

# **Brazil's Foreign Policy: From Driving Industrialisation To Ineffectiveness In The 1980s - A Review From The 1930s Through The 1980s**

Ricardo Da Costa Nunes<sup>1</sup>

<sup>1</sup>PPGCont/ Universidade De Brasília, Brazil

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## **Abstract:**

**Background:** This study's objectives are to analyse the role of foreign policy in Brazil from the 1930s to the 1980s. It seeks to identify the main characteristics of Brazilian foreign policy during this period and the approaches taken in response to the most significant international events that impacted the country. The study also aims to examine the influence of Brazilian foreign policy on industrial growth until the end of the 1980s. However, in the 1980s, due to changes in the international context, Brazilian foreign policy began to exhibit the loss of traditional formulation paradigms primarily.

**Methodology:** The 'Review from the 1930s to the 1980s' eschews a strict theoretical approach, instead employing Lima's (1990) framework to evaluate a medium-sized nation's foreign policy in terms of thematic changes in vulnerability and capacity. It also integrates Almeida's (1991) interpretation of a country's international relations as a dynamic interplay between internal socio-economic factors and global historical trends. This study encompasses a broad historical span, offering a retrospective analysis that underlines the continuity and transformation in Brazilian foreign policy, with a particular emphasis on the notable shifts occurring in the 1980s and 1990s.

**Conclusion:** In the 1980s, Brazil faced significant challenges, marked by the debt crisis and drastic changes in the international scene. The growing globalisation and emergence of new economic blocs demanded a reassessment and adaptation of Brazilian foreign policy. Confronted with new international paradigms, such as environmental issues, human rights, and drug trafficking, Brazil had to rethink and adjust its diplomatic approaches. The early 1990s conferences reflected this new reality, demanding more dynamic and adaptable diplomacy. Therefore, Brazilian foreign policy reflected internal and global transformations throughout this period, playing a vital role in the country's development and positioning on the world stage—the challenges and opportunities faced shaped a foreign policy that was reactive yet also adaptive and innovative. The late 1980s and early 1990s marked a turning point, where Brazil began adapting to an increasingly globalised and interconnected world.

**Key Word:** Brazilian Foreign Policy; International Transformations; Bipolarity and Multilateralism; Economic Development; Diplomacy and Globalisation.

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## **I. Introduction**

The objective of this study is to analyse the role of foreign policy between the 1930s and 1980s. This work seeks to identify Brazilian foreign policy during this period, pinpointing its key characteristics and the approaches taken in response to the international events that most significantly impacted the country. The central thesis of this paper posits that the 1980s, primarily characterised by the loss of traditional paradigms in Brazilian foreign policy formulation, reflect transformations in the international landscape. This break from paradigms becomes increasingly apparent as the decade progresses, culminating in the international events of the late 1980s. These events were pivotal in shaping the new international order (or disorder) that emerged in the 1990s.

In the first part, the paper presents a concise analysis of the guidelines of Brazilian foreign policy from the 1930s to 1982. It is argued that Brazil's foreign policy has significantly contributed to its industrial growth. Furthermore, the study examines the independent foreign policy adopted by Jânio Quadros, President of Brazil at the time, the period following the 1964 coup, and the adoption of responsible pragmatism in international relations. This effort to provide historical orientation is essential, as the foreign policy of a country should not be analysed in isolated periods. On the contrary, foreign policy exhibits characteristics of continuity and evolution, which may or may not align with the approaches adopted in previous periods. Therefore, the historical retrospective will be the central focus of the first part of the work.

The second part of the paper analyses the foreign policy of the 1980s, a period marked by Universalism. The diversification of economic dependencies primarily characterised this phase. The extreme economic fragility that Brazil experienced, largely due to the external debt crisis, jeopardised the effectiveness of this policy. The collapse of the internal development paradigm, partly due to the debt crisis, will be analysed in this chapter.

In the third part, the author addresses issues deemed relevant for understanding the paradigm shift in international politics that emerged in the second half of the 1980s and its reflection in the country's foreign policy.

