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New Developmentalism Under Neoliberalism: The Case of Brazil

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Neoliberalizm Altında Yeni Kalkınmacılık: Brezilya Örneği

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Sıla DEMİRÖRS*

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Abstract

This study provides a comprehensive analysis of Brazil's socioeconomic policies and growth models under the Brazilian Workers Party from 2003 to 2016. It examines two key growth models implemented in this process: namely, primary-export led and domestic consumption-oriented growth models. By utilizing official statistics and secondary sources, it shows that primary exports were the driving force behind economic growth in Brazil until 2006. It also indicates that after 2006, despite not being the main facilitator of economic growth, the exporting sectors continued to support the current account balance in Brazil, thanks to increasing global demand and prices for Brazilian primary commodities. Nevertheless, the post-2006 period in Brazil witnessed an increasing weight of domestic consumption in growth dynamics. This mainly results from expanding social transfers and income distribution programs, growing employment, and increasing minimum wages. The study demonstrates that Brazil's inclusive growth model was not sustainable due to the strong dependence of domestic accumulation on foreign capital inflows and external demand.

Keywords: *Neoliberalism, neodevelopmentalism, extractivism, re-primarization, inclusive growth*

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Öz

Bu çalışma, Brezilya'nın 2003 ve 2016 yılları arasında Brezilya İşçi Partisi yönetimindeki sosyoekonomik politikaların ve büyüme modellerinin kapsamlı bir analizini sunmaktadır. Bu süreçte uygulanan iki temel büyüme modeli incelenmektedir: birincil emtia ihracatına dayalı ve iç tüketime dayalı büyüme modelleri. Resmi istatistiklerden ve ikincil kaynaklardan yararlanılarak birincil emtia ihracatının 2006 yılına kadar Brezilya'da ekonomik büyümenin arkasındaki itici güç olduğu ortaya konmuştur. Ayrıca, 2006 yılından sonra da Brezilya'daki birincil emtia ürünlerine artan talebin devam etmesinden ötürü hafriyatçı sektörlerin cari işlemler dengesinin korunmasını ve sosyal politikaların uygulanmasını desteklediği gösterilmiştir. Ancak Brezilya'da 2006 sonrası dönemde büyüme dinamikleri içerisinde iç tüketimin ağırlığının arttığı görüldü. Bu, esas olarak sosyal transferlerin ve gelir dağılımı programlarının genişletilmesinden, artan istihdamdan ve asgari ücretlerin arttırılmasından kaynaklanmaktadır. Çalışma, Brezilya'nın kapsayıcı büyüme modelinin yurt içi birikimin yabancı sermaye girişlerine ve dış talebe güçlü bağımlılığı nedeniyle sürdürülebilir olmadığını ortaya koymaktadır.

Anahtar Kelimeler: *Neoliberalizm, yeni kalkınmacılık, hafriyatçılık, kapsayıcı büyüme.*

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* ORCID Asst. Prof., Ankara Yıldırım Beyazıt University, Faculty of Political Sciences, Department of Political Science and Public Administration, silademirors@aybu.edu.tr

1. Introduction

Brazil, the largest country in Latin America, transitioned from the economic turmoil of the 1990s to a new phase characterized by inclusive growth in the 2000s and 2010s. With the electoral success of the Brazilian Workers Party (Partido dos Trabalhadores, PT) in 2002, Luiz Inácio Lula da Silva emerged as a charismatic leader among Brazil's poor and working class. Under the PT administrations from 2003 to 2016, millions of people moved out of extreme poverty and entered the domestic market as consumers for the first time in Brazilian history. However, this period also saw the growing prominence of the extractive and rentier sectors within the economy.

The main drivers of the economic growth until 2006 were the export of the Brazilian primary commodities like agricultural products and minerals. Recognizing the fragilities of this growth model, also known as neoextractivism in scholarly literature, the PT governments aimed to reduce the dominance of the extractivist sectors in the economy after 2006 and began implementing new developmental policies, referred to as neodevelopmentalism in academic literature. The neodevelopmentalist policies aimed at increasing productive capacity of the economy, enhancing national autonomy, and reducing income inequality. The main argument of this article is that despite these efforts, the influence of neoliberal economic policies persisted, resulting in limited changes to socio-economic strategies throughout the period.

This study examines Brazil's economic growth models from 2003 to 2016, shedding light on the challenges and successes of the country's new developmentalist policies. The focus on this period is for three reasons. Firstly, after two decades of military governments and years of political and economic instability under successive civilian governments, Brazil witnessed the rise of a left-wing government representing the organized working class and implementing inclusive economic policies for the first time in its history until the impeachment of Dilma Rousseff, the then elected president from PT, in 2016. After 2016, the country was governed by a complete neoliberal agenda under right-wing authoritarian governments until Lula's re-election in 2022. Secondly, this period saw experiments with two economic growth models considered alternative to neoliberalism—neoextractivism and neodevelopmentalism. These growth models aimed to pursue post-neoliberal inclusive development, unlike other developing countries that have struggled to develop autonomous and inclusive development models under dominant neoliberal economic policies since the 1980s. Finally, in 2023, the PT returned to power with strong expectations to reverse exclusionary and authoritarian neoliberalism and to realize the previously incomplete neodevelopmentalist project. Therefore, this study addresses a timely research need, providing theoretical and empirical contributions to the understanding of the political economy of development in Brazil under PT. It aims to enhance scholarly understanding of the structural limits and political contradictions affecting these new developmental projects.

As for research methods, the article includes theoretical analysis of neoextractivism and neodevelopmentalism, documentary research, secondary sources from different social science disciplines, and visual display of quantitative information sourced from datasets, followed by results analysis. Theoretically, this study employs a critical political economy (CPE) perspective to analyze the political economy of development in Brazil. This approach is particularly strong in its analysis of the social and political constraints and economic contradictions imposed on developmental projects by global capitalism. By providing a historically grounded and analytically coherent analysis, the CPE approach offers theoretically, conceptually and empirically consistent perspectives that 'problematize [...] socioeconomic and political structures' to understand the growth models of the countries studied (Cafruny et al., 2016: 1). Additionally, the CPE approach distinguishes itself from other political economy approaches by internalizing the class and power relations that underpin and drive development models. While we acknowledge that many approaches[1] similarly seek to understand these dynamics, we believe that CPE's commitment to multidisciplinary research offers deeper insights into the drivers and outcomes of the political economy of development, due to its focus on the internal relations between economics and politics, as well as agency and structure (Mehta, 1999; Busumtwi-Sam and Dobuzinskis, 2003; Hettne, 1995).

