 2000, the state government started the bidding process for using gas from Urucum, in the Solimões River basin. Petrobras⁸ is a minor partner, with 24% participation and the rest belongs to the state government, which intends to re-transfer quotas to private companies. The project will have as main consumers the electric energy generating companies, which will use the new fuel to replace diesel oil to set in motion the turbines of their thermoelectric plants.

⁶ More information: www.sudene.gov.br, or www.mtbrazil.com.br/operacoes.html

⁷ Source: IBGE, Research Board, Regional Accounts Department, Regional Accounts of Brazil 1985-1998, and micro-data.

⁸ Petróleo Brasileiro S/A, www.petrobras.com.br

23. Since 1971, the Federal government has been offering tax incentives for the implementation of industries in the state of Amazonas, especially assemblers of electro-electronic products. This process is managed by the Superintendence of the Manaus Free Zone (SUFRAMA)⁹ and the incentives should remain in force until at least the year 2003.

b. The Center West Region

24. Comprising the states of Goiás, Mato Grosso, Mato Grosso do Sul and the Federal District, its economy was initially, at the time of colonization, based on the exploration of gold and diamond, being gradually replaced by cattle-raising. The transfer of the federal capital from Rio de Janeiro to Brasília, in 1960, and the construction of new access roads, accelerated the region's settlement, contributing to its development. The Center West economy grows at a rhythm similar to that of the country. The region participates, since 1991, with 7% in the GDP, according to the Applied Economic Research Institute (IPEA)¹⁰. Its "per capita" income, in 1998 (R\$5,681) was a little higher than the Brazilian average (R\$ 5.648)¹¹. The explanation is the inclusion in the accounts, of the Federal District, which has a very high per capita income (R\$13,053 in 1998) if compared with the other states of the region. The regional Human Development Index (1996), of 0.848, happened to be slightly higher than the Brazilian one (of 0.830), also because of the distortion above mentioned, but, even so, it is still lower than those of the South and Southeast regions.¹²

25. The Agroindustry is the most important sector in the Center-West, which is the major producer of soy beans, cotton, and corn, and still is responsible for the second largest rice production in the country and also occupies the third position in the production of corn. The Center West has, according to IBGE, the largest national bovine herd; with 56 million heads of cattle, the bigger contingent located in Mato Grosso do Sul. The main industries are in the food sector and in the production of supplies, such as fertilizers and rations, besides cold storage plants and slaughterhouses. The main manganese reserves in the country are located in the Urucum massif, in the Pantanal ecosystem. Due to the difficult access to the area and environment potential problems, such reserves are still little not explored.

26. The Center West Region is going through an intense urbanization process. In the 70's, the rural population represented around 60% of the total inhabitants in the region. In just ten years, the percentage dropped to 32% until it reached 15.6% in 1996. In the year 2000, 81.3% of the population concentrated on the urban zone. This progression was not only caused by the rural exodus, but also by the increase in the migration flow from other Brazilian states to the cities of the Center West. The new

⁹For more details: www.suframa.gov.br

¹⁰www.ipea.gov.br

¹¹ IBGE data, research board, Regional Accounts Department, Regional Accounts of Brazil 1985-1998, and micro-data.

¹² Source: PNUD/IPEA/FJP/IBGE: HUMAN DEVELOPMENT IN BRAZIL, 1970- 1996.

configuration demands from the states great investments in urban infrastructure and services. Mobilization, however, is not enough. Presently, the region has social and life quality indicators below the Brazilian average. An exception is the Federal District, because of its peculiar situation as the capital of Brazil.

c. The Northeast Region

27. The states of Maranhão, Piauí, Ceará, Pernambuco, Rio Grande do Norte, Alagoas, Sergipe, Paraíba and Bahia constitutes the Northeast, which is the poorest region in the country: 50.1% of its population has family income of a half minimum wage. Sixty per cent of its area is located in the semi-arid and is beaten to periodic droughts. The scarcity of natural resources and the high population (47 million people) are pointed out as the causes to the prevailing poverty. The nine states in the Northeast leads the higher infant mortality rates in the country. According to UNICEF¹³ (Fundo das Nações Unidas para a Infância) survey, given to publicity in 1999, the 150 cities with higher malnutrition rates in the country are in the region. In those cities, 33.6% of the children with less than five years of age are undernourished. Life expectancy in this region is the lowest in the country: 65.1 years. Its demographic density is of 28.7% inhabitants per km² and the majority of the population is concentrated in the urban zones (60.6%). The main regional metropolis are the cities of Salvador, Recife and Fortaleza.

28. In spite of this, the northeastern GDP has grow 5.6% against 4.8% for the same Brazilian Index, between 1970-1998¹⁴. One of the reasons, is the push of the industrial and service sectors. Agriculture and cattle raising, however, face an inverse situation in the last 20 years. The long drought periods makes the gross domestic product of agriculture (GDP) to present successive falls. Agriculture is based on sugar cane cultivation, and in the State of Alagoas responds for half of the Northeast production. Since fifteen years ago, the development of fruit-irrigated farming for export has started in the São Francisco River valley and in the Açu valley. In the states of Bahia, Piauí and Maranhão, the *cerrados* (woody pasture) is beginning to be occupied by huge grain fields strongly mechanized, especially by farmers emigrated from the state of Rio Grande do Sul. Cattle raising still suffer the drought effects, but the poultry-raising sector is emerging. The state of Pernambuco is the main producer of poultry and eggs in the region and the fourth one in the country. However, it is worth mentioning that the poultry-raising sector is declining after the removal of incentives for grains purchasing, which still comes from the distant Center West *cerrados*. Cattle and small animals (sheep and goat) are still important.

29. The Northeast is also rich in mineral resources. The highlights are petroleum, and the natural gas produced in the states of Bahia, Sergipe and Rio Grande do Norte (the latter responding for 11% of the national production in 1997, being an important oil producer in the country, second only to the state of

¹³For more information,.: www.unicef.org

¹⁴ For more details:www.unicef.org

Rio de Janeiro). It also produces 95% of all sea salt consumed in Brazil. Another highlight is the plaster of Paris production in the state of Pernambuco, which responds for 95% of all Brazilian production. The Northeast also has mines of granite and precious and semi-precious stones. The San Francisco river provides electricity through several hydroelectric plants.

30. Another sector, which is being highlighted in the process of the development of the region, is the tourism, whose quick rise is due to the large number of coastal areas with beautiful beaches and a sunny climate most of the year. Many states are investing in the construction of infrastructure and the private sector is building up aquatic parks, hotel complexes and ecotourism poles. This growth, however, favors real estate speculation, which in many cases threatens the preservation of important ecosystems, especially mangrove and sand dunes areas.¹⁵

The Inequality Figures¹⁶

31. To help to have a better idea of the disparity dimensions between the extremes of the two Brazils we can analyze the differences in the indicators in the most different ways. As regards the GDP size and participation, for example, we have, according to IBGE data; the Southeast region's GDP was 4.45 times greater (R\$531.4 billion) than that of the Northeast (R\$ 119.2 billion) in 1998. In terms of GDP per capita, in the same year, the value in the Southeast region was almost three times greater than that of the Northeast, R\$7,706 and 2,603 respectively.

