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Integration once again: the Brazilian Northeast in the context of EU-Mercosul trade relations

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Introduction

Integration has meant great changes for the Brazilian Northeast since its becoming part of the regional division of labour that allowed the constitution of a single domestic production system in the country in the 1950s. This process required the Northeastern economy to adjust to the extent of embarking into new industrial sectors and dismantling old industrial capacity, such as textiles. This adjustment has however developed the region´s industrial capacity and competitiveness which allowed it to improve exports - both foreign and interregional - and reduce its so-called "structural" trade deficit in the 1980s.

This context has changed by the constitution of the South American Common Market - the Mercosul. The new trade block has inspired Northeastern polititians and diverse analysts to argue that the regional economy is to become less important for Brazilian domestic market and production system, as the interindustrial links are to enhance among southern and southeastern firms. Government expenditures as well as private investments concentrated in these regions gives them the explanation for their belief.

The recent moves towards increasing the commercial links between the European Union and the Mercosul bring new facts to the context. The Northeast could emerge as holding competitive advantages out of this integration process into which the Brazilian economy is getting. There could be argued that the region´s historical backwardness could decrease in the context of fusions, acquisitions and the like by European capital? Would not this be the case of moving backwards to the period in which there was no integrated domestic market and the Northeast, as other regions in Brazil, basically traded with European partners. These are the questions this paper is intended to answer.

From *relative isolation* to *integration of production*

Regional economies have experienced quite significant changes in the past 40 years in Brazil. However, the tale of integration of the domestic economy starts farther behind, to the First World War. Until then, Brazilian economy was a primary-exports-led one, with a handful of commodities produced in different regions: coffee in São Paulo and Rio de Janeiro, cane-sugar, cotton and tobacco in the Northeast, leather in the Southerns states, and rubber in the North. In this way, every one of the regional economies held stronger commercial links with foreign markets, than among themselves, regarding both exports and imports, and even within each one, regarding the export sector and the subsistence (crops and cattle) activities of the hinterland. This *relative isolation* of regional economies led many authors – from Furtado to more recent researchers such as Cano (1980) and Guimarães Neto (1985) to point to the image of an *archipelago of regions* that would well reflect the Brazilian economy at this time.

During the war years, the country had already developed a small industrial sector in all regions but the North, though some concentration in São Paulo had already showed signs of developing. This state, better endowed of a higher value crop – coffee - in international markets, improved diversification of economic activity and industrial capacity to substitute imports in the face of war. In so doing, it set the conditions for better adjusting to the effects of the 1929 crisis, and concentrating large portions of Brazilian economy in a rather small territory years later. From 1930 onwards, São Paulo’s industry enhanced, and with it the hegemony of industrial capital.

Attention is then given to the notion of integration. The latter is closely connected with the transition of Brazilian economy from one characterised by tropical agriculture complexes, as Furtado puts it (1980), towards an industry-led one. In order to expand while coping with foreign imports that had resumed growth after the war, the *paulista* industry focused on the entire domestic market. By so doing, it had found the means to sustain its capacity. Between 1930 and 1939, São Paulo’s industry grew at an annual rate of 14 per cent, against 10 per cent for the country. The state’s textile industry increased participation in the national production from 26.3 per cent, in 1907, to 36.6 per cent, in 1919, and to 60.6 per cent in 1939 (Cano, 1977). The ratio of the value of industrial production from the Northeast to that from São Paulo dropped from 1.02, to 0.51, and to 0.23, respectively (Magalhães, 1983).

During this period, when industrialization is known as being *restricted*, because dependent on export earnings and import capacity to supply capital goods, Guimarães Neto (op.cit.) names *commercial articulation* the sort of integration[1] in process then. In his view, this first move towards integration was characterised by an intense growth of commercial relations between different space economies. In this period, each region’s adjustment to the expansion of trade relations is limited by each one’s capacity in financing its own capital formation. At this time, and not without a connection, Brazilian state based on rather independent regional (oligarchic) politics was facing severe challenges, which eventually led to the formation of a properly central state. With this, the conditions were set for the constitution of a sophisticated and centralised state apparatus with strong capacity to intervene in economic and social regulation (Fiori, 1995).

Results of these political changes can be seen in the significant development of the country’s transport system. As Guimarães Neto recalls, motorways increased from 113.6 thousands kilometres, in 1928, to 459.7 thousands, in 1955. Trucks in operation in the country doubled in ten years to 109.2 thousands, in 1947, and to 210.2 thousands, in 1951. By reducing transport costs through public investment in the transport infrastructure, the centralised state helped to enhance remarkably the trade flows between regional economies. By so doing, it contributed to the development of the country’s *restricted industrialisation* which was somewhat the same as improving São Paulo’s industrial capacity and concentrating in that state the national production activity. São Paulo was responsible for 48.9 per cent of the country’s transformation value of industry (TVI), in 1949, and an even tougher concentration in respect to capital and consumer durable industries, with a share of 69.7 per cent. Both developments on transports facilities and industrialisation led to the commercial articulation which is reflected on the country's trade flows. Until middle 1920s, inter-regional trade was responsible for only one quarter of Brazilian states' total trade. After World War II, trade within the domestic market accounted for half of total trade (Guimarães Neto, op.cit.).