Following this introduction, the subsequent section provides a brief history of Brazil's political economy before the PT administrations. The following section examines the first PT administration from 2003 to 2006, analyzing the political and socio-economic dynamics of Brazil during this period, including the emerging trend of re-primarization in the economy and discussions on neoextractivism in Latin American literature. The subsequent section analyzes the successes and challenges of the neodevelopmentalist project in Brazil from 2006 to 2016, critically evaluating theoretical debates surrounding neodevelopmentalism and neoliberalism.

2. Brazil Before the PT: Historical Context

After gaining its independence in 1822, Brazil integrated into the world economy based on an export-led model centered on agriculture and mining until the Great Depression of the 1930s. This model of accumulation, relying on resource extraction, failed to bring about either self-sustained growth or an autonomous development model for the country (UNCTAD, 2003). In addition to the concentration of political and economic power in the hands of small elites typically with landed interests (Bulmer-Thomas, 2003), this period witnessed 'fiscal and external imbalances' as the export sector often experienced externally determined price and financial cycles, leading to volatile capital flows and a failure to meet the demand for merchandise imports (Arestis et al., 2015: 89). During the pre-World War I era, the expansion of primary-product exports was primarily fueled by industrialization in Europe and the United States. However, the inter-war period marked a shift due to the deterioration of the terms of trade, increased restrictions in the world market, the disruption of capital flows, and a decline in export earnings (Bulmer-Thomas, 2003; Skidmore and Smith, 2001). Therefore, the inter-war crisis led to the demise of the export-oriented model and the beginning of manufacturing goods that were formerly imported from industrialized countries, a process known as import-substituted industrialization (ISI) (Bulmer-Thomas, 2003; Arestis et al., 2015). Until the crisis of ISI in the 1980s, the industrial production was the driving force of domestic accumulation and brought reasonable developmental results in Brazil (Arestis et al., 2015; Milanez and Santos, 2015). In the 1980s, Brazil, like many other developing countries, faced significant challenges. Its failure to transition to the second stage of ISI, namely manufacturing capital goods, contributed to burgeoning trade deficit, increased financial dependency, and mounting external debt. These challenges were further compounded by the global oil crisis and recession. As a result, Brazil experienced a severe financial crisis during this period, leading to the gradual abandonment of ISI.

Brazil in the late 1980s not only witnessed a shift in its system of accumulation, namely from developmentalism under ISI to neoliberalism, but also in its political form, from 20 years of military dictatorship to a political democracy (Saad-Filho and Morais, 2018: 4). Several scholars argue that this shift in Brazilian system of accumulation was not solely a result of the inherent constraints of ISI but also stemmed from external changes in global capitalism and the interconnectedness between national and global economies (Saad-Filho and Morais, 2018; Andrade, 2016; Milanez and Santos, 2015). The persistent macroeconomic challenges, such as recurring external debt crises and high inflation, led governments to leave developmental strategies and instead adopt market-oriented reforms characterized by the Washington Consensus throughout the 1990s. Therefore, beginning in the early 1990s, civilian governments pursued conventional neoliberal economic policies,

[1] For instance, North (1990) and Acemoğlu and Robinson (2012) are prominent examples of political economy and institutional economics approaches that evaluate the political economy of development, including developmental challenges in developing countries.

implementing a series of institutional changes and policy reforms. These reforms included the privatization of state-owned enterprises (SOEs) and public services, trade liberalization, deregulation of financial markets and labor reforms alongside 'a combination of high interest rates, an overvalued currency, fiscal austerity measures' (Andrade, 2021: 344; Friedmann and Puty, 2021). In addition, in order to control of debt and inflation and stabilize the currency, the Fernando Henrique Cardoso governments (1994-2002) implemented the Real plan, which lifted indexation, in 1994. The realization of the plan's broader goals was 'possible only in the context of a globalising economy with highly liquid capital markets,' with high-interest rates (Saad-Filho and Morais, 2018: 60; Averbug, 2002). While high interest rates were critical for attracting foreign capital and financing the external deficit, overvalued currency was believed to increase competitivity by cheapening the imported capital goods (Saad-Filho and Morais, 2018: 61-62; Henkin, 2014). Although the Real plan was initially successful in keeping the inflation under control, attracting foreign capital inflows, and securing the supply of cheap imported goods (Baer, 2008; Mattei and Pereira, 2015; Milanez and Santos, 2015), the neoliberal economic model gave rise to significant contradictions that hindered the country's development.

Firstly, Brazil found itself caught in an interest rate dilemma; while high interest rates were necessary for accumulating foreign reserves, they also made the country structurally dependent on capital inflows to offset the balance of payments (Mattei and Pereira, 2015: 5). Secondly, the combination of persistently high interest rates, along with currency overvaluation, resulted in a current account deficit and exacerbated deindustrialization (Saad-Filho and Morais, 2018: 64; Nassif et al., 2015). Finally, the Real Plan, reliant on inherently speculative capital flows, became entirely unviable as foreign capital outflows intensified during the 1997-1998 Asian financial crisis (Mattei and Pereira, 2015). Hence, the macroeconomic stability in the early 1990s was followed by multiple crises, including a balance of payments crisis, the Real crisis in 1999, and the return of inflation (Andrade, 2021). As a result, to address these multiple crises, the Cardoso government not only borrowed substantial loans from the IMF but also embraced a new orthodox macroeconomic policy, also known as the neoliberal macroeconomic tripod, which combined inflation targeting, primary fiscal surplus, and a floating exchange rate (Filgueiras, 2021; Marquetti et al., 2021). While these measures succeeded in maintaining stable inflation, they also resulted in lower GDP growth rates (averaging 2% per annum from 1999 to 2003), deindustrialization, rising unemployment, expansion of informal labor and deterioration of social conditions for a considerable segment of the population (Mattei and Pereira, 2015; Andrade, 2016). The adverse economic and social consequences of neoliberal economic policies during the 1990s emerged as the primary catalyst for the erosion of support for the Cardoso government, paving the way for PT's victory in 2002.