32. Regarding the social indicators, while the infant mortality rate¹⁷ in the Northeast was of 54.0 per 100 born alive, in 1999, this figure for the Southeast region was less than half: 24.3. In this case, it is important to emphasize that, in the South region, this indicator was even smaller: 20.6 per 1000 born alive. Concerning education, the Northeast illiteracy rate (27.5%) is 3.4 times greater than that in the South and Southeast regions (both with 8.1%).

III. The Historical Regionalization Process in Brazil

33. To understand better the regional inequalities in Brazil it is necessary to evaluate the historical process in which regional development differences were generated. Resulting from the European (Portuguese) commercial expansion, the occupation and settlement of Brazil happened through a burst of exporting activities, which, succeeding themselves along time, caused the settling of people in different points of the national territory. Under the rhythm of the external market's pattern during the Portuguese colonialism times, the economic base of a region was supplanted by that of the other region, in such a way

¹⁵ In the performance of the three peripheral Regions, the Northeast, North and Center West, the Northeast region stands out as the most fragile one. This region will be the object of an analysis of a Case Study

¹⁶ See TABLE I

¹⁷ Per 1,000 born alive. Source: IBGE, IPEA and PNUD

that the Brazilian historical formation is marked by spatial and temporal economic discontinuity, which had profound reflexes in the regional contrasts.

34. The Northeast, (thanks to sugar cane production, most valued product at the time), was the region that most accumulated capital in the XVI and XVII centuries. In the following century, this position was captured by the state of Minas Gerais, due to gold and precious stones mining. Starting from the XIX century, it was Rio de Janeiro's turn (then the capital of Brazil) and São Paulo, because of the cultivation and exportation of coffee. With the other regions in crisis or stagnated, the coffee activity has established the bases of capital concentration, and as a consequence, generate the money necessary to begin the process of industrialization in the Southeast.¹⁸

35. According to Tânia Bacelar¹⁹, the main factors which collaborated to transform the country from a rural, favoring slavery and primary-exporting country, into an urban-industrial nation, starting from the final decades in the XIX century, were: the abolition of slavery, the intense urbanization and the rapid industrial development.

36. In Brazilian history, several industrialization attempts have happened, supported by a favorable world conjuncture (First and Second World War) and by the growing coffee prosperity. However, it did not take long for the State of São Paulo to promote, in a few decades, an intense process of inter-regional replacement of imports, neutralizing the industrializing efforts of regions like that of the South region.²⁰ However, it was in the middle of the sixties, under the auspices of military dictatorship governments, with had the goal to change the country into a world power through external loans and investments, that the Southeast (read São Paulo) ended up by consolidating its hegemony in the national productive matrix, remaining the other regions as subordinate links.

37. According to Bacelar²¹, this modern and broad industrial basis, after strongly concentrating itself in the Southeast region, responded, in 1970, for 81% of the industrial activity in the country. The state of São Paulo alone, generated 58% of the brazilian existing industrial production. As the national market integrated itself, industry searched for new locations, growing especially (due to several incentives), in the less developed metropolitan regions of the country, like the cities of Salvador, state of Bahia, Recife (Pernambuco) and Fortaleza (Ceará), all in the Northeast. But development has always concentrated itself in the Southeast-South ax.

¹⁸For more information see: Brazilian Inter-Regional Economic Imbalance. Mixed Especial Commission, National Congress. 1993, Volume I. Page 17.

¹⁹ Bacelar, Tânia: Brazilian Regional Dynamics: Toward the Competitive Disintegration?

²⁰ For more information see: Brazilian Inter-Regional Economic Imbalance. Mixed Especial Commission, National Congress. 1993, Volume I. Page 18.

²¹ Bacelar, Tânia: Brazilian Regional Dynamics: Toward the Competitive Disintegration?

38. In the nineties, because of the important transformations occurred in the world context, the Brazilian economic environment underwent great changes. The most important are an intense and rapid commercial opening, the prioritization of the so-called "competitive integration", profound reforms in the role of the State and finally the implementation of a stabilization program of the national currency, the Real, initiated in the middle of 1994, with an economic plan which carries the same name.

39. In parallel, the private sector promotes a productive and also intense and very rapid restructuring. It tends to break up with the prevailing pattern in Brazil in the last decades, where priority was given to the assembly of an economic base which essentially operated in the internal market, (although it was strongly penetrated by economic transnational agents) and which was slowly de-concentrating activities to the peripheric spaces of the country.

40. The National State played an active role in this process, because of its explicitly regional policies, as well of its so-called sectorial/national cutting policies and its state-owned companies actions (steel mills, refineries, petroleum extraction, electricity, telephone) with resources earmarked to investments (the Entrepreneur State). In the present, the predominant decisions tend to be those of the market (the Inductor State), given the fiscal crisis and the new government orientations of neo-liberal mark.

41. Bacelar believes that, although the tendencies are still very recent, some studies have converged to signal the interruption of de-concentration movement toward the less developed regions. In the case of industry, recent data indicate once again that, like it has happened in the middle of the sixties, there is a tendency to concentration of dynamism in the usual spaces of economic attraction of the Brazilian territory. According to the author, recent papers have located the present dynamic urban centers in the country in terms of industrial growth. Out of the 68 urban agglomerations with intense recent industrial dynamism, 79% are located in the South/Southeast regions, 15% in the Northeast region and only 6% in the North and Center West regions. The agglomeration economies remove from the main metropolitan Regions, Rio and São Paulo (the latter with a population of 18 million people), the dynamic industrial focus, but the São Paulo metropolitan Region is increasing the financial command of the national economy.²²

42. In conclusion, according to Bacelar²², the "economic history of the Brazilian regions blends with the industrialization history of the country and the constitution and consolidation of the Brazilian internal market. In these processes, an inter-regional work division began to take form, and as a result, productive structures were being defined, as well as differentiated roles for each region in the interior of

²² Bacelar, Tânia: Brazilian Regional Dynamics: Toward the Competitive Disintegration?

the national economy, with repercussions on the economic development and the conditions of life in the different regions”.

IV. The Brazilian Government and the Attempt's to Reduce the Regional Inequalities

43. In its essence, the regional issue remains the same in all countries or regions of the world. What differentiates one case from the other is the level or the intensity of the phenomenon. This fact determines different interventions. In Brazil, the approach dates back to the decade of fifties, with consecutive experiments of policies, which would guide and reshape the regional planning.