The other side of the same coin was the remarkable impact that this articulation caused on the inter-regional competition. The course the fragile trade articulation between regions of the early century towards competition that improved after World War I, threw the Northeastern economy into severe difficulties. Not only it disturbed inter-regional but also intra-regional trade. As inter-regional competition boosted, diversification of industrial activity as well as agriculture in São Paulo increased, and along with it regional concentration of production and income. In 1939, the ratio between industrial employees from the Northeast and those from São Paulo was 0.51, as compared to 1.59, in 1907. Similar ratios concerning productivity rate were 0.44 and 0.60, respectively (Magalhães, 1983). In 1950, the Northeast accounted for one third of the country's population, 14.5 per cent of the national net income and for 42 per cent of the national per capita net income (Goodman and Albuquerque, 1974).

In 1959, São Paulo already concentrated 55.6 per cent of TVI and 82 per cent of capital and consumer durable industries. In contrast, the state's participation in the Brazilian consumer non-durable and intermediate industries was rather smaller and grew much more slowly (from 44.7 per cent to 48.7 per cent, and 51.9 per cent to 52.0 per cent, respectively, between 1949 and 1959). This gives an idea of the division of labour that was developing among the regional economies. While São Paulo exported industrial goods, its inter-regional imports increasingly concentrated on raw-material and other primary inputs, which in Guimarães Neto's view constitutes a typical centre-periphery structure of trade relations. Integration, during this period, followed therefore the determination of industry over the development of a proper domestic market, at the general level, and the determination of São Paulo over the inter-regional competition that came about after this early industrialisation. The regional economies' future evolution, their production and trade structure, are very much an outcome of each one's economic conditions with which they went into commercial articulation.

After World War II, economic policy in Brazil became more sensible to explanations to development other than those related to market-led factor allocation and approached structuralist theories. Interest focused especially on their view about the terms of trade and balance of payments disequilibria as potential constraints on a less-developed nation's development. In resonance to these concerns, and to Keynesian theorisation of the role of aggregate demand as the engine of growth and of the causes of unemployment, the Brazilian central state adopted a new scope of action. proposed by structuralist development strategy. The central state was assumed as the only agent capable of gathering the means for changing the national economic structure and terms of trade. Public funds and institutions, state enterprises and investment in infrastructure were set in motion, from the second half of the 1950s on, so as to breed a backward-linked import-substitution industrialisation that has become known, in Brazil, as *heavy industrialisation*.

Considering the industrial structure that arose from the previous period, the state measures of this period (and afterwards) benefited São Paulo's economy highly. Its determining position in the country's division of labour enhanced as commercial articulation proceeded towards a proper production integration. The well-known finance tripod of Brazilian heavy industrialisation – the state, private domestic capital and foreign capital – firstly boosted and diversified the *paulista* production structure. Then, capital expansion sought new markets in the peripheral regions as well as the latter's natural resources. In this goal, industrial capital was heavily aided by state subsidies and regional policies, particularly concerning the Northeast. In the late 1950s, after one more prolonged drought that still uses to hit the region, coupled with concerns about the deep and constant fall of the region's general economic indicators, the government set up a commission to study the Northeast economy and propose development strategies.

The commission (the so-called GTDN, or *Grupo de Trabalho para o Desenvolvimento do Nordeste*), headed by one of the founding fathers of structuralism, Celso Furtado, supported regional industrialisation as a means of overcoming the region's structural problems. A regional development agency and regional financial instruments were set in to implement the strategy, which went ahead until the 1964 military coup. From this period on, regional industrialisation proceeded but not as much related to establishing intra-regional inter-industrial linkages and targeting structural unemployment as defended by GTDN[2]. After a short period centred on monetary stabilisation and reforms in the financial and institutional environments of Brazilian economy, the following decade was characterised by fast growth of capital formation.

This derived particularly from industrial investments that produced important technology innovations within production structure. They boosted expansion of department I (capital and consumer durable goods) of the economy, to the extent of improving production capacity well beyond domestic demand (Mello, 1982).

This process of *heavy industrialisation* implied the oligopolisation of Brazilian economy and encouraged concentration of economic activity in São Paulo. During this period, migration inflows to that state deepened while regional disparities enhanced. The *paulista* manufacturing industry accounted for 55.6 per cent, in 1959, as compared to 48.9 per cent, ten years before. Even more concentrated resulted the capital and consumer durable goods industry (82 per cent and 69,7 per cent, respectively). Particularly high was concentration of mechanical engineering (78.5 per cent, in 1959), transport equipment (86.6 per cent), and electrical and communications equipment (80.1 per cent) industries.