3. The First PT Administration: Growth via Re-primarization

After three unsuccessful runs (in 1989, 1994, and 1998), Luiz Inácio Lula da Silva, from the PT, was elected President in October 2002. The PT has a longstanding history of close ties with Brazil's largest labor unions and social movements, but Lula's electoral victory reflected the support of a larger political coalition, including not only organized working-class but also domestic market-oriented industry groups which are both affected from neoliberal economic policies adversely (Boito Jr. and Saad-Filho, 2016; Andrade, 2021). When Lula took office in 2003, there were great hopes for implementing a new economic and social development model that would ensure the revival of growth, address unemployment, and enhance income distribution levels (Mattei and Pereira, 2015: 6). However, there was no departure from the neoliberal economic policies, and the orthodox macroeconomic tripod established by his predecessor Cardoso -inflation targeting, primary fiscal surplus, and a floating exchange rate based on a high interest rate- was maintained during Lula's first presidential term (Ferrari-Filho, 2015; Marquetti et al., 2021). Moreover, the process of trade and financial liberalization was deepened (Schmalz, 2016). With these policy choices, the PT aimed to

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restore market credibility, reduce capital outflows, and gain the confidence of both domestic and international capital (Loureiro and Saad-Filho, 2018; Andrade, 2016).

During the first Lula government (2003-2006), not only did Brazil exceed the IMF's goals for generating a primary fiscal surplus of 3.75% by achieving up to 4.8%, but it also reduced the inflation rate to 4.18% from two-digit levels (Table 1). Following a nearly thirty-year period of stagnation, the Brazilian economy began experiencing growth from 2004 onwards, with the GDP growth rate increasing from 1.1% to 5.8% in 2004 and reaching 6.1% in 2007.

Table 1. Selective Macroeconomic and Social Indicators

Indicator/Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Inflation rate* (%)	14.71	6.60	6.87	4.18	3.64	5.68	4.89
GDP growth (%)	1.1	5.8	3.2	4.0	6.1	5.1	– 0.1
Real minimum wage (US$)	78.0	88.9	123.2	160.9	195.2	226.3	232.6
Interest rate. average (%)	23.0	16.4	19.1	15.4	12.0	12.7	10.1
Foreign reserves (US$ billion)	49.3	52.9	53.8	85.8	180.3	193.8	238.5
Net public debt/GDP (%)	57.2	53.5	50.1	44.5	44.4	38.2	42.1
Gini Index	0.583	0.572	0.569	0.563	0.556	0.548	0.543
Extreme poverty rate (%)	15.2	13.2	11.49	9.44	8.65	7.57	7.28

Indicator/Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Inflation rate* (%)	5.04	6.64	5.4	6.2	6.33	9.03	8.74
GDP growth (%)	7.5	4.0	1.9	3.0	0.5	– 3.5	– 3.3
Real minimum wage (US$)	289.9	325.8	318.5	314.5	307.7	236.9	252.1
Interest rate. average (%)	9.9	11.7	8.46	8.44	11	13.6	14.1
Foreign reserves (US$ billion)	288.6	352.0	373.2	358.8	363.6	356.5	365
Net public debt/GDP (%)	39.2	36.4	35.1	33.8	32.6	36.2	45.9
Gini Index	0.530	0.527	0.522	0.518	0.515	0.518	0.522
Extreme poverty rate (%)	7.0	6.32	6.2	5.9	5.4	5.6	6.1

Notes: (*) National Consumer Price Index
Source: STATISTA, WORLD BANK OPEN DATA, OECDSTAT

However, in addition to Lula’s efforts to win the trust of market actors, it is crucial to acknowledge the exceptionally favorable international environment that was the main reason of this economic performance. Thanks to a combination of exogenous factors including abundant international financial liquidity, a resurgence of capital flows to developing countries, rapid growth in China, and China’s escalating demand for primary commodities, Brazil solidified its position as a leading exporter of key commodities like agricultural products and minerals (Milanez and Santos, 2015; Mattei and Pereira, 2015). As a result, Brazil started to accumulate a substantial trade surplus, driven by a 64% increase in export volume and a 24% rise in prices between 2001 and 2005 (Saad-Filho and Morais, 2018: 120). As shown in Figure 1, Brazil's export earnings increased from US$103 billion in 2004 to US$206 billion in 2008, while imports surged from US$63.5 billion to US$173 billion over the same period. When examining the composition of total exports, a trend of re-primarization and deindustrialization becomes apparent. As depicted in Figure 2, primary products and natural-resource-based industries have expanded their share from 49.6% in 1990-1995 to 66.2% in 2011-2016, while labor and scale-incentive manufactures have seen their share decline from 35.6% to 19.4%.

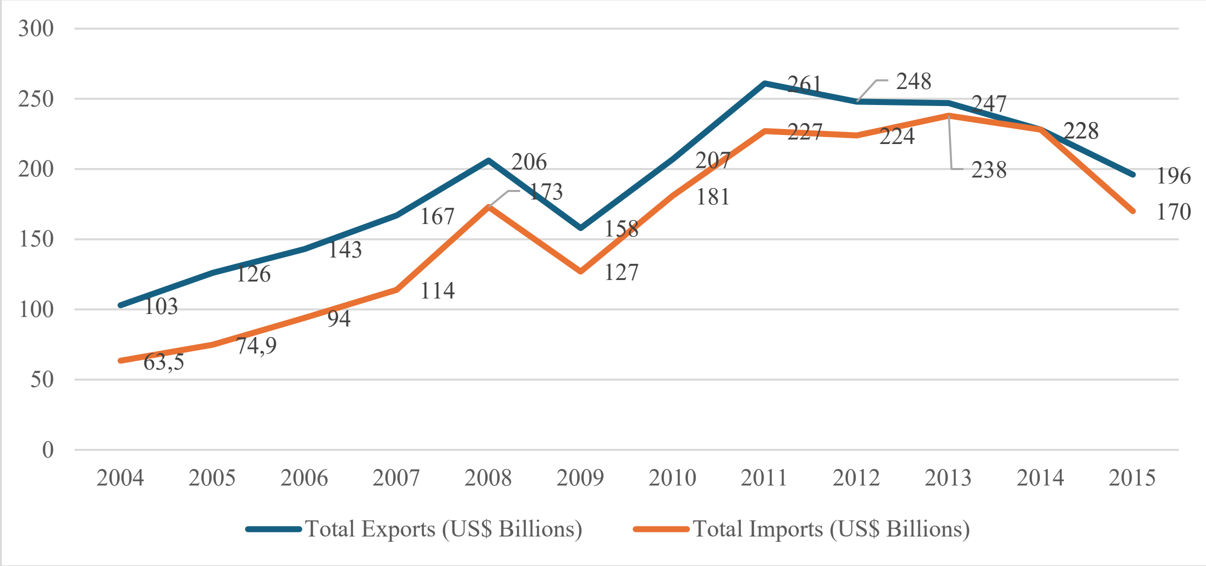

Figure 1. Balance of Trade (2004-2015)
Source: Pahnke (2018: 1663).