The Origins

44. The strategy of the Central Government for regional policies had its effective beginning in 1952, with the institution of the *Banco do Nordeste*²³, (the Bank of the Northeast), in charge of planning and carrying out a genuine development program, tied to the peculiarities of the environment²⁴. In the following year, with the same conception, is established *the Superintendência de Valorização Econômica da Amazônia* (SPVEA) (Superintendence of Economic Valorization of the Amazon) which has originated the *Superintendência do Desenvolvimento da Amazônia* (SUDAM)²⁵ (Superintendence of the Amazon Development), both originated in the Federal Constitution Provisions of 1946²⁶. Before that time, the main interventions by the Federal Government as far as regional policies are concerned were directly linked to the combat of droughts in the Northeast and to the production of rubber in the Amazon.

45. It is important to emphasize that the SUDENE/SUDAM model, in more restricted bases, was later reproduced to other regions: in the South, with *the Superintendência do Desenvolvimento do Extremo-Sul* (SUDESUL) (Superintendence for the Development of the Far-South); in the Center West, with *the Superintendência do Centro-Oeste* (SUDECO) (Superintendence of the Center West); and in the Southeast, with the *Secretaria Especial da Região Sudeste* (SERSE), (Special Secretariat of the Southeast Region), all of which have been closed down.

²³ www.banconordeste.org.br

²⁴ Explanation number 606, dated July 4, 1951. For more information on the Banco do Nordeste see Website: www.banconordeste.gov.br

²⁵ For additional information see www.sudam.gov.br

²⁶ Until then, these Institutions acted upon the Northeast: the *Inspeção de Obras Contra as Secas* (IOCS), (Inspectorship of Works to Combat Droughts) since 1909; in 1945 it began to be called *Departamento Nacional de Obras Contra as Secas* (DNOCS)^(e), (National Department of Works to Combat Droughts) constructing reservoirs and later fostering irrigation; In 1945 was installed the *Companhia Hidrelétrica do São Francisco* (CHESF), (São Francisco Valley Hydroelectric Company); in 1948 was implemented the *Comissão do Vale do São Francisco* (CVSF), (São Francisco Valley Commission), today *Companhia do Vale do São Francisco* (CODEVASF), (São Francisco Valley Development Company) (CODEVASF) It is worth emphasizing that, in 1931, the Federal Government implemented the *Instituto do Açúcar e do Alcool* (IAA), (Sugar and Alcohol Institute), closed down in 1992, in order to, among other things, establish production quotas and to ensure minimal prices to sugar cane producers. Such intervention had repercussions enough in the Northeast, since it contributed to give São Paulo the leadership in the sector.

The Administrative Reform, 1967

46. In 1967, with the Federal Administrative Reform, all regional agencies became part of the *Ministry of the Interior*, a body of the Central Government in charge of carrying out the regional development policy, including the *Superintendência da Zona Franca de Manaus* (SUFRAMA), (Superintendence of Manaus Free Zone) established in that same year with the objective to generate an import and export free-trade zone in the Amazon.

47. As we can notice, with the possible exception of SUDENE and SUDAM, all these regional bodies were popping up, along time, in function of isolated actions, meeting specific needs, which includes since the combat of droughts, the generation of electric energy, to the implementation of a Free Zone in Manaus (capital of the Amazonas state). Those efforts always lacked an integrated view of their actions. This period became known as the "Fragmentation Era".

The 1970 Decade: The Special Programs

48. In the Seventies we observe a change in the guidelines of the regional policies. The Superintendences, SUDAM and SUDENE especially, changed from formulators to mere executors of the regional development strategies coming from the Central Government. According to the inter-regional approach, a National Integration Plan (PIN) was conceived, which, in the Amazon and Center-West, turned to the construction of the Transamazônica and Cuiabá-Santarém highways, and in the Northeast, established a *Program for Land Re-distribution and Incentive to Farming and Cattle-raising of the North/Northeast* (PROTERRA). Those highways were intended to link physically and economically the Northeast region to the Amazon region and to the Center West region, thus facilitating migrations and the occupation of the territory by the destitute Northeasterners farmers. However, the ecological conditions and diseases in the Amazon and farmers resistance to emigration, contribute to the failure of such a program. The second Program had as the main objective to promote the public irrigation in the Northeast region and as because the model was public and not private (DNOCS case) it didn't succeed. CODEVASF adopted private irrigation and build up a competitive fruit cluster in the area of São Francisco Valley.

49. One more change came with the *Programa de Desenvolvimento de Áreas Integradas do Nordeste* (POLONORDESTE) (Northeast Integrated Areas Development Program) in 1974, and the *Programa Especial de Apoio ao Desenvolvimento da Região Semi-Árida do Nordeste* (Projeto Sertanejo), (Special Program to Support the Development of the Northeast Semi-Arid Region) in 1976; the first one, directed to the development of selected humid areas with greater potential and the second one, directed to the Semi-arid region, as the name implies.

50. Along with the POLONORDESTE came up in 1974, the *Programa de Pólos Agropecuários e Agrominerais da Amazônia* (POLAMAZÔNIA) (Farming and Cattle-Raising and Agro-Mineral Poles Program of Amazon) and the *Programa de Desenvolvimento da Agroindústria do Nordeste* (Northeast Agro-Industry Development Program). In 1975 it was launched the *Programa Especial de Desenvolvimento dos Cerrados* (Special Development Programa of the Cerrados) (POLOCENTRO) and the *Programa da Região Geo-econômica de Brasília* (Brasilia's Geo-economic Region Program). In 1996 started the *Program de Desenvolvimento de Grandes Dourados*, (*Grandes Dourados Development Program*), the *Programa de Desenvolvimento do Pantanal* (Pantanal Development Program) (PRODEPAN), the four located in the Center West region ²⁷.

51. These programs, which others of minor importance, covered the North, Northeast and Center West regions and in a certain way frustrated the transformation expectations of the population, bear in mind the discontinuity and the lack of dynamic pushes.

The Eighties: The Almost Lost Decade

52. In the beginning of the Eighties another "salvation program" for the Northeast was proposed. The *Northeast Projec*, stimulated and supported by the World Bank, involved six sectors of activity, but only one, the *Programa de Apoio ao Pequeno Produtor* (PAPP), (Small Producer Supporting Program), was carried out, and today it is managed by the states, and supports the semi-arid poor rural farmers' organized communities, providing eletricity, water and other services.

53. In the North region, there are two important projects in progress: the *Calha Norte* (North Channel) and the *Grande Carajás* (Great Carajás). The first one, of military and socio-economic occupation of the border with Peru and Colombia, had become inactive but now it has been retaken, possibly as a reaction to the USA's initiative to combat narcotraffic in Colombia. The second one is turned to the exploration of the mineral province, one of the largest in the world (Vale do Rio Doce Company), that was recently privatized.