This growth obviously affected the Northeast. As Guimarães Neto claims, inter-regional increasingly substituted traditional trade with foreign markets, whilst industrial goods from São Paulo flooded the Northeastern economy. In opposition, the region’s exports to the rest of the country stagnated, leading to the so-called structural trade deficit that resulted from the changes just mentioned. In the 1947 the Northeast presented a trade deficit that accounted for 5.5 per cent of regional income, which jumped to 6.5 per cent, in 1960, and to 23.2 per cent, in 1968. The negative impact of industrial concentration hit the region’s traditional industries most. These included the Northeast’s leading sectors such as textiles, garments and shoes, whose market and employment increased at na annual rate of 1.5 per cent between 1959 and 1967, as compared with the regional average of 3.7 per cent. As a result, the share of imports on the Northeaster production value of manufacturing rose from 43.6 per cent, in 1961, to 72.7 per cent, in 1967, while the same ratio for exports was 13.4 per cent, in the final year.

From mid-1960s on, *productive integration* portrays the moves of industrial expansion in Brazil, which is so understood for it implied significant changes in the economic relations among regions. In spite of maintaining inter-regional trade flows, productive capital started to transfer from more advanced to peripheral regions, in search of investment opportunities and stimulated by regional development policy, particularly to the Northeast since the creation of Sudene, the regional development agency set up by Furtado, in the late 1950s. Inward productive capital increasingly displaced regional capital fractions, public investments in the region soared and regional economic growth sped up[3]. Industrial gross capital formation jumped at an annual rate of 20.2 per cent per year, between 1965 and 1974. From 1968 to 1975, the region's industrial product showed an average rate of growth of 8.0 per cent per year.

No less than 11 industrial sectors, out of 16 present in the Brazilian economy at that time, were set up in the Northeast. Yet, it is worth pointing out that an industrial structure of this sort, promoted largely with inward investment, would not lead to competing regional industrial matrices. On the contrary, analysts have pointed to the solidarity between investments made in the Northeast and those from the Southeast, particularly from São Paulo. Establishing branches in the former represented higher returns than otherwise, as the Inter-American Bank estimated (under same technology, return rate of an industry located in the Northeast would be around 46.8 per cent, as compared to 14.0 per cent for a Southeastern counterpart, due to regional subsidies and finance mechanisms).

This solidarity increased substantially in the 1970s, as a result of government measures to face the first oil shock in line with import substitution *developmentism*. A new phase of import substitution industrialisation (ISI) boosted the country's production of intermediate goods. Among these, focus rested on the petrochemical industry through the establishment of several poles throughout the country. Each pole was planned to specialise in specific parts of the industrial process so as to constitute a nationally decentralised petrochemical sector. The Northeast housed the petrochemical pole of Camaçari, in the state called Bahia. Meanwhile, other investments – mostly public - in activities related to the region's natural resources, also boosted the economic solidarity mentioned. From the 1970s, the region becomes effectively integrated with the national economic structure, particularly concerning industry.

Closely connected with substitution of intermediate goods, industrial investment in the Northeast increased considerably to nearly half (49.8 %) of the regional gross fixed capital formation in 1978 as compared to 34.4 % in 1965. According to Sudene (1990), investment in the Northeast's industry grew 8.6 times between 1965 and 1983 which represents an average rate of change of 12.7 % per year in the period. By 1980, industry accounted for 29.3 % of the regional GDP, as compared to 22.1 % in 1960. The revenue generated by incentive-supported industrial projects for the region's global tax collection also soared to the degree that in 1988 they represented 51 % of the federal industrial product tax (IPI), 67 % of the state tax on the circulation of industrial goods (ICMS), and 24 % of the global revenue from state tax on the circulation of goods. This industrialisation effort was therefore relevant to the extent of inspiring analysts to name it the Northeast's *new industry*.

The Northeast's share of Brazilian GDP and per capita income also improved with the set up of the *new industry*. In spite of the extent of the Northeast's net emigration rates which, thanks to the Southeast's industrial supremacy, pushed the region into a negative migration balance of over 2 million people (34 % of the total increase in population) between 1960 and 1980, the region's industrialisation may be acknowledged as a major source of increase in the regional GDP per capita. The latter rose from $740 in 1970 to $1,380 in 1980 and to $1,592 in 1990 (SUDENE, 1994, 1993 constant prices). This growth allowed the regional share of the national GDP to increase from 40.5 % to 44.8 % over the ten years from 1970 and continued to increase up to the end of the 1980s (44.8 % in 1980, 54.6 % by 1990), though more slowly.

Effects of domestic integration on the Northeast's trade

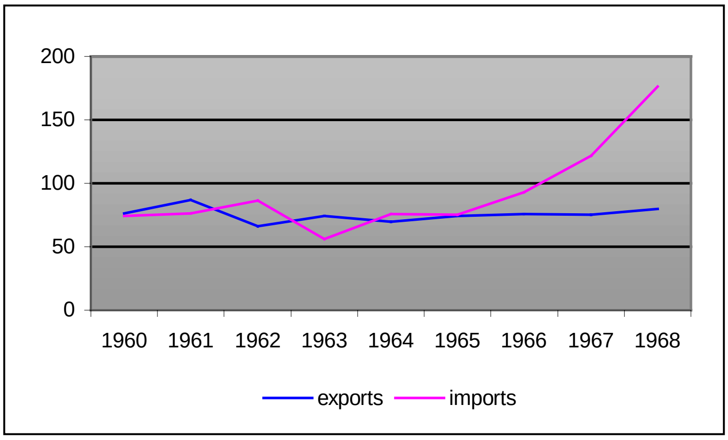
The GTDN report pointed the foreign sector as the Northeast's main source of economic dynamism. Nevertheless the region's exports was highly concentrated on primary commodities such as sugar, cocoa, cotton, tobacco, castor bean and sisal-hemp. These commodities accounted for about 80 per cent of Northeastern foreign exports during the 1957-67 period.