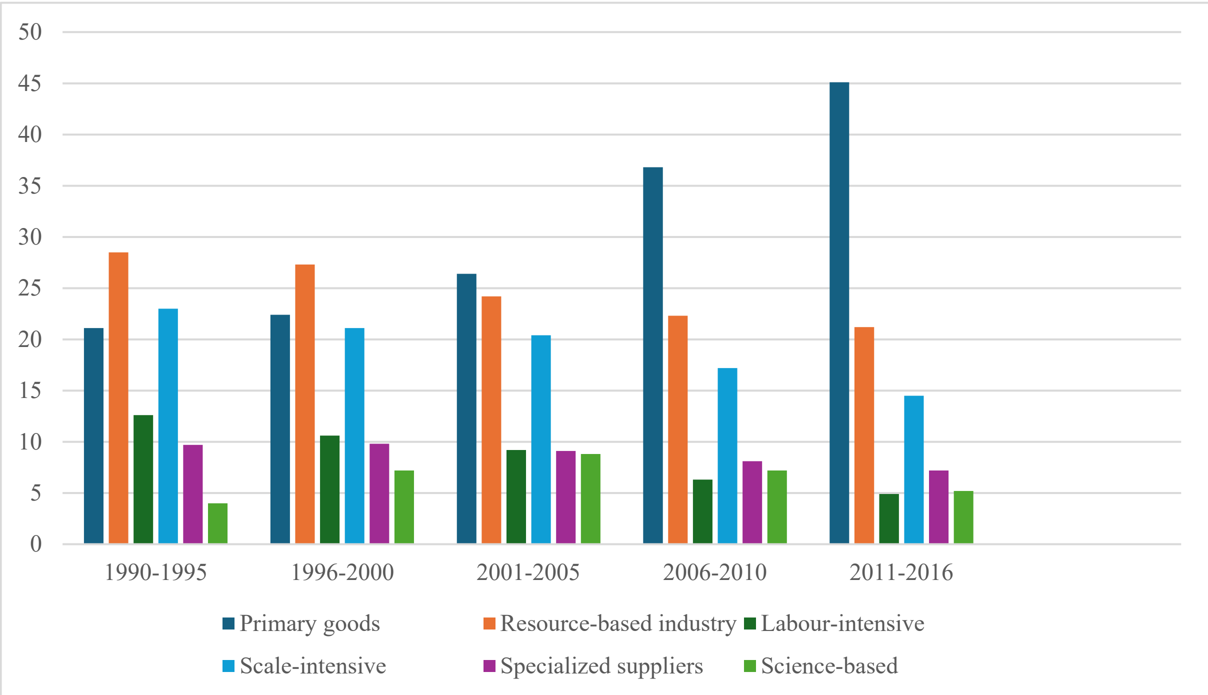

Figure 2. Composition of Exports (1990-2016)
Source: COMTRADE database.

Thanks to the global commodity boom, characterized by exceptional demand and prices for Brazilian exported commodities, particularly in mining, oil, and agriculture, Brazil adopted an externally driven growth model during Lula's first term (Loureiro, 2019; Pahnke, 2018). Moreover, as shown in Figure 3 below, the surge in international financial liquidity during the early 2000s also stimulated a significant increase in capital flows: Net inflows amounted to approximately US$15 billion in both 2003 and 2004 before surging to US$116 billion in 2010, and subsequently stabilizing at approximately US$80 billion annually until dropping below US$60 billion in 2016 (Saad-Filho and Morais, 2018: 120). In return, the influx of foreign capital contributed to achieving balance of payments equilibrium, decreasing the external public debt, clearing the dues to the IMF in 2005, and accumulating foreign currency reserves. While the net public debt declined from 57.2% of GDP in 2003 to nearly 35% in 2012, the Brazilian Central Bank (BCB) increased its foreign currency reserves from US$49.3 billion in 2003 to US$373.2 billion in 2012 (see Table 1). As an inevitable consequence of neoliberal macroeconomic policies—a floating exchange rate system alongside full liberalization of the capital account—the inflows of foreign capital also led to the appreciation of the exchange rate of the Brazilian Real (Arestis et al., 2015: 97). Consequently, the appreciation of the Real facilitated both the decrease in inflation and a rise in real wages, thus safeguarding the purchasing power of the working class (Marquetti et al., 2021: 120). Although macroeconomic stability was restored during 2003-2006, several scholars note that the tight macroeconomic policies linked to the tripod constrained GDP growth to an average of 3.5% per year, a rate still considerably lower than that of other emerging economies (Loureiro and Saad-Filho, 2018; Andrade, 2016; Bresser-Pereira, 2015; Arestis et al., 2015).