54. Among all attempts to alleviate poverty, the most successful experience in combating the inequalities has been through the fiscal incentives, which has allowed the industrialization of the Northeast and the Amazon. **It is important to emphasize that the majority of the programs was not very successful because of the discontinuity, the valorization of the means-activity in detriment of the end-activity, the shortage of resources and the excessively broad spatial dimension of the projects, which were difficult to operate.**

²⁷ "Brazilian Inter-Regional Economic Imbalance". Mixed Special Commission, National Congress. 1993, Volume I. Page. 59

The Regional Development and the Constitution

55. In institutional terms, with the promulgation of the 1988 new Federal Constitution (with the return of democracy), a more outstanding role was bestowed upon the regional development, in such a manner that the reduction of regional inequalities is a fundamental objective of the Republic (art. 3). The regional focus of the Constitution has been more evident in the regionalization of the fiscal budgets and of the investments of the state-owned companies, which would have to allocate resources according to the population criterion. However, since they have not been regulated by Congress and most State Enterprises and banks have been privatized, these provisions have not been implemented, and, therefore, they do not have the expected impact on the Brazilian regional disparities. Still on this scope, a highlight is deserved by the regional development banks in charge of the management of resources earmarked to the financing of the productive sector in the North, Northeast and Center West regions. It should not be forgotten the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) (National Bank of Economic and Social Development), which is promoting the "*Nordeste Competitivo*" (Competitive Northeast) program.

Brazil: A Broad Experience in Implementing Tax Incentive Systems:

56. As we can notice, for more than five decades, Brazil has been carrying out a set of regional development policies. **The central piece of such policies has been the manipulation of a set of tax incentives, through which it attempted to make the capital build-up inexpensive, to reduce the tax burden or even to facilitate imports.** By considering only the six main incentives: FINOR, FINAN, PIN-PROTERRA and the Constitutional Funds: FNE (northeast), FNO (North) and FCO (Center West) directed to the poorer regions in Brazil, we observe its weight and importance, although the rationale of its application is questionable.

57. Besides these incentives directed to enterprises in the peripheric regions of Brazil, we should mention other transfer mechanisms through the *States and Municipalities Participation Fund* and *Negotiated Transfers* of around 4% of the annual GDP. The North and Northeast participate with approximately 50% of these transfers, which would reach 2% of the national GDP. On the other hand, the incentives system of Manaus Free Zone (ZFM), in the Amazon, based on tax waiver, has a billing that reaches US\$9 billion²⁸. The opening of the economy has caused a serious crisis in the ZFM (Manaus Free Zone) beginning in 1991, reflected on the fall of billing of approximately 50% between 1990 and 1992, thus recovered. The ZFM's maintenance cost and its artificiality brings doubts on the viability of its future, but it is considered by the military establishment as having geopolitics importance.

²⁸ As to the tax waiver volume, it is estimated at US\$ 2,4 billion. Source: Veras, Beni. www.senado.gov.br Brasil, um país desigual. Senado Federal, janeiro 1999.

The Present Situation

58. Brazil's regional development structure today is formed by a *Ministry of National Integration* which supervises the operation of the *Agência para o Desenvolvimento do Nordeste* (Northeast Development Agency) (ADENE, substitute for former SUDENE) and the *Agência para o Desenvolvimento da Amazônia* (Amazon Development Agency) (ADA, former SUDAM), both extinct in May 2001. Under its jurisdiction are also the *Fundos de Desenvolvimento do Nordeste e da Amazônia* (Northeast and Amazon Development Fund) (FINOR e FINAN), the *Departamento Nacional de Obras Contra a Seca* (National Department of Works to Combat Droughts) (DNOCS)²⁹ and the *Companhia do Desenvolvimento do Vale do São Francisco* (São Francisco Valley Development Company) (CODEVASF). In its turn, the *Banco do Nordeste* and the *Banco da Amazônia*, (Bank of the Northeast and Amazon Bank) both linked to the Treasury Department, manage two other constitutional funds concerning their areas: the *Fundo Constitucional do Nordeste* (Northeast Constitutional Fund) (FNE), the *Fundo Constitucional do Norte* (North Constitutional Fund) (FNA) besides the *Fundo Constitucional do Centro-Oeste* (Center West Constitutional Fund) (FNO).

Impacts of Brazil's Commercial Opening

59. Since the foreign debt crisis in the eighties, Brazil has been working hard to get trade superavits, because it needs dollars to pay its extense debt service. We must recognize that this attempt was relatively successful, because the country managed to have a surplus situation for 10 years, from 1984 to 1994. With the implementation of the Real Plan, and of a national money exchange valorization policy, this tendency was reverted. Besides the opening of the Brazilian markets to imports, the Real rise made the imported products more competitive. Another important factor in 1994 was the signature of the South Cone Market Treaty (Mercosul) with Brazil, Argentina, Paraguay and Uruguay as partners. The consequences of all these events caused, after 1995, that the Brazilian trade balance being constantly in a situation of deficit. The current energy and the Argentina crisis and the deterioration of brazilian economic foundations, as already mentioned, can have significant impacts on Brazil's trade balance in 2001. Since may 2001 the management of this apparatus is under revision.

60. With the exchange devaluation of 1999, it was thought that the situation would be inverted once more, favoring trade balance. However, that did not happen, at least as expected. The main obstacle for increasing the trade balance is pointed on imports increase beyond expectations due to economic growth (4,6% em 2000), the fall of commodities prices and the remittance of profits for privatized companies.

61. So, in 2000, imports have amounted to about 20% of the GDP, against 6% in 1989 according to the Banco *Nacional de Desenvolvimento* Econômico (National Economic Development Bank) (BNDES)³⁰. The country needs to import high technology to develop itself. Huge expenses with oil and byproducts, because of the rise of its prices in the international market, as well as the recovery of the economic activity have increased the purchases of raw materials, intermediate and finished goods abroad. Another obstacle is the fall of prices of agricultural commodities like coffee, soybean and chicken. Besides that, the warming up of the national economy capacity (before the energy crisis in May 2001), allied to the restrictions of production capacity, have caused the imported industrial segments – like steel-mill, petrochemical, pulp and paper and aluminum, especially, to reduce their exports in order to supply the rising internal demand. In the nineties decade, Brazilian imports, increased almost 170%, reaching US\$55,783 million in 2000. Out of this total, the Southeast was responsible for 64.20%, the South for 17.32%, the Northeast for 8.59% followed by the North and Center West regions with 7.67% and 2.03% of participation, respectively³¹.

62. On the origins of Brazilian exports we observe that from 1990 to 2000, the external sales increased 75.36%, from US\$31,413 million, in 1990, to US\$55,085, in 2000. In that year (2000), 56.51% of the national exports came from the southeast, 23.39% from the south, 7.31% from the Northeast and the rest from the other regions. The Center West was the region whose external sales presented the best performance in the decade (225.40%), (due to the extraordinary increase in the production of grains), it must be pointed that the South (90.58%) and North (85.22%) regions also had good performances³².

