ECONOMY SUMMARY

INTRODUCTION

The main goal of this macro-study is to investigate Brazil and to get a global view of its economy. This chapter will focus on Brazil's economy by giving an answer to the following research question: "*How does Brazil attempt to integrate the concepts of sustainability on a macro scale?*" The national and international economies of both countries and the similarities and differences between the countries are discussed. Brazil recovered from a crisis following the turbulence in international market in 1998 and Brazil faced new market pressures in 2002, while the Dutch economy is more stable. Many differences will be seen. The most important aspects of both economies are discussed in this part of the report.

NATIONAL ECONOMY

Characterized by large and well-developed agricultural, mining, manufacturing, and service sectors, Brazil's economy outweighs that of all other South American countries and Brazil is expanding its presence in world markets. Since 2003, Brazil has steadily improved macroeconomic stability, building up foreign reserves, reducing its debt profile by shifting its debt burden toward Real denominated and domestically held instruments, adhering to an inflation target, and committing to fiscal responsibility. The Netherlands is a thriving country with an open economy, which relies heavily on the foreign trade. The economy is characterized by stable relations, moderate inflation, a healthy financial policy and her important role as European freight vein. Processing food, chemistry, oil refining and the production of electrical machinery are her most important industrial activities.

General overview

First the general economic facts of Brazil and the Netherlands are shown in Table 1 and the different sectors are discussed. Also, the general economic facts of the other BRIC countries (i.e. Russia, India and China) are included, to give an indication of the position of Brazil among other fast-growing economies.

	Brazil	Russia	India	China	The Netherlands
GDP (PPP)					
Total	$2.024 trillion	$2.216 trillion	$3.56 trillion	$8.879 trillion	$652.8 billion
Per Capita	$10,200	$15,100	$3,100	$6,600	$39,000
Inflation	4.8%	12.3%	8.7%	-0.1%	0.9%
Interest rate (2010)	8.75%	8.25%	3.50%	5.31%	1%
Unemployment rate	7.4%	8.4%	N/A	4.3%	5.6%
Economic Freedom	55.6	50.3	53.8	51.0	75.0
Growth competitiveness index	4.2	4.2	4.3	4.7	5.3

Table 1 - Comparative table of both countries

GDP over the last 10 years

The current gross domestic product (GDP) in 2009 was $2.024 trillion. This makes Brazil the 10^{th} economy of the world when sorted on GDP volume. The gross domestic product is the market value of all the goods and services made in a country in one year. The GDP in Brazil is more than twice the GDP of the Netherlands. This is because the number of inhabitants in Brazil is much higher. The economy grew more in Brazil than in the Netherlands over the last 10 years. So, Brazil has a high economic growth.

The GDP per capita on PPP basis was in Brazil $10,200 in 2009. This is the GDP divided by the total count of inhabitants of Brazil. The GDP per capita in the Netherlands was $ 39,000 in 2009 (CIA 2009). From this can be concluded that the economy of Brazil is still little compared with the Netherlands, by taking the number of inhabitants into account. Although the difference in GDP is big (Brazil's is more than three times larger than the Netherlands's), the GDP per capita is much lower (Brazil's is almost four times smaller than the Netherlands's). However, the growth of the GNI/GDP is higher in Brazil than in the Netherlands. This is a typical characteristic of a BRIC country: a little economy per capita, but a large growth over the last years.

Inflation and interest rates

From 1964 through 1994, the accumulated inflation in Brazil fetched 1,000,000,000,000,000% (1 trillion). The high inflation was primarily a result of recurrently weak macroeconomic fundamentals in Brazil. The inflation was also very convenient for the government; they printed money around the clock and could easily spend the budget (carte blanche). Furthermore, it was very hard to understand the inflation in a complex country like Brazil. The best economics failed to solve the inflation problem, till 1994, when the Real was introduced. This introduction has been a success. The Real has gained confidence of investors, which led to the first bond issues in 2004 in real instead of dollars (Inter-American_Development_Bank 2004). The bonds provide protection against currency fluctuations and international economic instability. The new currency is packed with the dollar. The package with the dollar protects against hyper-inflation.

Selic is the Brazilian Central Bank's overnight lending rent, which plays a fundamental role in the country's financial market. Unless the interest rate (Selic) of Brazil decreased slowly, the interest rate is still relatively high when comparing it with other developing countries. The current interest rate of Brazil is 8.75% (WorldInterestRates). The interest of the European Union is 1% at the moment. When interest rates are high, fewer people and businesses can afford to borrow, so this usually slows down the economy.