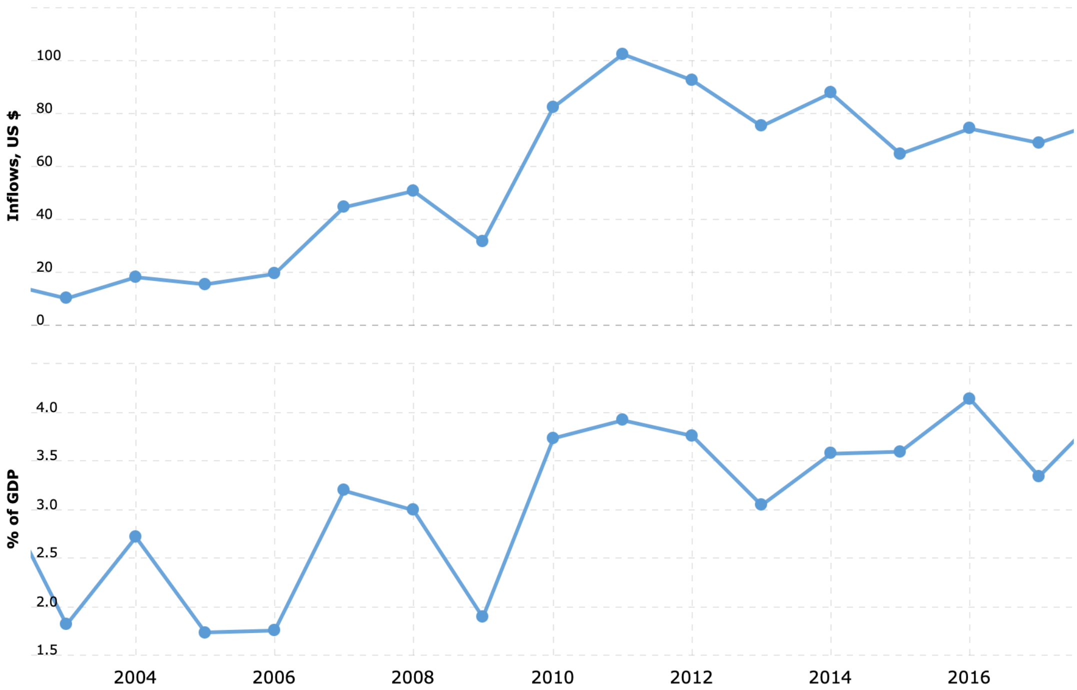

Figure 3. Foreign Capital Inflows to Brazil (2003-2016)
Source: World Bank Dataset.

As demonstrated thus far, the first Lula government resembles many emerging countries that adopted neoliberal economic policies and greatly benefited from the exceptionally favorable global conditions in the early 2000s. However, what characterizes the first PT government as progressive is its distributive accomplishments. The increase in tax revenues,[2] resulting from high prices and demand for Brazilian primary exports, created fiscal room for social programs aimed at benefiting the most impoverished segments of the population, thus initiating an inclusive growth model by the PT (Friedmann and Puty, 2021).

Hence, the first Lula government implemented several income transfer programs, with their 'total value increasing from 6.9% to 8.6% of GDP between 2002 and 2008' (Barbosa, 2010: 2). Among these, Bolsa Família, the most popular cash transfer program targeting poverty reduction, benefitted '11.2 million people' by the end of 2006 and provided 'US$35 per month on average' per person (Schmalz, 2016: 273). Additionally, increases in the minimum wage, job creation, and the formalization of labor contributed to the reduction of income inequality. Between 2003 and 2010, the minimum wage increased by 60% and more than 14 million formal jobs were generated (Mattei and Pereira, 2015: 6-7). Consequently, the extreme poverty rate declined from 15.2% of the population in

[2] Pahnke (2018: 1665) demonstrates that while direct tax revenue from agribusiness exports contributes "less than 1% to total government revenues", "royalties from mining, oil, and natural gas exports" provide the necessary funding for financing social policies.

2001 to 7.28% in 2009, while the Gini coefficient, which stood at approximately 0.60 in the 1990s, decreased to 0.57 in 2004, and further declined to 0.52 by 2012 (see Table 1). In summary, Brazil's export-driven growth model, operating under highly favorable global conditions, achieved economic growth with income redistribution, while maintaining the inflation targets and fiscal surplus required by the neoliberal tripod.

While socially-inclusive growth is not typical among developing countries that implement neoliberal economic policies due to neoliberalism's tendency to generate inequality in the distribution of income and wealth (Saad-Filho and Yalman, 2010), the adoption of welfare state practices was a common trend among progressive governments in Latin America throughout the 2000s. Their shared strategy of renewed dependence on the extraction and export of natural resources, supported by the global commodity boom, along with the usage of export revenues to alleviate poverty and improve income redistribution, has led some critical scholars to categorize them as neoextractivist regimes (Gudynas, 2009; Svampa, 2012; Burchardt and Dietz, 2014). While extractivism has historically played a central role in the economies of Latin American countries, given the region's abundance of precious metals and exotic goods, twentieth-century extractivism differs from its traditional form in three significant ways. These include the increased autonomy of the state in managing the economy, the utilization of extractive sectors as part of national development strategies, and the allocation of funds towards social programs aimed at reducing poverty and inequality (Gudynas, 2009; Chagas et al., 2015). Comparing these countries or evaluating their successes is not the focus of this article. Regarding Brazil, while some scholars argue that the Brazilian economic model can be characterized as neoextractivist (Gudynas, 2013; Svampa, 2012), others contend that the term fails to accurately describe Brazil. They argue that Brazil's economy is more diversified, with various sectors and industries, unlike Venezuela, which relies heavily on a single export product (Chagas et al., 2015). Additionally, under this neoliberal extractivist approach, Brazil continued to concentrate wealth at the top of society, resulting in limited social development (Friedmann and Puty, 2021; Andrade, 2022). Agreeing with the latter perspective, this article argues that the initial phase of the PT adopted a neoliberal-extractivist growth model with elements of redistribution.

Moreover, this period brought up three structural vulnerabilities, whose consequences were felt after 2011. Firstly, as illustrated by the technological concentration of Brazilian exports in Figure 2, the early 2000s saw a further intensification of the ongoing deindustrialization process. Drawing from David Ricardo's theory of comparative advantages, neoliberalism promotes free trade policies based on the notion that countries will specialize in producing and trading goods where they have cost advantages, while importing those they can obtain more cheaply (Reinert, 2007). However, as Shaikh (2007: 57) shows, unlike the theory, 'persistent trade imbalances covered by foreign capital flows are the normal complement of international trade between unequally competitive trade partners.' Furthermore, trade surpluses and foreign capital inflows are frequently used to finance the deficit in imports of manufactured goods, rather than being channeled into production in higher value-added sectors (Reinert, 2007). Therefore, contrary to the significant industrial diversification observed in the 1980s, the neoliberal extractivist model 'shifted Brazil's competitive advantages strongly towards unprocessed commodities' and transformed the Brazilian manufacturing industry into mere assemblers of imported machines and components (Saad-Filho and Morais, 2018: 114). Secondly, the overvaluation of the Real, driven by inflows of foreign capital, also eroded the competitiveness of various sectors of the domestic industry, thereby exacerbating the process of deindustrialization (Andrade, 2021: 351). Finally, the high volatility of extractive commodities, which fluctuate in response to global market conditions, subjects Brazil to a growth model reliant on external factors and weakens its capacity for autonomous decision-making (De Paula et al, 2021; Chagas et al., 2015).