63. The main brazilian products exported are: iron ore, airplanes, farming products (orange juice, soy beans, sugar, coffee), automobiles, pulp and paper, footwear, textiles, chemical products, metallurgical products, among others. The manufactured products correspond to 58.6% of the total exports; the basic ones (not manufactured) are responsible for 23.3% and the semi-manufactured products, 15.4%. Brazil imports oil and its derivatives, industry machinery and equipment, chemical and pharmaceutical products, etc. The country's major commercial partners are the United States, Argentina, Holland and Japan.

64. It is certain that the spatial consequences of important policies, like that of the commercial opening and that of competitive integration commanded by the market, allied to important aspects of the stabilization policy (like valorized exchange rate for the national money, high interests and short financing) have impacted negatively in several sectors of brazilian industry and consequently on employment. This

²⁹ For more information look up: www.dnoes.gov.br

³⁰ www.bndes.gov.br

³¹ SEE TABLE 2

³² SEE TABLE 3

has especially affected the Brazilian Southeast (São Paulo being the major victim), creating resistances in several “opinion makers” about the Brazilian policy of economic opening and the so-called neo-liberalism policies.

The Role of the Foreign Investments

65. An analysis by Leonardo Guimarães Neto³³, about industrial investment attempts by the private sector and the official banks (BNDES, BNB, and BASA), shows that we can not forget the spatially selective character of the industrial investments. The data organized by him and mentioned by Tânia Bacelar³⁴ clearly shows a work division among the Brazilian regions, since an important portion of productive segments which define the dynamics of the national economy, once again tends to concentrate itself in the Southeast, while the lighter segments of industry, of smaller capital density, transfer for the regions of lower development level, and certainly, of lower labor cost (North, Northeast and Center West).

66. In macro-regional terms, the *Ministry of Development, Industry and Commerce* data show that, out of the US\$73,4 billion of the investments intents which could be regionalized and captured, from 1995 to 2000, about 64.3% would concentrate in the Southeast (with 28.2% in São Paulo), 17.6% in the Northeast and 9.4% in the South. The North would receive the equivalent of 7.5% of the all investment foreseen for the country. In the Center West no more than 1.2% of the total would be invested. There is no doubt that, in the whole national panorama, the environment of South-Southeast areas to attract the new investments is, in quantity and quality, greater than that found in the peripheric regions. In this context, mid-sized cities from those regions, located close to transportation axes, and therefore, endowed with good accessibility conditions become especially attractive. (Table IV attached)

67. The data on investments concentration, consolidated by region, taken from the Foreign Capital Census of the *Banco Central do Brasil (Brazil's Central Bank) (Bacen)*³⁵ also clearly reflect the hegemony of the Southeast in attracting foreign investments. According to Bacen, this region concentrates 87.5% of all assets of companies with foreign participation. In the other regions, these assets are distributed in the following pattern: 0.6% are located in the Center West, 3% in the North region, 4.2% in the Northeast, and 4.7% in the South region. It is worth to emphasize that, although the South and Northeast regions have different economy development levels, the difference in the concentration of enterprises with foreign participation was not very significant. (See table V). This happens because the Northeast has some comparative advantages in relation to the other regions, concerning the low costs of labor and more fiscal incentives, thus becoming the destination of traditional industries of intensive natural resources that generates smaller added value.

³³ Work organized by Instituto de Pesquisa Econômica Aplicada - IPEA (www.ipea.org.br), based on the data from the Ministry of Industry and Commerce Development – MDIC (www.mdic.gov.br)

³⁴ Bacelar, Tânia: Brazilian Regional Dynamics: Toward Competitive Dis-integration

³⁵ For more information see Website: www.bcb.gov.br

68. This same tendency can be observed in relation to the enterprises with foreign controlling interest. The Southeast concentrates 90.3% of all assets of these enterprises, while the Center West, Northeast, North and South regions aggregate 0.6%, 3%, 2% and 3.7% respectively³⁶.

69. According to the *Banco Central* the total of currencies for direct investment in 1996, was of US\$9,644 million; in 1997 of US\$17,879 million; in 1998, of US\$26,346 million; in 1999, of US\$31,241 million and in 2000, of US\$33,331 million. For the year 2001, it is estimated that because of the already mentioned crisis, the *Direct External Investments* in Brazil will not reach US\$20 billion. Before that, the forecast was US\$23,5 billion³⁷. In 2000 the ten countries which most invested in Brazil were (in billions of dollars): Spain (US\$ 9.5); USA (US\$ 5.3); Portugal (US\$ 2.5); Holland (US\$2.2); Cayman Islands (US\$ 2.0); France (US\$ 1.9); Luxembourg (US\$ 1.0); Sweden (US\$ 0.6); Italy (US\$ 0.5) and Great Britain (US\$ 0.4).

Some Thoughts about the DEIs

70. Currently, the role played in the Brazilian society by the *Direct External Investments* (DEIs) has been targeted by several criticisms. Some sectors of the National Congress, for example, believe that the great majority of income originated from the DEIs is not re-invested in the country and therefore, are not earmarked to the generation of new businesses. The country would be being victim of a transfer of resources to abroad. – often financed by the *Banco Nacional de Desenvolvimento Econômico* itself. In 1999, out of the R\$20 billion of its budget, BNDES earmarked R\$3,5 billion so that foreign companies bought national enterprises. As emblematic, there has been mentioned the case of the implementation of the multinational FORD automobile company in the state of Bahia, which practically has not allocated its money, benefiting from the Banco Nacional de Desenvolvimento Econômico e Social's loans (BNDES)³⁸.

71. There are also concerns about the present and future consequences of capital remittance, with serious repercussions in the Brazilian Balance of Payments. Authors like Reinaldo Gonçalves³⁹ worry about the de-nationalization of the Brazilian economy. According to him, the relation between the DEI flow and the gross fixed capital formation increased from 2.5% in 1995 to 24.6% in 1999. As a result, the foreign companies, which controlled 6.8% of the fixed capital stock in the country in 1995, took the control of 12.4% in 1999. The foreign participation in the total net wealth stock increased from 5.7% in 1995 to 9.7% in 1999. The foreign participation increases in the Gross Production Value was not less significant: 13.5%, in 1995, and 24.6%, in 1999. It is still worth emphasizing that the foreign participation in the sales

³⁶ There is not much difference between the distribution of data about the total of assets of these enterprises and those related to the Net Equity and Net Operational Income (For more clarification see **TABELA 5**).

³⁷ Banco Central do Brasil's data taken from the Newspaper Folha de São Paulo of 05/26/2001

³⁸ Debate with former President of Bacen, Andrea Calabi at National Congress Economy Commission, 2000.