The high interest rate margins have had a long history in Brazil. In the past Brazil had many problems with the high inflation, external vulnerability and inappropriate fiscal management. Brazil had for example the highest inflation of the world, between 1965 and 1995. The only way to reduce this hyper-inflation was to reduce the real interest rate, because the inflation is coupled with the interest rate.

Labor and wages

The unemployment rate is the number of unemployed as a percent of the civilian labour force. The current number of unemployment in Brazil is 7.4% (2009). In 2008, the number of unemployment was 0.5 percent point higher. In the 1990s, the unemployment was around 10%. This high unemployment rate led to much social unrest in Brazil. However, after president Lula da Silva took office in 2004, the unemployment rate dropped to the level nowadays (Euromonitor_International_Plc. 2010). In 2008 the unemployment rate was 3.9%, this number grew because of the economical crisis (CBS). In the Netherlands, the number of unemployment in December 2009 was 5.6%. So, Brazil has a much higher rate of unemployment. The major cause of this is the very high population of Brazil (Economy_Watch). The number of unemployment in Brazil fluctuates a lot. This is due to seasonal effects (Economy_Watch). Many unemployed people come to the cities in the summer, where they can work in the touristic sector.

The average wage is a measure for the financial well-being of a country's inhabitants. The average wage for Brazil is $10.200 (CIA 2009). In 2007, the average wage on PPP bases in the Netherlands was $ 42,514 a year. So, the average wage for Brazil is much lower than the average wage in the Netherlands.

Economic freedom index

There are total 179 countries listed on the economic index of freedom and Brazil takes the 113th place, while The Netherlands takes the 15th place. The economic freedom score is 55.6 (out of 100). This means that Brazil is mostly not free in economical freedom. Brazil's overall score is below the regional and world average. "The state presence in many areas of the economy is heavy, and the efficiency and overall quality of government services remain poor despite high government spending as a percentage of GDP. Other barriers to entrepreneurial activity and job creation include a heavy overall tax burden, inefficient regulation, the relatively high cost of credit, and a rigid labor market. The judicial system remains vulnerable to political influence and corruption". (Foundation" 2010).

Growth competitiveness index

A total of 133 countries are listed in the GCI, Brazil takes the 56th place, while The Netherlands takes the 10th place. The growth competitiveness score of Brazil is 4.2 and the score of The Netherlands is 5.3 (out of 7). The countries are divided in three stages of development. Brazil is classified as an efficiency driven economy (the middle stage). Brazil scores best at market size (10th place worldwide). Brazil has one of the most developed financial markets in the region. This is attainted because being part of the BRIC (Brazil, Russia, India and China) economy. The countries continued to improve on their competitiveness fundamentals.

The GCI conduct also a list of the most problematic factors for doing business. The most problematic factors have a relation with tax. The tax regulations and the tax rates are the biggest restrictions for doing business in Brazil. (Schwab 2010)

Energy Availability

Brazil is a very large energy consumer, the largest in South America. In recent years the energy consumption has increased significantly, due to the economic growth. In the late nineties the energy sector is privatized. The primary energy sources of Brazil are oil, natural gas, coal, oil shale and uranium. Brazil has the second largest oil reserves in South America. The largest energy consumption of Brazil comes from oil (49%, incl. ethanol).

Electricity is largely provided by hydroelectricity. The hydropower provides 85% of the total energy generation. The other sources are nuclear, other renewables and conventional thermal. The most hydroelectricity comes from the Itaipu facility (dam) on the Parana River. They share the dam with Paraguay. Because most electricity is gained from the hydroelectricity (especially the Itaipu facility), Brazil heavily depends on this kind of energy. In the past some issues where caused, especially during periods of below-average rainfall.

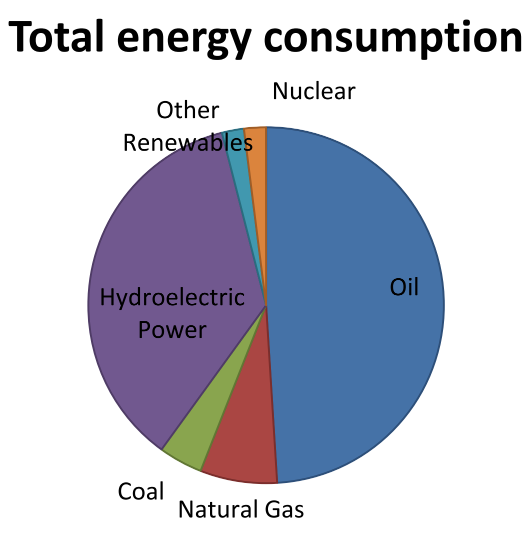

Figure 1 - Total energy consumption in Brazil (2006)

INTERNATIONAL ECONOMICS

After discussing the national economics, the international economics of both countries are discussed. The international threats and openness of the economy are discussed.