4. The Post-2006 PT Administrations: Neodevelopmentalism under the Shadow of Neoliberalism

Macroeconomic stability, economic growth, and social policies during Lula's first term helped reduce poverty and income inequality, but the continuation of neoliberal economic policies left traditional PT supporters, i.e. unionized formal sector workers, dissatisfied (Saad-Filho and Morais, 2018: 126). However, Lula's pro-poor policies bolstered his popularity among the conservative subproletariat, a politically unorganized and economically marginalized group mainly from urban peripheries or rural areas, particularly in the North and Northeast regions of Brazil (Saad-Filho and Morais, 2018; Singer, 2009; Boito Jr. and Berringer, 2014). Traditionally aligned with the right, this group overwhelmingly backed Lula in the 2006 elections, even as support from traditional PT base waned (Schmalz, 2016: 274). His increasing popularity among the subproletariat not only led to his re-election in 2006 but also ensured the triumph of his selected successor, Dilma Rousseff, in 2010 (Loureiro and Saad-Filho, 2018: 74).

However, despite ongoing favorable international conditions, there were weak incentives for private investment (Henkin, 2014: 88), and economic growth was limited, with GDP expanding by only 3.2% in 2005 (Table 1). This situation prompted the PT administrations—during Lula's second term (2007-2010) and Dilma Rousseff's first term (2011-2014)—to implement a series of heterodox economic policies along with developmentalist initiatives. Although the adoption of selective developmental policies during this period led to its characterization as neodevelopmentalism, the term itself originates from academia (De Paula et al., 2021). The Brazilian scholars, including Bresser-Pereira (2001, 2006) and Sicsú et al. (2007), proposed heterodox economic policy proposals, as an alternative to neoliberalism, for industrial catch-up. Heavily influenced by Keynes, Kalecki, and the classical developmentalism previously advanced by the Economic Commission for Latin America and the Caribbean (ECLAC), neodevelopmentalist writers advocate for the government to implement more flexible monetary policies, such as inflation control, low interest rates, an industrial equilibrium exchange rate (Bresser-Pereira, 2015). By avoiding exchange-rate overvaluation, which would facilitate the rebuilding of productive capacity and incentivize 'domestic producers to compete in foreign markets with fair profit margins,' this neodevelopmentalist approach is anticipated to transition Brazil from an exogenous and dependent growth model to an endogenous and autonomous development model (De Paula et al, 2021: 224; Cardozo and Martins, 2021). In addition, for this approach, the social programs and economic policies should aim to expand effective demand and enhance social equity (Ferrari-Filho, 2015: 83).

There is a consensus in the literature that the PT's economic policy between 2007 and 2013 combined contradictory elements and outcomes of neodevelopmentalist and neoliberal models, thereby creating a hybrid profile in Brazilian economic policy (Castro, 2014; Morais and Saad- Filho, 2012; Marquetti et al., 2021; Cardozo and Martins, 2021; Sampaio Jr., 2012). The main neoliberal framework of the post-2006 PT administrations involved maintaining the orthodox macroeconomic tripod—despite its occasional and unplanned relaxations—and promoting the free flow of foreign capital. Despite their incompatibility with the tripod, some neodevelopmentalist policies were implemented during this period thanks to increased tax revenues stemming from the surge in commodity prices driven by Chinese expansion (Arestis et al., 2015; Braga and Barbosa dos Santos, 2022). These neodevelopmentalist initiatives included a range of social (extended social provision and income transfer programs, raising the minimum wage, employment creation and formalization of labour) and economic (expanded SOEs, subsidized loans from public banks, public investments, and tax exemptions or incentives) policies.

The social transfers surged from 11% to 16.2% of GDP during 1995-2011, while the beneficiaries of federal income transfer policies, such as Bolsa Família, reached more than 14 million families in 2013 (Saad-Filho, 2015: 1235;1241). These social transfers targeted at the poorest segments of society, especially vital for the subproletariat in the Northeast and the North, aided their transition from extreme poverty to the official poverty line (Braga and Barbosa dos Santos, 2022).

Moreover, the continuing increase in minimum wage, as illustrated in Table 1, served as effective tools for bolstering demand and redistributing income. While rapid growth brought about a nearly 48.7% decrease in unemployment, there was an approximately 56% increase in per capita income between 2003 and 2013 (Loureiro, 2021: 292). All these combined resulted in an unprecedented reduction in poverty and income inequality, as evidenced by the decline in the Gini index from 0.583 to 0.522 between 2003 and 2012 (see Table 1). Hence, these social policies, together with expansion in other social benefits and public services, bolstered the domestic market and enhanced household consumption and living standards.

In addition, starting from the Lula's second term, the state assumed a more proactive role in coordinating investment and directing economic growth. During this period, the SOEs such as Petrobrás[3] (oil), Eletrobrás (electricity), and the Brazilian Development Bank (BNDES) increased in size and capital (Henkin, 2014: 90). The government also pursued a 'national champions' strategy supporting the growth and internationalization of some large companies, particularly in sectors like construction, banking, mining, and food, through initiatives such as subsidized loans, tax incentives, and share purchases (Saad-Filho and Morais, 2018: 96). In the same way, state-owned banks, particularly BNDES,[4] started to provide subsidized loans to the economy, particularly to large domestic firms in infrastructure and industry (Arestis et al., 2015). With the increase in their budget allocation thanks to new regulation allowing state-owned banks to be financed by 'the issuance of treasury bills at interest rates higher than those applied to loans offered to companies,' such loans supported the required funds for neodevelopmentalist initiatives (Andrade, 2022: 805; Cardozo and Martins, 2021).