Effects of the 1960s integration

Although the structure of trade list just mentioned has not been altered right after integration, the Northeast's trade balance and partners have changed significantly, as figure 1 and table 1 show. From 1960 to 1965, the region presented an unstable though small total trade surplus. From 1965, trade deficit enhanced, soaring from Cr$ 0.9 million to Cr$ 96 million, in 1968. As expected, the deficit originated from the Northeast's trade with the rest of the country rather than from its foreign commerce. Between 1960 and 1968, domestic imports increased steadily (except in 1963) at an average rate of 12.1 per cent per year to Cr$ 159.7 million. Meanwhile, the region's foreign exports showed a better performance as compared to the domestic ones, although dynamism was far less intense than that of imports. It is worth pointing out, as Goodman and Albuquerque (1974) argue, that between 1960 and 1965 the Northeast's average foreign trade balance was around Cr$ 24.5 million while its domestic balance was around Cr$ 24.0 million.

There was, therefore, a reasonably balanced trade in which foreign exports paid for domestic imports. From 1966 on, the value of the domestic deficit overcame by far that of foreign surplus, thus leading to increasing total deficits. By 1968, the region's foreign surplus corresponded to less than one third of its domestic deficit. It is worth pointing out, nevertheless, that its foreign trade balance is positive during the whole period that table 1 shows. This leads to the conclusion that two opposite movements arose from economic integration of the Northeast to the national economy as far as the region's trade is concerned. Its foreign commerce remained positive, while the domestic one changed tendency, to the extent of producing an increasing structural negative total trade balance. This tendency, along with the region's high rates of under-occupation and unemployment (between 27 per cent and 31 per cent, estimates Sudene, for 1968-70), pushed analysts to criticise the government's support to regional integration.

Figure 1
Northeast, Brazil – total trade balance, 1960-68
Constant 1960 Cruzeiros, million



Source: Goodman and Albuquerque, 1974.

Table 1
Northeast: trade balance, 1960-68
Constant 1960 Cruzeiros, million

	exports			imports			balance		
	foreign	**domestic**	**total**	**foreign**	**domestic**	**total**	**foreign**	**domestic**	**total**
1960	34.3	42.2	76.5	10.1	63.9	74.0	24,2	-21,7	2,5
1961	38.8	48.0	86.8	8.9	67.6	76.5	29,9	-19,6	10,3
1962	28.1	38.0	66.1	8.4	78.1	86.5	19,7	-40,1	-20,4
1963	31.1	43.0	74.1	9.5	46.4	55.9	21,6	-3,4	18,2
1964	33.5	36.3	69.8	11.2	64.5	75.7	22,3	-28,2	-5,9
1965	37.6	36.7	74.3	8.0	67.2	75.2	29,6	-30,5	-0,9
1966	40.9	34.8	75.7	12.4	80.5	92.9	28,5	-45,7	-17,2
1967	38.0	37.5	75.5	13.5	108.1	121.6	24,5	-70,6	-46,1
1968	36.7	43.1	79.8	16.4	159.7	176.1	20,3	-116,6	-96,3
1960-68 growth	0.8	0.3	0.5	6.2	12.1	11.4	-	-	-

Source: Goodman and Albuquerque, 1974.

Economy and trade after the 1970s domestic integration

The Northeast which resulted from the 1970s *developmentism* continued to present Brazil's poorest living standards but also turned into its third largest industrial area. These characteristics indeed reflect the region's dualism, but also a process of industrial decentralisation from the Southeast. Conservative modernisation – as this period's integration became known - notwithstanding, one must acknowledge that the Northeast's *new industry* that resulted from the *developmentist* project was more efficient and competitive than analysts could have caught on as they have studied the regional economy partially – the incentive industries. In spite of breeding social dualism and unable to develop indigeneous technology, conservative modernisation set the conditions for the greatest changes that have taken place in the region's socio-economy so far.

Following Furtado's influence, to which I give support, these analysts have not however been able to assess three important effects. First, the *new industry* developed strong inter-industrial and intra-regional linkages, instead of the expected 'footloose', import-dependent industrial structure[4]. Second, the effects this industry caused on the region´s trade balance were actually positive. And finally, its foreign manufacturing exports improved in spite of the alleged antagonism between export expansion and regional development[5]. I shall concentrate on the trade effect of the *new industry* next.