³⁹ Reinaldo Gonçalves, Brazil and the International Commerce, Transformations and Outlooks Ed. Contexto 2000 – www.editoracontexto.com.br

value of the 550 greater companies increased 33.3%, in 1995, to 43.5%, in 1998. According to the author, even if the estimates presented were subject to revision, the incontestable fact is that there was a quantum jump of the Brazilian economy de-nationalization, as of 1995. **It is important to point out that there are appreciable sectors of the Brazilian élites however, which do not see such facts with discomfort, believing that there can be a greater transfer of technology and generation of qualified jobs in the country.**

Programs for Attracting Investments in the Nineties

The Brazil in Action Program

72. The *Brazil in Action* program was launched in August 1996 and prioritizes a set of 42 enterprises turned to the promotion of the country's sustainable development and strategically chosen by the capacity to induce new productive investments aimed to reduce the regional and social inequalities. Out of the 42 enterprises initially chosen, 25 are completed or with its targets achieved or outdone. From 1996 to 2000, R\$70,1 billion were invested, being R\$22,1 billion in infrastructure and R\$43,6 billion in the social area⁴⁰. As of 1999, The *Brazil in Action* was expanded to 58 enterprises.

The National Integration: Some Axes Identify Brazil's Scenario for the XXI Century

73. The selection of regional development projects has also complied with the *National Axes of Integration and Development* logic, designed in the 1996-1999 *Multi-annual Plan (Brazil in Action)*. A set of strategic enterprises has been tried to promote the integration and development of the country as a whole, theoretically without privileging one specific region or another.

74. In the whole, the axes are expected to demand R\$317,0 billion in public and private investments in the 1996 - 2003 period, in integrated projects in the areas of energy, transportation, telecommunications, social development, environment, information and knowledge, considered essential to the growth and modernization of all regions.

75. Examples of the investments carried out through this project are: a) the construction of BR-174 highway, linking Manaus (state of Amazonas) to Caracas, in Venezuela, which is stimulating the growth of exports in the Manaus Industrial Pole and consequently in the North; b) *the Tourism Development Program (PRODETUR)*, turned to the improvement of infrastructure in the Northeast; c) the construction of the North-South transmission line and the Araguaia-Tocantins waterway, in the Center West, which are decisive for the expansion of agribusiness in the region; d) the duplication of the Fernão Dias and the Mercosul highways, in the southeast-south, which are allowing the re-distribution of the

⁴⁰ Source: Federal Government. www.brasil.gov.br

automobile industry in Porto Alegre (State of Rio Grande do Sul) to Salvador (Bahia)⁴¹ and the gas conducting tubes from Bolivia to Brazil. (Map 3)

The Move Forward Brazil Program

76. Following the *Brasil em Ação* (Brazil in Action Program), a sector of it, the *Programa Avança Brasil* (Move Forward Brazil Program) (2000 – 2001), has brought changes in the federal planning and budget system. A new conception has been adopted, according to which the Government actions and resources are organized in agreement with the objectives to be achieved. Each project has a manager responsible and a rendering of accounts and goals is made periodically. Coherent with the Fiscal Stabilization Plan, the quantification of the programs and their actions was based on the forecast of fiscal resources for the period.

77. The government program, approved by the population in the 1998 elections, served as a strategic guidance and the *National Axes of Integration and Development* have delimited the spatial organization of the actions and selection of the structuring enterprises, which carry to the Multi-annual Plan the dimension of a national development project. The Government has also adopted a managing model aimed at obtaining real results, measured by their effects to society.

V. Lessons from Brazil's Regional Development Programs: the Northeast Region, a Case Study

78. As already stated to exhaustion, among Brazil's five regions, the Northeast is the poorest of all. To understand some causes that led the region to this economic disadvantage and social inequality, it is necessary to decode the strategic choices to enhance the quality of life of the population chosen by the Northeast in the past and to understand which will be the impact of the current strategies and which investments will cause greater impact in the long term, on the economic prosperity of the region. It is important to emphasize that in spite of the investment requirements in the form of more sophisticated capital influx in the Northeast, few are the initiatives under this line.

SUDENE's ROLE: The Comparativeness Era

79. Conditioned by the plans that have inspired its creation, SUDENE has its image associated to the economic development idea, where the entrepreneurs disputed with their competitors, close to the government, the best possible conditions regarding the basic factors of production, in an attempt to obtain comparative advantages. A study carried out by Monitor/FGV⁴², named that period, the "Comparative Era" (SUDENE's period) in the principle was that it was up to State to solve the problems of the region, counting, whenever possible, on the participation of the private entrepreneur. This conception afforded the

⁴¹More information about Development Axes are found in the site: www.eixos.gov.br

opportunity for the set up of a the huge network of Public Policies, Agencies, Projects, Lines of Credit and Financing, Companies, Emergency Plans, etc, as already seen in this text.

80. What resulted from that time is easy to analyze. According to Monitor/FGV, as historically has been shown, in spite of the existence of efforts to optimize the resources earmarked to the Northeast along the last 50 years, the distance which separates the development indicators of the Northeast region from those of the Southeast region has remained the same, because there were mistakes in the destination and in the aim of the resources and incentives. The entrepreneurs, with rare exceptions, have set a mental model, accordingly to the adopted government managing model adopted for the region, whose characteristics were: (a) growing and dramatic dependence on the basic factors of production supplied by the government, or rather, the state paternalism was the only source of development; (b) minimal if not non-existing levels of cooperation among enterprises, since they had to compete in order to make free use of governmental benefits, which in reality were given, very often, due to political commitments. (c) Low vertical integration; (d) the non-existence of a strategic view necessary to face the hyper-globalized competitiveness.

81. Still according to the studies carried out by Monitor/FGV, it has been observed that the kind of incentives in force at that time (that is about to change) were several years far away from today's reality, limiting the capacity of the enterprises to develop real comparative advantages

The Role of Investments

82. It has been identified that most of the investments captured by the Northeast until now, were not attracted by a favorable environment to businesses or by a competitive platform which might offer unique advantages, but by the abundance of inexpensive labor and all kinds of incentives. So, the results have **not shown** the generation of external agglomeration economies favorable to the formation of a more competitive industry, since, just as an example, the enterprises attracted to the region, do not establish any institutional linkages with the local innovation system (universities, technical schools, etc).

83. Furthermore, it is important to emphasize the existence in the region of few universities - none with international renown - and rare centers of scientific research. The enterprises that are implemented there, do not invest in research or development. As the Monitor/FGV study shows, "the Brazil of flexibility, creativity and adaptability has not managed to change ideas into values or wealth and this leads us to conclude that these investments have a extractivist character, little adding to the development of the region and its inhabitants".

⁴² Northeast 2002 – Self-Sustained Competitiveness, **Monitor, FGV**. www.fgv.br

The Current Changes

84. The present government is trying to deal with the above-mentioned dysfunction in a more consequent way. The significant landmark of this change was, without any doubt, the establishment of the *Ministério da Integração Nacional*. (Ministry of National Integration). By its own name, it is a response to the already mentioned fragmentation, which was occurring not only in the Northeast region but also in the whole country. As a result of this new direction, SUDENE and SADAM have been closed down and changed into development agencies and they are looking for a way to provide more efficiency and effectiveness to funds.