This essay addresses Brazilian foreign policy holistically. Although this approach may be theoretically contentious, the study does not differentiate between the actions of diplomacy, business groups, or other state and non-state actors. Brazil is analysed as a unique entity, emphasising its distinct characteristics. However, this does not imply adherence to a realist approach. Instead, a multifaceted perspective is adopted, incorporating various theoretical and practical elements. Security-related issues, such as the external debt crisis, will be given priority.

To avoid undue theoretical rigidity because of this study's methodological constraints, this research will utilise the framework proposed by Lima (1990). Lima contends that the foreign policy of medium-sized nations, such as Brazil, should be evaluated based on thematic shifts in their vulnerability and capacity. The contribution of Almeida (1991), which interprets a country's international relations as an interaction between internal socio-economic dynamics and global historical trends, will also be considered.

## **II. Evolution and Impacts of Brazilian Foreign Policy: 1930s-1982**

### **External Evolution**

From 1929 to 1993, Brazilian foreign policy and the rise in global demand starting in 1934 are believed to have been responsible for the initial stagnation and, subsequently, the growth of the burgeoning national industry. This fact could be considered a success by government authorities, bearing in mind that between 1929 and 1933, there was a global crisis with a decline in industrial production in other parts of the world. From 1933 onwards, politics became one of the elements responsible for industrial growth.

Brazil's foreign policy sought to balance the influence of the United States by diversifying its economic and financial partners. The country established commercial ties with Japan, Italy, and Germany, formalised through trade agreements. Particularly, the Brazil-Germany agreement in 1934 fostered barter trade as the primary method for merchandise exchange, also setting a quota for German importation of certain products. The success of this agreement led to an increase in trade with Germany from 1934–1935 until 1938. However, this agreement faced opposition both domestically and internationally.

This success of the Brazil-Germany agreement of 1934 significantly surpassed the previously observed results in the trade between these countries, reflecting the efficacy of Brazil's strategy to diversify its economic and financial partners beyond the traditional influence of the United States. Brazil managed to secure a set of benefits from the USA to be granted by Germany, which would result in Brazil's closer ties with the Axis countries. Osvaldo Aranha's mission to the USA in 1939 faced unanimous disapproval despite securing a credit of 19 million dollars to regularise commercial arrears. However, the negotiations in the second half of 1940 were more advantageous for Brazil. The USA's desire to reduce German influence in Brazil led them to support its import substitution programme, which was the main driving force behind this agreement. The Foreign Minister, Osvaldo Aranha, played a crucial role in developing this pro-American policy.

In reality, the ambiguity of Getúlio Vargas's foreign policy resulted from widespread division within his governmental team. Political disagreements and personal rivalries among members of Vargas's various cabinets prevented a united front in facing the significant issues emerging for the country.

The decisions regarding politics resulted from the success of the different factions in dispute, and the success of these factions depended on the achievements of the nations related to them. On one side, we have the sympathisers of the authoritarian model, and on the other, the sympathisers of the democratic model. Thus, the development of North American politics by Osvaldo Aranha stems from the expected North American victory. On the other hand, the Brazil-Germany rapprochement was due to German victories in Europe. This attempt at rapprochement occurred with Getúlio's speech, in which he praised totalitarian regimes and the secret contacts he maintained with the German ambassador. The United States' reluctance to begin economic negotiations with Brazil also explains this rapprochement. The USA hesitated to finance the Volta Redonda Steel Plant.

Meanwhile, Germany declared itself willing to supply the steel complex on advantageous terms for Brazil, even accepting the payment of the German financing with goods. After the war, the Germans also promised to buy large quantities of Brazilian products like cotton, coffee, and others. The Germans aimed to obstruct the economy of the USA against Germany in Brazil. The Germans, by promising to buy Brazilian products such as cotton and coffee after the war, intended to influence the Brazilian economy to weaken the economic position of the United States in Brazil. This action could be part of a larger strategy to reduce

American influence in the region and strengthen the economic and political ties between Germany and Brazil. This tactic would be consistent with the efforts of a nation at war to undermine the influence of its adversaries in strategically essential areas globally.

It is important to note that although Brazil's trade relations with the Axis countries developed harmoniously, the same cannot be said for diplomatic relations. The Italian and German governments' support of Nazi influence in southern Brazil contributed to these tense relations. These countries sought to 'protect' their colonists by granting them citizenship and instituting compulsory military service. This fact influenced relations between Rio de Janeiro and the Axis powers.