Trade effects of the 1970s integration

Polarisation and the 'hollowing out' of regional value added and employment due to a fragile inter-sectoral articulation that led to the region's increasing trade deficit are argued as the consequences of economic integration on the Northeast through the setting up of the *new industry*. This is a view based on the development economics literature which defends that less developed economies characteristically show a rather 'footloose', import-dependent industrial structure, as long as sectoral investment tends to leak because of the import content built in these economies' industrial projects - which derives particularly from the needs of these projects for capital goods - and their consumption structure (both intermediate and final). As a result, the import structure constrains the level of employment and income of these economies at the same time as it stimulates scale economies in more advanced areas. Investments in such industrial structures tend thus to „leak“.

As far as the conflict between export and regional policies is concerned, the national policy of export expansion, as has emerged in a spatially unbalanced economy such as the Brazilian one, is likely to have yielded not the best of results. Not only the Northeast's tendency to focus on domestic trade - traditionally deficit-prone - could have refuelled but its share of the country's foreign exports as well as industrial output could have fallen. According to Guimarães Neto and Araújo (1985), the region's previous tendency of replacing foreign for domestic trade during the mid 1960s and 1970s, when public and private inward transfers were high, reduced its manoeuvre to turn foreign exports into an alternative source of growth in the 1980's fell far short of being a feasible possibility.

However, the so-called 'extra-regional dependency standard' as claimed by Goodman and Albuquerque does not hold true as far as trade figures - presented in tables 2 and 3 - are concerned. Although built up from different currency bases, table 2 shows that the proportion of total imports to total exports has decreased quite considerably during the 1975-85 period, from 1.5 to 1.1[6]. Moreover, it is worth noting that this performance derives not only from foreign trade, in the face of raised ISI-related import barriers, but also from domestic trade. While great import reduction contributed to the fall of the former (from 0.5 to 0.3), this was not the case regarding the latter which dropped from a ratio of 2.3, in 1975, to 1.5, in 1980, maintaining this ratio in 1985[7]. This reveals that integration during the 1960s indeed led the regional economic structure to transfer income to the rest of the country, especially São Paulo, as industrialisation developed in the country. Nevertheless, this economic relation has entered a new phase by the time the region located important parts of II PND-related investment, in the second half of the 1970s.

Table 2
Northeast: Ratio of imports to exports, selected markets – 1975-85

	foreign	domestic	total
Current Cruzeiros, million			
1975	0,5	2,3	1,5
1976	0,8	2,3	1,8
1977	0,6	2,3	1,6
1978	0,6	2,0	1,5
1979	0,6	1,9	1,5
1980	0,7	1,5	1,2
Constant 1980 Cruzeiros, million			
1980	0,6	1,6	1,3
1981	0,4	1,9	1,4
1982	0,5	1,4	1,2
1983	0,3	0,9	0,7
1985	0,3	1,5	1,1

Source: Sudene, 1985, for 1875 to 1980, and Fernandes, 1996, for remaining years.

Table 3
Northeast: 1980-85 Trade of goods and services
1980 constant Cr million

	1980	1981	1982	1983	1985	annual average change 1980-85
Exports						
Domestic	308.129	230.168	279.940	264.124	246.569	-4,4
São Paulo	176.826	131.609	168.611	167.530	159.750	-2,0
Rest of the country	131.304	98.559	111.329	96.594	86.819	-7,9
Foreign	117.949	118.201	83.782	135.268	138.295	3,2
Total	426.078	348.369	363.722	399.392	384.864	-2,0
Imports						
Domestic	491.184	444.428	398.804	237.900	364.755	-5,8
São Paulo	308.539	276.774	244.267	144.345	218.062	-6,7
Rest of the country	182.645	167.654	154.537	93.556	146.693	-4,3
Foreign	67.213	45.593	42.987	44.990	43.434	-8,4
Total	558.397	490.021	441.791	282.891	408.189	-6,1
Balance						
Domestic	-183.054	-214.260	-118.864	26.224	-118.186	-8,4
São Paulo	-131.713	-145.165	-75.656	23.185	-58.312	-15,0
Rest of the country	-51.342	-69.095	-43.208	3.039	-59.874	3,1
Foreign	50.736	72.608	40.795	90.277	94.861	13,3
Total	-132.318	-141.652	-78.069	116.501	-23.325	-29,3

Source: Fernandes, 1996.

Table 3 confirms that assumption, as it shows that the Northeast was undergoing into a decreasing tendency in respect to its total and domestic trade deficit. Regarding trade with São Paulo, which was known as underlying the so-called Northeast's structural deficit, figures show that in 5 years this has fallen by 56% (to 58.3 thousand million Cruzeiros). This resulted from performance of imports rather than exports, as the former fell faster than the latter, thus leading trade with São Paulo to generate the lower deficit among domestic partners. Meanwhile, foreign trade balance increased substantially at an average rate of 13.3% per year during the same period. This growth raised the ratio of foreign to domestic balance from 27.7% to 34.3% between 1980 to 1983.