85. The same study (Monitor/FGV), offers new guidelines to the problem of the social and regional inequalities in the Northeast. However, it recognizes the difficulty level which it implies, for example to get the Public-Private Partnership working adequately, when we consider that the actors involved in both sides will have to set aside practices, that, since long have been the only known and accepted way. And that is not all. It verified in today's world, a critical gap between the velocity of the changes in the economic and technological systems and that practiced in the political, administrative and legal systems.

86. Such verification imposes, according to the mentioned study, that it should send over to the highest level of decision of the country, the permanent follow-up and directions of the *Programa "Nordeste 2002 – Competitividade Auto-Sustentada* ("Northeast 2002 – Self-Sustained Competitiveness Program). In this way, the so-called *Comitê de Desenvolvimento do Presidente da República*, (The Republic President's Development Committee) should, as suggested, at least on a quarter basis, pay attention to the strategic aspects of the Program and decide on its direction. There will be also established the general guidelines to effect the articulation of all Government's efforts directed to the Northeast, which will substantiate the *Rede de Integração Competitiva do Nordeste* (Northeast Competitive Integration Network). Linked to the *Conselho de Direção do Programa* (Program's Steering Council), the *Instituto da Competitividade* (Competitiveness Institute) would be established with the following objectives: (a) to conceive competitiveness strategies for the region; (b) to propose to the Conselho de Direção (Program's Steering Council) the model of the system of Comunicação Social do Programa (Program Social Communication) in the region and later leading its operation.

87. However, it is urgent, that the research culture of technological innovation should be adopted in the Northeast and be carried out within the enterprises, or rather, in the production area. In Brazil, we have few but remarkable cases of high international competitiveness ballasted by innovations, like, for example, the Petrobrás marine oil extraction, Embraer's regional airplanes, Romi's operating machines, Weg's motors and CBMM's niobium and others.

88. This technological “pull” finds the favorable environment to develop itself within clusters. The right thing is that we will only reach the objective of becoming competitive, if we mobilize ourselves now, because we are already late. We have to build this reality with our hands, with our initiative and with our creativity, in a solidarist effort of society and government, the productive sector and the population⁴³.

VI Proposals for New Regional Policies for Brazil

89. According to Bacelar⁴⁴, “the present moment is marked by a productive and technological paradigm, of world level, which introduces new competitiveness factors and which defines new localization conditioners of the productive activities, very different from those traditionally considered. This, certainly, leads to the rethinking of the instruments of economic policies adopted until the present in dealing with the regional issues. Otherwise, the less developed areas and sub-regions, considered not competitive and traditional, run the risk of becoming marginal in the process of inserting the country into the international context, especially with relation to MERCOSUL and in the future, with *America’s Free Trade Area, AFTA*”.

New regional policies for Brazil: Great Objectives to Be Reached

90. The central axis of new development policies, proposed by Bacelar, should be made up of, on one side, by the equity objective, which means the reduction of the regional inequalities in the income and employment opportunities levels, and on the other side, by the efficiency, through the implementation of a productive structure capable of competing nationally and internationally.

91. Another important landmark regards to face up the fragmentation tendencies of the continental economies, like the Brazilian one, through the international and selective integration of specific and well equipped regions or sub-regions already articulated with world commerce. However, it is important that, through a national project, the adoption of a new regional development policy, which considers among its basic objectives the integration of the regional spaces by means of a spatial division of work which articulates in the interior of the national economy the different regions, spreading in all of them the positive effects of the economy’s growth and the increasingly greater insertion of the country into the world market.

a. A New Way of Dealing with the Regional Dimension: Modernization Areas Sharing with Stagnated Areas in a Same Regional Space ⁴⁴

⁴³ in the words of Robert Nicolsky, *Mechanisms for the Sustainable Development*. Folha de São Paulo, June 4, 2001

⁴⁴ Bacelar, Tânia: *Brazilian Regional Dynamics: Toward Competitive Des-integration?*

92. Bacelar thinks it is necessary to establish a **new National Policy of Regional Development in Brazil** which takes into consideration its **heterogeneity and diversification**. “Contrary to what one may think, the growing internal differentiation among the several macro-regions in the country, should be treated as a potential, and not as a problem. In this particular matter, what is proposed is that, **at the national and at each macro-region levels, the identification, for the development of future actions, of the degree of economic development of its several different sub-regions (object of action of a regional policy)**. Afterwards, those sub-regions could be classified as: (a) **dynamic sub-regions**, which have been characterized by the significant growth, by the consolidation of a modern and competitive structure and by the present or potential capacity, to compete in the more open national market and in the international market; (b) **sub-regions in process of restructuring**, which although endowed with great economic and competitive potential, should suffer in the short and middle term, an intense process of change in its productive structure, aiming at, above all, the incorporation of new technological processes; (c) **sub-regions with little used potential**, still marginal, are however, territories that need, above all, a deeper knowledge about the real possibilities of utilization of its potential, in the context of a new work division and of an increasingly greater insertion of the country into the international economy; d) **frontier sub-regions with neighboring countries**, important in the western and northern part of the country, because of their economic and geopolitics specificity.”

b. The Special Treatment According to the Region: Each Case is a Case

93. Just as for each disease there is a diagnosis and specific medicine, each region and sub-regions has different problems, with specific treatments. In order to conduct solutions for such a complex picture – in which to heterogeneity is added a process of rapid insertion of the Brazilian economy into an extremely competitive world market – it is necessary that the new national regional development policy takes each case into consideration. Therefore, a set of regional development policies should be designed considering the different potentials, threats, problems or constraints of the regions in the interior of each macro-region, taking in account the degree of its insertion into the international economy and the recent dynamics of productive base already installed.

c. The Establishment of a National Council of Regional Policies

94. According to Bacelar⁴⁴, “in the current context, the starting point is the urgent definition of a discussion forum of the Brazilian Regional Issue. What is proposed, to begin with, is the establishment of a *National Council of Regional Policies*, directly linked and headed by the Republic’s President. This “decision place” would be integrated by Government’s and National Parliament representatives, and would also have the participation of non-governmental representatives. In this forum the more important decisions would be made concerning the treatment of the Brazilian contemporaneous regional issues”.

d. The Establishment of the National Regional Development Fund

95. In parallel, a *National Regional Development Fund* (FNDR) should be established, following the example of what happens in the European Union and that would be a powerful instrument. It is necessary to promote a survey of resources available for the establishment of new institutional arrangements which will make viable the cooperation between the three federal beings (the Union, the States and the Municipalities) for the financing of development, preserving the autonomy of each one and opening space for adopting new ways of cooperation between the Government and the free enterprise, in compliance with the tendencies of the moment.

e. The Establishment of a System of Clusters

96. It is in this new environment that the merits of the adoption of the Clusters Model or Local Development Systems (LDS) for the poorer regions in the country, would signify the opening to the preferential access to input, with eventual gain in terms of costs. However, the most significant benefit is in the process of innovation and improvement. The enterprises gain rapid access to information, to the new ideas and to the innovations introduced by suppliers and centers of research and development.