In response to the German proposal to Brazil, the American side offered Brazil favourable terms in negotiations between the two nations under Oswaldo Aranha. The United States proposed to supply the steel complex to Brazil, establish a new agreement regarding the payment of Brazil's debt, regulate the inter-American coffee market, facilitate Brazil's supply of strategic materials, and negotiate an agreement to distribute the cotton markets better. After 1944, the United States no longer needed the support of Latin America.

The Brazilian foreign policy was the result of the interaction of a multitude of factors. This guideline included the interests of developed nations, foreign rivals operating in the country, and different internal factions with varied national and international interests. According to Cervo (1994), since the 1930s, Brazilian foreign policy has oscillated between two main tendencies: nationalism and liberalism. Though distinct, both aimed towards a common objective – the country's development. The methods adopted by political leaders and government officials varied. It was notable that both the nationalist and liberal currents achieved successes and failures in pursuit of this goal. This debate was complex and ideologically charged, although not the main focus of this work, merited mention. It is interesting to note that both nationalists and liberals, when in power, claimed progress as the result of their policies whilst attributing failures to the actions of the opposing current.

A more sophisticated approach to studying the country's international relations and the objectives achieved by its foreign policy is the one proposed by Lima (1990). This author suggests analysing different contexts under various theoretical parameters. The uniqueness of each issue will define the guidelines of foreign policy. When studying international relations, it is crucial to consider these particularities without intending to develop a specific theory for each situation.

With this perspective, one can interpret the foreign policy of Vargas during the 1930s as pragmatic. Vargas's astuteness, the favourable conditions of the international context in a pre-World War II environment, and the structural changes in Brazilian society contributed to making the period from 1930 to 1945 marked by intense industrialisation. The greatest achievement of the era - the construction of a steel industrial park - was accomplished thanks to Brazil's bargaining power with Germany and the United States, capitalising on the tensions and rivalries between them. Finally, Brazil opted for alignment with the United States

With the end of the Second World War, Brazilian foreign policy sought automatic alignment with the United States, aiming to gain advantages supporting the country's ongoing development. However, Latin America was not a strategic focus for the United States in the new bipolar configuration of the post-war world order. Consequently, unlike Europe, Brazil received little economic assistance from the US government, as indicated by Malan (1984).

The second government of Getúlio Vargas faced numerous difficulties, and the mounting pressures culminated in his suicide. During this period, the internationalisation of Brazil's internal political issues became evident. Topics such as oil exploitation, the influx of foreign capital, industrialisation, and national security gained international prominence, as pointed out by Almeida (1991). As a result, Brazilian nationalism was profoundly questioned and put into check.

### **Period 55/56**

In 1955, the government faced an impasse: to either submit to the IMF's pressures to implement a stabilisation policy or promote a development policy. President Juscelino chose 'developmentalism' over the stability suggested by the IMF.

Thus, the fundamental action of the Kubitschek Government as an economic policy manager was the implementation of the Goals Plan, whose objective was to transform the country's economic structure by establishing a basic industry. Kubitschek recognised that combining state capital with foreign capital and the importation of technology could support his developmental project.

The development of capitalism in Brazil was based on three main pillars: foreign capital, private capital, and state capital. Interestingly, state capital not only does not hinder the industrialisation project but also supports it. Moreover, industrialisation sets the groundwork for expanding production, rather than replacing private capital. Furthermore, the aforementioned process evolves in alignment with the logic of capital internationalisation and the interests of domestic politics.

Kubitschek's addresses frequently mentioned the concept of industrialisation in partnership with foreign capital. The President did not perceive any incompatibility between industrialisation and foreign capital

or foresee significant tensions between them. In other words, his political conviction, which underpinned his economic development policy, integrated the notions of industrialisation and foreign capital.

During the transition from the Vargas Government to the Kubitschek Administration, there was a fundamental shift in developmentalist ideology: the political strategies underwent a reorientation. The focus shifted from creating a national economic system to prioritising the development of an associated capitalist system. In the first case, the government aimed to overcome dependency by nationalising economic policy decisions. In the second, it sought economic development by reworking the dependency conditions. In this context, the Goals Programme also represented a change in the direction and meaning of governmental policy, corresponding to an internal metamorphosis of the developmentalist ideology. For Vargas, industrialisation was the most direct route to creating national capital, whereas Kubitschek saw industrialisation as feasible only in interdependence and association. In both cases, the central challenge was evolving the economic and global capitalist subsystem relationships. Thus, Vargas aligned nationalist ideology with nationalist economic policy. Kubitschek, on the other hand, conducted his administration by simultaneously articulating nationalist ideology with a more internationalist policy.