The *new industry* that resulted from II PND-related investment adjusted the Northeast's production capacity so as to reduce its domestic trade deficit tendency and economic *leakage*, internalise income, as well as improve its responsiveness to the stimulus of the crisis-led 1980s export policy. In line with IMF recipes Brazil focused on export expansion in the early 1980s to face its debt crisis. This indeed fostered the contribution of the Southeast to the country's exports once again as this region shares the country's majority of manufacturing production. Indeed, the Northeast decreased its aggregate share of the country's foreign exports in the 1980s, as table 4 shows. The region's total exports dropped from 11.5 % in 1980 to 9.7 % in 1990. As the region's foreign exports still concentrate on primary commodities (sugar, cocoa and cotton) as its *new industry* has developed an inter-regional orientation, a constant reduction of the Northeast's contribution to the Brazilian exports is not surprising even during this period.

Table 4
Percentage share of the Northeast in the Brazilian exports by type of product, 1975-90

	total	**primary**	**industrial**	**manufactured**
1975	17.2	20.8	12.8	7.8
1978	13.1	14.7	11.7	4.9
1980	11.5	14.8	9.2	6.1
1982	9.8	10.6	9.4	8.0
1984	11.3	13.2	10.7	9.5
1986	10.1	13.1	9.1	6.6
1988	9.3	9.8	9.2	7.0
1990	9.7	8.6	10.2	7.9

Source: CECEX, Relatório Anual 1978 and DECEX/CTIC, 1991.
Current US$ million; excluding 'non-declared zones'.

Nevertheless, as table 4 shows, the relative position of the region's *manufactured* exports rose by 30 % between 1980 and 1990 after losing position in the 1970s. This is consistent with the fact that during the 1970s the main investments in the region's industrialisation were still in progress, while the country experienced quicker economic expansion and the fastest ever rates of export growth, which has benefited the

Southeast's industrial and exports growth. From 1978 to 1984 (when the country presented the decade's larger trade surplus), the Northeast's share of the national manufactured exports nearly doubled from 4.9% to 9.5%. When the domestic market resume growth, the share of the Northeast in the country's manufactured exports falls again, although it shows an increasing tendency in the final years of the series.

Increased export capacity reflects a two-fold situation: the region's stronger manufacturing industry and the new situation of the 1980s crisis-hit domestic economy. Sales abroad became a necessary alternative for an increasing number of firms. Indeed, table 4 also shows that most of the expansion of manufactured exports was concentrated in the early years of the decade. At that time recession forced São Paulo's manufacturing sector to lose position whilst the Northeast's *new industry* matured, setting the conditions for an increased share in the nation's exports. Meanwhile, the region's primary exports declined sharply due to declining international prices, thus underlying the reduced relative position of the Northeast in the Brazilian totals (from 11.5 % in 1980 to 9.7 % in 1990), and offsetting the performance of the region's trade of manufactured goods.

Integration round 3: globalisation or mercantile regression?

By early 1990s, after over a decade of high inflation rates and small growth of domestic product, the country's government finally agrees to undergo structural reforms inspired in the so-called Washington Consensus. It starts by reducing import tariffs sharply, but major changes just started from 1994 onwards, when the *Real* stabilisation plan was set in motion. This plan was delivered as a means to promote the adjustment necessary for opening not only the Brazilian economy to international traders but also its financial market to global speculation, at the cost of operating high interest rates and overvalued exchange rates. The latter would give the means for maintaining inflation low by providing the substitution of „costly" domestic goods for „cheap" foreign ones. The former would, in turn, raise the country's international reserves with which imports would be paid for. As a result, the country started to be recognised as an *emerging market* rather than a *developing nation* (Fiori, 1996).

As a result of the stabilisation-led changes in income distribution per capita income increased in the first years after the *Real* plan. Inward investment also increased, especially that oriented to the motor industry, privatisation of public assets soared, mergers and acquisitions pushed centralisation of industrial and financial capital, leading to larger shares of multinational firms in the country's economy and growth of unemployment rates, particularly in São Paulo's manufacturing industry[8]. Finally, the country's trade surplus, which had improved during the past decade, turned into an increasing deficit from 1994 onwards. Between 1994 and 1997, Brazil's trade balance changed from a US$ 10.5 billion surplus to a US$8.4 billion deficit. Meanwhile, its ratio of imports to international reserves increased from 48.3 in 1990 to 112.8 in 1996.

The regional effects of these reforms have been very controversial. Some analysts (Cano, 1997 and Araújo, 1997) have argued that stabilisation and economic restructuring are reverting the previous de-concentrating tendency of investment and income among Brazilian regional economies. Moreover, the recent reforms will lead to de-industrialisation, even stronger unemployment and spatial concentration of industry in a small territory polarised by São Paulo. In this way, a return to the primary-exports economic structure previous to 1930 is expected, in the long run, along with a reducing share of peripheral regions in the domestic economy. A so-called *mercantile regression* would thus be in motion.