97. The need for the double insertion of Brazil Two (Northeast and part of the Center West regions) into the national and international economies, together with the change in the policies, were object of two papers of Consultancies about clusters in the Northeast region titled "Initiative for the Northeast" by IFC and Associates, produced between 1997 and 1998⁴⁵, and "Northeast 2002 – Self-Sustained Competitiveness, by Monitor/FGV (2000), from which we drew subsidies for this analysis.

98. According to Monitor, the main objective of clusters approach (for the Northeast) is the achievement of a profound cultural change, since the Northeasterners keep the traditional vision of prosperity, where natural resources and inexpensive labor are determining factors of competitiveness. The idea is to engage all participants of clusters (enterprises, academic institutions and government, among others) in a joint work, which enables a commitment of the different actors with new forms of action. Only so, globalization and competition can be accepted and the innovation recognized as an important source of wealth.

⁴⁴ Bacelar, Tania: Brazilian Regional Dynamics: Toward Competitive Des-Integration

⁴⁵ Initiative for the Northeast, IFC/Kaiser and Associates, 2000.

ANNEX I

TABLE I

Comparative Data among Brazilian Regions

	North	Northeast(1)	Southeast (2)	South	Center West
HDI (1996)	0.727	0.608	0.857	0.860	0.848
Demographic Density (Hab/km)	3.20	29.96	76.31	42.86	7.10
Participation in GDP (% in 1998)	4.0	13	58	17	7
Illiteracy (%1998)	11.8	27.5	8.1	8.1	11.1
Infant Mortalityl (per one thousand born alive, 1999)	34.11	54.02	24.38	20.66	24.47
Urban Population (% in 1996)	62.3	65.2	89.3	77.2	84.4
In the Municipalities	449	1,792	1,668	1,189	463
Per Capita Income (in R\$, 1998)	3,477	2,603	7,706	6,611	5,681
Area	3,869,637.9	1,561,177.8	927,286.2	577,214.0	1,612,077.2
Population	12,399,633	46,768,451	70,758,097	24,738,860	11,447,472

(1) It excludes a 2,977km² area in dispute between Ceará and Piauí, including a 18.4km area in the State District of Fernando de Noronha.

(2) It excludes the areas of Trinidad Islands(10.1 km² and Martin Vaz 90.3 Km²)

Sources: IBGE, IPEA and PNUD

TABLE 2

Brazilian Imports by States and Regions 1990 – 2000

	US\$ Million FOB				
	1990		2000		Var. (90/00)
Brazil	20,661	Particip %	55,783	Particip%	169.99%
Center West	563	1.79	1,832	3.33	225.40
North	1,393	6.74	4,275	7.67	206.93
Northeast	1,491	7.22	4,794	8.59	221.35
South	2,196	10.63	9,660	17.32	339.92
Southeast	15,396	74.52	35,812	64.20	132.60

Source: MDIC/SECEX

TABLE 3

Brazilian Exports by States and Regions 1990 – 2000

	US\$ Million FOB				
	1990		2000		Variação (90/2000)
Brazil	31,413	Particip.	55,085	Particip.	75.36%
Center West	563	1.79%	1,832	3.33%	225.40%
North	1,793	5.71%	3,321	6.03%	85.22%
Northeast	3,030	9.65%	4,024	7.31%	32.81%
South	6,760	21.52%	12,883	23.39%	90.58%
Southeast	18,825	59.93%	31,129	56.51%	65.36%

Source: MDIC/SECEX

TABLE- 4
Intent Survey of Industrial Investments in Brazil – 1995/2000

REGIONS AND STATE	US\$ MILLION	(%)
NORTH	5,504.70	7.50
Rondonia	-	-
Acre	-	-
Amazonas	1,245.60	1.70
Roraima	-	-
Pará	3,059.10	4.17
Amapá	1,200.00	1.63
Tocantins	-	-
NORTHEAST	12,901.50	17.58
Maranhão	1,471.70	2.00
Piauí	75.90	0.10
Ceará	1,098.10	1.50
R.G. do Norte	415.80	0.57
Paraíba	1,002.20	1.37
Pernambuco	1,287.80	1.75
Alagoas	160.60	0.22
Sergipe	489.00	0.67
Bahia	6,900.40	9.40
SOUTHEAST	47,215.50	64.32
Minas Gerais	10,270.50	13.99
Espírito Santo	2,095.00	2.85
Rio de Janeiro	14,178.20	19.32
São Paulo	20,671.80	28.16
SOUTH	6,912.80	9.42
Paraná	2,359.10	3.21
Santa Catarina	1,171.60	1.60
R.G. do Sul	3,382.10	4.61
CENTER WEST	869.60	1.18
M. G. do Sul	-	-
Mato Grosso	442.30	0.60
Goiás	427.30	0.58
Federal District	-	-
BRAZIL	73,404.10	100.00

Source: Ministry of Industry, Commerce and Tourism

TABLE 5. Foreign Investments In Brazil: Consolidated by Region (1995)

REGION	R\$ (1000)					
	Total Assets		Net Wrth		Net Operating Revenue	
	Foreign Participation	Maj. Foreign Participation	Foreign Participation	Maj. Foreign Participation	Part Estrangeira	Maj. Foreign Participation
CENTER WEST	1,616,366	1,616,366	332,871	197,135	1,126,959	186,889
NORTH	8,239,628	3,240,911	4,547,545	2,341,297	5,885,251	3,661,379
NORTHEAST	11,431,416	4,855,815	5,685,629	1,861,783	3,622,749	1,485,776
SOUTH	12,859,495	5,949,984	6,611,003	3,313,119	9,293,585	4,716,885
SOUTHEAST	239,468,843	145,317,878	88,867,019	60,571,216	164,008,204	118,746,518
TOTAL BRAZIL	273,615,748	160,980,954	106,044,067	68,284,550	183,936,748	128,797,447

Source: Central Bank of Brazil

TABLE 6 – Foreign Investments in Brazil: Consolidated By Region (1995)

REGION	R\$ (1000)					
	IMPORTS		EXPORTS		JOBS	
	Foreign Participation	Maj. Foreign Participation	Foreign Participation	Maj. Foreign Participation	Foreign Participation	Maj. Foreign Participation
CENTER WEST	105,478	20,672	167,456	104,727	11,130	3,026
NORTHEAST	711,023	515,920	1,548,154	971,950	101,893	43,160
SOUTH	1,136,663	834,855	2,812,791	2,004,448	129,305	58,500
NORTH	1,411,453	339,396	1,106,588	236,096	27,995	16,487
SOUTHEAST	15,939,328	13,455,873	16,109,759	11,202,420	1,082,248	790,198

Source: Central Bank of Brazil – TABLE 5

MAP I – BRAZILIAN REGIONS AND STATES