International economic threats

Brazil is largely a self-sufficient economy with a vast hinterland of eager, albeit poor, consumers. The import tax on capital goods deters foreign share buyers. Brazil's currency is coupled with the dollar which faces threats form a weak U.S. and external government. Currency appreciation is healthy in many respects, including by helping hold down inflation, it could be seen as a major threat to Brazil's global manufacturing position. Secondly, Brazil will need to re-examine the relationship with China and other emerging centers of economic power and global finance. For Brazil to become a major destination for global savings it will require learning the right lessons from the global crisis; get the balance between market and state right (Roubini, 2009).

European countries are financial, economic and political very close connected through the European Union. The Netherlands has a large import and export in comparison to its GDP, they depend more on trading than Brazil. The Dutch economy is therefore more sensitive for economic problems.

Import / Export

The table gives a good comparison between both countries. Brazil is more focused on the US and South-American countries while the Netherlands is more focused on Europe and China. The Netherlands can be seen as a trade-economy while Brazil has a more closed economy. The trade openness– i.e. the country's trade flow (both imports and exports) as a share of the country's gross domestic product (GDP) – indicates the same. It is an indication for the dependency of a country on their trade.

Since 2003, Brazil has steadily improves macroeconomic stability, building up foreign reserves, reducing its debt profile by shifting its debt burden toward real denominated and domestically held instruments, adhering to an inflation target, and committing to fiscal responsibility. The Netherlands is a trading country, going back hundreds of years. This can be seen in the larger amounts of impart and export as well as the openness index. Besides the trading, the Netherlands also plays an important role as European transport hub.

	Brazil		**The Netherlands**	
	Import	Export	Import	Export
Total value [$ Billion]	136 (2009 est.).	158.9 (2009 est.)	358.9 (2009 est.).	397.6 (2009 est.)
Trade openness	15%		116%	
Main goods (Agency 2010)	• Machinery • Electrical and Transport equipments • Chemical products • Oil • Automotive parts • Electronics	• Transport equipment • Iron ore • Soybeans • Footwear • Coffee • Cars • Automotive parts • Machinery	• machinery and transport equipments • Chemicals • Fuels • Foodstuffs • Clothing	• machinery and equipment • chemicals • fuels • foodstuffs
Partners (2008) (Agency 2010)	• United States 14.9% • China 11.6% • Argentina 7.7% • Germany 6.9% • Japan 3.9% • Nigeria 3.9% • South Korea 3.1% • Other 48%	• United States 14.0% • Argentina 8.9% • China 8.3% • Netherlands 5.3% • Germany 4.5% • Japan 3.1% • Other 55.9%	• Germany 16.6% • China 10.1% • Belgium 8.7% • US 7.5% • UK 5.8% • Russia 5.4% • France 4.4% • Other 41.5% (especially EU countries)	• Germany 25.4% • Belgium 13.7% • France 8.9% • UK 8.8% • Italy 5.2% • Other 48% (especially EU countries)

Table 2 - Import and export facts

Big Mac index

The Big Mac purchasing power parity (PPP) is the exchange rate that would mean hamburgers cost the same in America as abroad. Limitations of this index are that only countries that are facing a similar stage of development can be used, and that the index is distorted by transport costs, taxes, labor laws, levels of competition and trade barriers between countries. There can be concluded that the Big Mac is way more expensive in the Netherlands than in Brazil. The Big Mac index checks the valuation of the local currency with the United States. There can be seen that the REAL is 2 % under valuated against the dollar, which is a little difference. The Euro is way stronger than the dollar, and is 24% over valuated. This means that with the Big Mac index, the euro is around 20% over valuated against the REAL

Investments

Direct investments are investments in productive assets by a company incorporated in a foreign country, as opposed to investments in shares of local companies by foreign entities. The foreign direct investments (FDI) into Brazil were encouraged by the existence of a vast, dynamic home market insulated by a host of trade barriers. A protectionist trade policy was put in place to guarantee the profitability of these investments. In 1991 the Brazilian IT sector opened its doors to foreign companies and in 2002 'Investe Brasil' was set up to promote investments in Brazil.