Other (Guimarães Neto, 1997, Pacheco, 1996) argue that this tendency is not so clear, raising the possibilities for some regional de-concentration to continue, although much at slower rates. This is based on the fact that economic restructuring has boosted inter-regional and inter-local competition as long as the notion of a minimum federal state is prevailing among the neo-liberal reforms in motion. This is a deep reform as far as Brazil is concerned, in which recent industrialisation was led by state investment of diverse sorts. An active state was a rather decisive feature of Brazilian *developmentism* and economic growth. In the absence of this active state and public investment funds, in the absence of high inflation with which profit in over night financial speculation, in the face of high rates of interest, regional and local governments have experienced soaring debts, civil servant redundancies while entering into fiscal battles in order to attract inward investment. By providing for jobs and technology transfer, inward investment would give the political recognition that regional and local governments have lost along with reduced national public funds. Industrial de-concentration would therefore continue as labour-intensive industries would seek labour abundant regions and their incentives. Indeed, beverages, textiles, garments and shoes industries have moved to the Northeast, while the motor industry have sought higher educated workers and large incentive facilities of the South. Natural resources-related industries, such as paper and pulp would continue to seek their reserves, thus contributing to the slow motion de-concentration mentioned. At the end, some fragmentation of the Brazilian economy would come about due to increased trade articulation with international partners, and to the expected slow growth tendency of the domestic product driven from the fragility that the monetary stabilisation causes to the country's foreign account.

In any case, as far as the Northeast gains from trade since the set up of the *new industry* are concerned, changes have been quite significant. As table 5 show, since the fall of import tariffs in 1992, the region's traditional foreign surplus has decreased steadily until turning into deficit in 1996.

Table 5
Northeast: foreign trade balance - 1980-96
Current US$ million FOB

	exports	**change**	**imports**	**change**	**balance**	**change**
1970					-	
1975					-	
1980	2.319,5	-	1.381,3		938,2	-
1985	2.525,6	8,9	770,1	(44,2)	1.755,5	87,1
1990	3.030,4	20,0	1.491,9	93,7	1.538,5	(12,4)
1991	2.859,8	(5,6)	1.577,9	5,8	1.281,9	(16,7)
1992	3.034,7	6,1	1.372,7	(13,0)	1.662,0	29,7
1993	3.040,4	0,2	1.973,0	43,7	1.067,4	(35,8)
1995	4.240,0	39,5	3.562,8	80,6	677,2	(36,6)
1996	3.854,9	(9,1)	4.147,7	16,4	(292,8)	-

Source: Sudene/DPO/IPL/CRG.

According to Sudene (1998), real change rates of growth of Northeastern foreign exports in 1995, 1996 and 1997 were 11.5%, -3.8% and 2.7%, respectively, while foreign imports rates reached 58.8%, 3.5% and 1.2%, in the same years. Growth of imports is thus faster than that of exports, which leads to the region's trade deficit that table 5 shows (in 1997, the region's foreign trade balance repeated the previous year's deficit).

This is particularly relevant as far as the state of Bahia, whose economic dynamics has improved substantially since the set up of the petrochemical pole of Camaçari, responding for a large share of the region's reducing domestic trade deficit as well as of its foreign trade surplus, has presenting decreasing foreign surpluses. According to table 6, Bahia's surplus has dropped from US$ 909.3 million, in 1992, to US$ 407.8 million, in 1996, and further down to US$ 277.2 million, in 1997. Besides

Bahia, only two other states have presented trade surplus in 1997 (Maranhão, Piauí), whose exports are strongly related to their natural resources reserves and whose imports capacity is quite low. In opposition, Pernambuco, a traditional regional trader among the Northeastern states, has seen its foreign trade surplus change into an increasing deficit tendency since 1992, in which has been followed by the state of Ceará, which houses the region's third industrial area and metropolitan region.

Table 6
Northeast: selected states' trade balance. 1970-96

	Maranhão	Ceará	Pernambuco	Bahia
1970				
1975				
1980	(15.1)	43.7	164.0	289.9
1985	16.5	124.2	110.1	1.234.0
1990	341.0	116.9	173.8	549.0
1991	254.1	105.8	27.1	590.1
1992	278.3	64.8	99.1	909.3
1993	301.2	(94.0)	(129.5)	740.9
1995	434.0	(304.7)	(315.1)	530.1
1996	277.1	(437.5)	(488.6)	407.8

Source: Sudene-DPO/IPL/CRG.

Brazilian recent trade policy has therefore imposed severe adjustments to the country's economic structure. A way of dealing with it has been the reinforcement of bilateral commercial relations with selected trade blocks. On the one hand, governments have improved integration with the so-called Mercosul, the South American Common Market, formed so far by Argentina, Uruguay and Paraguay besides Brazil. On the other hand, efforts have been made to bring this block – and within it, Brazil - near the European Union. In this way, trade diplomacy would be nurturing alternative elements of bargain with which to cope with the American continental integration led by the United States.

The former strategy is by far that mostly successful. The share of exports to Mercosul countries on Brazil's total exports have increased from 7.3%, in 1991, to 17.5%, in 1997. Imports, in turn, increased from 10.8% to 15.8%, in the same period. Yet, Mercosul remains as Brazil's fourth largest trade partner, after the EU, the Nafta (20.6% of total exports and 22.1% total imports, in 1995) and Asia (16.8% and 16.7%, respectively, in the same year). Trade with the EU also rose but mostly due to increasing Brazilian imports: the share of exports to the Union on Brazil's total exports fell from 31.1% to 27.4%, while the share of its imports increased from 22.2% to 26.6%, in the same period.