The first Lula government also introduced the Growth Acceleration Program (Programa de Aceleração do Crescimento, PAC) in 2007 by presenting the main pillar of its neodevelopmentalist policies. The PAC aimed to accelerate economic growth by bolstering both public and private investments in infrastructure focusing on transportation, energy, and social and urban development. Its initial budget, sourced from federal revenues and SOEs, exceeded US$180 billion during 2007-2010, and the program also included tax rebates to companies in the construction and energy sectors (Schmalz, 2016: 274; Denaldi and Cardoso, 2021). The main logic behind PAC was to attract private investments by supporting gross fixed capital formation, which lacking adequate investment since the 1980s (Souza-Lopes and Saab, 2021). In addition to the PAC, another initiative, the Productive Development Policy, was launched in 2008, that aimed to support the export capabilities of Brazilian manufacturing firms through tax reductions, with funds from public banks (Barbosa, 2010).

Moreover, some other heterodox policies were implemented after 2008 as countercyclical response to the negative impact of global financial crisis (GFC). These include the decrease of interest rates by the BCB, fiscal expansion by injecting new credits to the economy and the expansion of the PAC with additional resources allocated from 2011 to 2014 (Ferrari-Filho, 2015; Cardozo and Martins, 2021). Lastly, the Lula government launched an ambitious housing program, the Minha Casa Minha Vida (MCMV), in 2009. The aim of the MCMV was to construct new housing units for low and middle-income households, providing subsidized mortgages according to their income levels, and promoting capital accumulation for private construction companies through subsidized credit, with 'total subsidies amounting to 1.2% of GDP' (Barbosa, 2010: 8; Denaldi and Cardoso, 2021).

So far, this part discussed the selective developmental and heterodox policies of the post-2006 administrations. From now on, we will argue that these developmental policies were fragmented and unfinished due to the failure to renounce the macroeconomic tripod, to change the main tendencies

[3] The discovery of the pre-sal oil reserves by Petrobras in 2006, followed by its production commencement in 2010, significantly boosted investment in the oil and gas sector, establishing Brazil as a major energy producer (Marquetti et al., 2021).
[4] BNDES emerged as the largest development bank, surpassing the World Bank in annual disbursements (Hall and Branford, 2012). For instance, as Saad-Filho and Morais (2018: 98) shows, its 'lending alone expanded by 3.3 percent of GDP in 2009.'

of the economy, i.e. re-primarization and deindustrialization and the gradual reversal of the international favorable environment after GFC.

Until 2011, the Brazilian economy had high growth rates, with GDP expanding by 4% annually, and it effectively navigated through the GFC due to countercyclical economic policies. The global commodity boom persisted until 2010, reaching its peak in 2007, which supported Brazil's current account balance and foreign currency reserves (Andrade, 2016; Arestis et al., 2015). Moreover, the expansion of global liquidity, resulting from quantitative easing policies in industrialized countries, led to substantial inflows of foreign capital into Brazil, thereby reducing the economy's external vulnerability, albeit contributing to the appreciation of the Real (Barbosa, 2010). However, unlike the first Lula government, where growth was driven by exports from the primary sector, the growth during Lula's second term was internally driven, propelled by the rise in domestic consumption and investment (Saad-Filho and Morais, 2018; Loureiro, 2021; Schmalz, 2016; Mattei and Pereira, 2015). As noted by Saad-Filho and Morais (2018: 98),

> Exports … contributed only 6 per cent of GDP growth between 2006 and 2011 […] even though they helped to alleviate the balance-of-payments constraint. [Exports'] role was dwarfed by private consumption (59 per cent of growth), private investment (23 per cent) and government consumption (12 per cent).

The increase in minimum wage, the decrease in unemployment, and the expansion of income distribution programs boosted the purchasing power of a significant portion of the population. These income redistribution policies, also backed by a significant increase in personal credit, stimulated domestic consumption and created a mass consumer society (Rossi et al., 2021). However, this new growth model created two main problems. Firstly, this inclusive growth model reduced poverty unprecedentedly and facilitated millions of people consumers as the first time, but wealth inequality remained largely unchanged. The calculation by Loureiro (2021: 292) shows that from 2003 to 2013, the income share ratio between the top 10% and the bottom 40% saw a limited decrease, from 5.2 to 3.8, with the wealthiest Brazilian households managing to preserve their incomes and assets. Hence, income redistribution and mass consumption occurred by putting pressure on the middle class without disrupting class inequality (Loureiro, 2021: 297).

Secondly, despite the surge in domestic demand for goods and services thanks to the increase in purchasing power, the productive capacity lagged far behind this demand. One reason is the disparity between industrial policies and monetary policies. Persistent currency overvaluation stemming from increasing foreign capital inflows discouraged investment in technology-intensive manufacturing by cheapening imports. Hence, nearly '40% of the growth in demand leaked abroad in the form of imports' between 2004 and 2013 in Brazil (Morceiro, 2016: 9). The exchange-rate appreciation and the resulting decrease in the cost of imports also contributed to the rise in imported inputs for manufacturing industrial goods. As shown by Rossi et al. (2021:134-137), the import-penetration rate in the manufacturing industry 'increased from 10.2% in 2003 to 17.6% in 2014' due to the failure in the 'internalization of the production technology.' Despite a significant rise in investment in sectors associated with the mass consumer market from 2005 to 2008, this growth was primarily concentrated in the services and nondurable consumer sectors rather than in capital goods (Rossi, 2021:133). During the period from 2006 to 2008, even domestic manufacturing met just over half of the rise in consumer demand for durable goods (Rossi, 2021). Therefore, the surge in mass consumption failed to change the productive structure of the Brazilian economy.

As we also look at the export composition, illustrated in Figure 2, it is possible to see an increasing concentration of primary goods and resource-based industries, showing that re-primarization trend continues, unlike neodevelopmentalist paradigm suggested. The positive trade balance persisted until 2013 thanks to rising prices of primary commodities, which offset the growing external deficit in the manufacturing sector. However, the end of the commodity price boom after 2011, primarily due to the slowdown in the Chinese economy, resulted in an inability to offset the trade deficit in manufactured goods, worsening the current account balance (Arestis et al., 2015; Pahnke, 2018). This shows not only 'external vulnerability and dependence' but also 'the inefficiency of primary export specialization' in Brazil (Andrade, 2022: 797).