	Brazil	The Netherlands
Stock of direct foreign investments – abroad (31 December 2009 est.)	$124,3 billion	$866,1 billion
Stock of direct foreign investments – at home (31 December 2009 est.)	$318,5 billion	$661 billion

Table 3 - Foreign direct investments (CIA 2010)

Balance of payments

The Balance of payments (BOP) records all monetary transactions that cross a country's border. The current account of the BOP covers all transactions that involves economic values and occur between resident and non-resident entities. When all components of the BOP are included it must balance, there can be no overall surplus or deficit. Record imbalances are held up as one of the contribution factors to the financial crisis.

If the current account is positive, the export is bigger than the import (in monetary value). A deficit of the current account implies that the country is a net capital importer. Brazil has been a net capital importer for several years. According to the information obtained from the IMF website, Brazil has a negative current account balance at least from 1980 till 2003 (no information before 1980 is available). From 2001 the export grew fast, what results in a positive current account balance. They economy grew fast, till the economic crisis in 2007. Brazil felt immediately the consequence of this crisis. After being positive for several years, the current account is again negative for Brazil, which means the import is greater than the export. Due to the rise of the real compared with the dollar, the import becomes cheaper. This result in export products which are less competitive in foreign markets (MercoPress 2009).

	Brazil	Netherlands
2000	-24.22	+7.26
2001	-23.21	+9.81
2002	-7.64	+11.02
2003	+4.18	+29.87
2004	+11.74	+46.10
2005	+13.98	+46.62
2006	+13.62	+63.07
2007	+1.55	+67.46
2008	-28.19	+42.57

Table 4 - The current account (billion $) (CIA 2009)

The Netherlands has always been a big exporter, this result in a high current account. The crisis did also hit the Netherlands hard, but for many people the effects will remain limited for the time being. Unemployment will be the first effect for the Netherlands (CPB, 2009).

The national interest rate varied between the 11 and 20% in Brazil. This resulted in fewer loans because they are just too expensive. This is a main difference with many other countries. Due to the high interest rate less money is borrowed, and the crisis has less influence. For example, the dwelling market in Brazil. Almost all dwellings are paid cash, where in the Netherlands many dwellings are financed by mortgages. Another reason is the bank crisis in the early nineties. Many banks in Brazil have a higher solvability because of the higher control. The Brazilian stock market has dropped anyway. The reason is that Brazil is a player in the world market and due to the panic on this market the demand has dropped (Ende, 2008).

CONCLUSION

Key issues

The gross domestic product of Brazil is $ 2.024 trillion, which makes Brazil one of the ten biggest economies of the world. The reason for this is the big population. When looking at the GDP per capita, $ 10,200, it is average for the world and lower than most West-European countries. In 1994, Brazil switched to the currency of the real. This has been a success: the interest rate decreased and the hyper-inflation had come to an end. The current number of unemployment in Brazil is 7.4 %, this is quite large. However, the unemployment rate is decreasing the last years.

On the growth competiveness index, Brazil scores average. It is classified as an efficiency driven economy and has a developed financial market compared with neighbouring countries. Brazil has got large amounts of oil. For example they are the biggest producer and exporter of ethanol. This oil is a primary energy source. Electricity is largely provided by hydroelectricity. Most of this comes from the Itaipu dam on the Parana River.

A very important export good of Brazil is coffee. The total import and export in Brazil is relatively small. The biggest import/export partner is the United States, which accounts for almost 15% (2010) of all the import and export of Brazil. The current account of the balance of payments shows that Brazil has changed from an exporter (2003-2007) to an importer in 2008.

Overall comparison

When comparing Brazil with the Netherlands, many differences can be seen. In general it can be concluded that the Brazilian economy is larger than the Dutch economy. But when the economies are compared on statistics per capita, the Dutch economy is much larger in almost all sectors. There is still a big difference between the GDP per capita in Brazil and the Netherlands. In terms of inflation and interest rates, the Dutch economy is much more stable. The fluctuating inflation in Brazil gives a less stable economy and the high interest rates leads to lower entrepreneurship. The unemployment rate is higher in Brazil, the Brazilians are not really free to control their own labor, and their competitiveness power is lower. In the last part of the national economy, the prosperity, Brazil scores also lower than the Netherlands.

In the international economy, Brazil is less sensible for the Global Crisis then the Netherlands. In import and export numbers, Brazil is far behind the Netherlands. The Dutch total value of import and export is much higher the Brazilian, because the Netherlands is more depending on the trading with other countries and they have a more open economy than Brazil.