It is worth pointing out that integration with Mercosul is high in the Brazilian government agenda, but also in the private firms' as well. Multinational firms that have been investing in Brazil since stabilisation have shown that their location strategies are strongly oriented towards increasing their market shares in this common market. In this way, they have reinforced spatial polarisation of the economic region including São Paulo, part of Minas Gerais, Rio de Janeiro and the three Southern states (Paraná, Santa Catarina and Rio Grande do Sul). In opposition to this polarisation, governments of the Northeastern states have even enhanced incentive facilities as well as political pressures on the national government in order to compensate them for their alleged losses. Turning to increasing trade with the EU, for its geographical position in respect to the European continent, was a strategy the Northeastern states put forward, at least at the political level.

Nevertheless, in spite of the pointed geographical distance, trade with Mercosul has become increasingly important for the Northeast since the early 1990s. This common market has jumped from the region's fourth to third largest trade partner, accounting for 9.9% and 13.9% of its exports and imports, respectively, in 1995 (as compared to 4.9% and 11.6%, respectively, in 1991). These figures show that rather than resulting from an increase of imports, this trade growth derived from growing Northeastern exports to that market. In so being, the geographical difficulties have showed of a lesser intensity than expected, giving grounds to the conclusion that integration with Mercosul may contribute for the Northeast benefit from the recent global integration. The same may not apply to the region's trade with the EU, for the deep imbalances in income and productivity between these economies.

In search of conclusions

Integration has been an experience that the regional economy of the Brazilian Northeast has gone through since very early in its capitalist development. Firstly, in connection with metropolitan markets, then towards Brazil's domestic economy, and more recently, related to globalisation. Effects on the Northeast's economy and trade varied quite significantly as results of these different integration experiences. Economic integration of the domestic production, led the Northeast to concentrate commercial relations with other Brazilian states, thus substituting previous dominance of foreign trade articulation. This produced important changes in the regional economic structure, in which industry increased participation, as well as in the labour market and distribution of population between urban and rural areas, in favour of the latter.

Integration with domestic economy was clearly led by industrialisation so that inter-regional trade of industrial goods, particularly intermediate goods, enhanced significantly. Inter-regional trade increased to the extent of reducing the region's tradicional trade deficit with domestic partners while pushing its also traditional foreign trade surplus. This tendency was interrupted, however, as the *developmentist* model collapsed, being replaced by neo-liberal reforms into which the country has undergone in the 1990s. Among other actions, the opening of the domestic market to foreign financial and industrial investment as well as imports have completely altered the Northeast's trade balance of the previous decade. The efforts that set up the *new industry* and along with it the Northeast's industrial and export capacity have to face severe adjustments if the region is to benefit from global integration. This seems to come more from the South American Common Market, and less from trade opportunities with economic blocks such as European Union and NAFTA, whose economic and social structures are very distant from the Northeastern reality. Free trade with these blocks may become rather unbalanced, as recent import figures have suggested.

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[1] Guimarães Neto (op. cit.) makes strong distinction between *integration* and *articulation*, to the point of confronting one to the other when referring to the formation process of Brazilian production structure under capitalist lines. This strong differentiation is not applied here, as long as the transformation from relative isolation between the regional economic spaces to the constitution of a domestic market is seen as first steps towards complete integration of production and labour processes.

[2] Elsewhere (Fernandes, 1998), I discuss the nature of inter-industrial linkages that came out of the so-called new industry, based on an input-output analysis. The results of the I-O model pointed to quite a different industrial structure as compared to that expected, as the majority of the Northeast's production was consumed regionally while the proportion of industrial supply sourced regionally was above 70 per cent, thus not configuring a leakage-style industrial structure. Yet, the new industry employment creation was far from solving the regional demand for jobs, nor significantly reducing inter-personal income disparities.

[3] Gross capital formation doubled between 1965 and 1968, as a result of both public and incentive-led inward private investments. The ratio between public investment and the regional product increased from 7.1 per cent, in 1960, to 11.4 per cent in 1966. As for private investment, origin of capital invested in the Northeast through Sudene's incentives, from its creation until 1977, was extra-regional, as the majority (59 per cent) were driven from firms from São Paulo and Rio de Janeiro. Among the top hundred Brazilian industrial firms, 14 were investing in the Northeast, in 1971, and led 67 applications for obtaining Sudene's incentives (Guimarães Neto, op. cit.).

[4] See Fernandes (1998 and 1996) for detailed data and analysis.

[5] Idem.

[6] Non-availability of constant historical prices prevented presentation of trade balances in table 2.

[7] In respect to the footloose industrial structure and related *leakage* mentioned above, I have showed elsewhere that the great majority of the Northeast's total input expenditure was made locally and has even increased in the 1980-85 period. Regional sourcing was very relevant and despite traditional activities such as agriculture and non-durable goods industries, the regional economy has fostered local complementarity in the period. See Fernandes (1998) for details.

[8] See Novy and Fernandes (1997) for detailed data.