During this period, because Brazil was still receiving large foreign capital inflows (see Figure 3), thanks to the continuity in quantitative easing policies in industrialized countries, it did not have a currency crisis (Saad-Filho and Morais, 2018). Nevertheless, the bulk of these capital inflows, mainly in the form of foreign direct investments (FDI), were directed towards the extractive and infrastructure sectors instead of manufacturing (Andrade, 2022). In other words, extractive industries also became the main beneficiaries of FDI. A similar situation can be observed for the public investments. Not only the large companies in extractive industries, such as Fibria (paper pulp), JBS-FriBoi (meat), Petrobras (oil and gas), benefited from the 'national champions' strategy of the government by receiving large funds from the BNDES (Kröger, 2012), but also the PAC's investments in infrastructure mostly favoured the energy and logistic needs of agribusiness and mining industries (Chagas et al., 2015; Hess, 2018). Consequently, the neodevelopmentalist policies of Brazil failed to change the re-primarization trend, thus falling short of facilitating the creation of new competitive advantages for its productive sectors.

This failure to address the structural vulnerabilities of the Brazilian economy became evident as the favorable international conditions that had fueled growth during the Lula administrations began to wane. After 2011, with the beginning of Dilma Rousseff's first term, this exceptional global environment started to reverse. The decrease in Chinese demand for commodities exports, the late-coming impacts of the Eurozone crisis on developing countries and the resulting reversal of the capital inflows (see Figure 3) increased the expenses related to external debts and imports, leading to a substantial escalation in Brazil's current account deficit (Amann and Barrientos, 2016; Henkin, 2014; Andrade, 2016). Therefore, the growth trajectory observed during the Lula governments (4.5% per annum between 2003 and 2010) experienced a sharp reversal under the Rousseff administration (1.5% between 2011 and 2014) (see Table 1).

Upon closer examination of this process, against the backdrop of a slowing global economy where exports were expected to show less dynamism compared to the previous decade, the first year of the Rousseff administration responded by strengthening neodevelopmentalism. In August 2011, the government introduced the 'new economic matrix (NEM),' which aimed to boost private investments by addressing the overvaluation of the Real, reducing interest rates, and thereby enhancing competitiveness in manufacturing (Braga and Barbosa dos Santos, 2022; De Paula et al, 2021; Saad-Filho and Morais, 2018). This was complemented by both ongoing and newly introduced industrial policies, along with efforts to stimulate domestic consumption. Firstly, the BCB began lowering interest rates, which decreased from 11.7% in 2011 to 8.46% in 2012, marking their lowest level since the beginning of neoliberalism (Table 1). Secondly, together with the regulation of speculative inflows of foreign capital, the reduction in interest rates contributed to the BCB's devaluation of the exchange rate, by nearly 35% from 2011 to 2013 (Cardozo and Martins, 2021; De Paula et al, 2021). Finally, under the NEM, the neoliberal tripod was discarded, and there was a brief period of alignment between neodevelopmentalism and macroeconomic policies, though this harmonization was short-lived.

The interest rate reduction and the depreciation of the Real were anticipated to favor productive capital and incentivize investment. However, they failed to spur a growth cycle led by private investment due to the Rousseff government's limited ability to sustain these policies amidst opposition from rentier sectors (Andrade, 2021). Additionally, the rise in interest rates led to inflationary pressures, further complicating the situation (Bresser-Pereira, 2015; Milanez and Santos, 2015). Thus, the NEM did not prevent the decline in economic growth. Faced with mounting criticisms from market actors, it was abandoned in 2013, coinciding with the BCB's decision to once again raise interest rates. (Friedmann and Puty, 2021). In 2013, a critical juncture unfolded, marked by both political and economic turmoil. Economically, there was a decline in investment within the manufacturing industry, coupled with a further drop in the prices of exported commodities, marking the beginning of one of Brazil's worst recessions (Bresser-Pereira, 2015; Saad-Filho and Morais, 2018). Politically, the first signs of social discontent started with several public protests by workers and middle classes with diverse objectives, accompanied by the growing dissatisfaction among capital groups due to the deceleration of their profit rates and financial profitability (Marquetti et al., 2021: 156).

Under this political and economic crisis atmosphere, Rousseff was narrowly reelected in 2014. Although she had promised to return the inclusive development model by bringing back the economic growth and continuing improvements in social policies, she adopted orthodox policies with significant austerity measures under the impasse of a severe economic recession (Andrade, 2016; Saad-Filho and Morais, 2018). Despite the announcement of privatizations, the hike in interest rates, and substantial cuts in public spending, including income transfer programs and social policies, Rousseff's second term (2014-2016) was marked by negative growth rates, escalating fiscal problems, surging inflation, rising unemployment, and declining real wages (Marquetti et al., 2021; Braga and Barbosa dos Santos, 2022). This process resulted in the impeachment of Rousseff in 2016 as a result of corruption allegations[5] backed by increasing hostility of capital groups, middle classes, and mainstream media. Lula's political supporters failed to unite and effectively oppose Rousseff's impeachment due to growing disunity within its traditional base, including the organized working class, and the passivization of subproletariat as merely receivers of state assistance, not as political actors (Braga and Barbosa dos Santos, 2022; Ayers and Saad-Filho, 2015). Consequently, the failure of a sustainable neodevelopmentalist project, constrained by the implementation of neoliberal macroeconomic policies and the inability to reverse the economy's re-primarization trend, led Brazil to revert to a complete neoliberal agenda under right-wing authoritarian governments until Lula's re-election in 2022.

5. Conclusion

The Lula and Rousseff administrations implemented certain developmental and social policies that helped them to reduce extreme poverty and income inequality in Brazilian society known for its high levels of disparity. Brazil's notable success in achieving inclusive growth in the age of neoliberalism made it a rare example among developing countries. However, the PT's failure to deviate from neoliberal economic policies, reverse the trend of re-primarization, and enhance the economy's productive capacity left it vulnerable to global liquidity and price fluctuations.

Moreover, starting from 2006, the reliance on domestic consumption and household debt-driven growth, a common strategy among developing countries during the 2000s and 2010s, ultimately resulted in an indebted population that perpetuated inequality in the long term. The Brazilian experience in the past decade also shows the need of addressing wealth concentration to effectively combat class inequality. With Lula's reelection in 2022, the question remains whether the left-wing party can devise a sustainable development alternative to neoliberalism.

[5] See Saad-Filho and Morais (2018); Braga and Barbosa dos Santos (2022); Marquetti et al. (2021) for the details of this corruption investigation and impeachment process.

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