Consequently, the public authority began to reshape the operating conditions of the production factors market, internal production relations, and the interactions between the Brazilian and global economies. The economic measures implemented, the political-administrative reforms carried out, and the restructuring of the state apparatus were the results of a previously established plan.

The government aimed to eliminate economic bottlenecks, the primary one being in the intermediate industry, which needed to catch up with the growth of the consumer goods sector. The government planned to construct the upper levels of the vertically integrated industrial pyramid and establish the basic social capital to support this industry.

To finance the expansion of investments to eliminate economic bottlenecks, key institutions were the BNDE, established in 1952; the Banco da Amazônia – BASA, set up in 1950; the Banco do Nordeste do Brasil S.A., founded in 1952; and the Banco de Desenvolvimento do Extremo Sul – BRDE, created in 1961. These institutions functioned as development banks at national and regional levels, tasked with financing the construction of basic social capital, such as roads and energy, and establishing strategic industries in basic inputs and capital goods.

It is important to note that the objectives of the Goals Programme and the political conditions under which it was being implemented depended not only on state resources but also foreign capital and technology. Therefore, the government adopted a financing system providing attractive opportunities for foreign and domestic private companies. Furthermore, the Plan offered significant incentives for private investments in sectors deemed priorities for development.

Significant state intervention did not meet opposition from the private sector, as it recognised the clear bottlenecks in the Brazilian industrial park. Furthermore, the ongoing nationalisation process had the advantage of relieving the private sector from managing areas that required substantial long-term investments. Consequently, the private sector did not oppose the government's use of powers and instruments necessary to address industrial complementation tasks. The responsibility for driving the growth programme fell to the public sector, whose participation was continuously expanding.

In summary, it is possible to categorise the pursued objectives of the plan into four significant groups. The first group of objectives consisted of direct investments in transportation systems and electricity generation, including the establishment of Petrobras in 1954, aligning with the policy to increase energy production. The Goals Plan made significant investments in expanding and paving highways, markedly improving their length and quality. Previously, there needed to be more investments in these sectors to develop the private sector.

The second group aimed to expand intermediate sectors, with the steel industry goal being particularly prominent. This group encompassed expanding existing activities in the country and installing new segments to integrate and complete the industrial park, ensuring the necessary supply for economic growth. In this context, Usiminas, Cosipa, and Termo Aço Vitória were established, along with the dynamisation and integration of state-owned companies like Petrobras and CSN into the industrial expansion.

A third set focused on establishing capital goods industries, including the automotive, shipbuilding, and heavy electrical equipment industries. This sector provided significant dynamism to the economy.

It should be noted that most of these sectors operated under monopolistic conditions and with decreasing costs, indicative of market failures. The production of such goods could be undertaken by public companies, as was common in Europe, or private ones, as in the USA, but always under the oversight of governmental regulatory bodies to prevent the abuse of monopoly power. Brazil chose nationalisation partly because its experience with private production in natural monopolies had been unsatisfactory.

Consequently, with the implementation of the Goals Plan, there has been an increase in both the size and the number, as well as the scope, of public enterprises. These enterprises, through substantial investments, exert their influence with the aim of fulfilling the objectives set by the economic policy. The adopted economic

policy facilitated the advancement and integration of economic activities, achieving high growth rates, while simultaneously promoting an effective import substitution process.

The Goals Plan constituted one of the most extensive actions promoted by the State in America, aimed at establishing an integrated industrial structure. This Programme was responsible for the creation, expansion, and modernization of industrial sectors, notably in the areas of energy, transport, food, and basic industry. The result, from a qualitative point of view, was the achievement of a mature economy profile with a reduced import coefficient and a diversified capital goods sector. In this trajectory, the Brazilian state had the dual task of concentrating resources and directly taking responsibility for the establishment of the productive base. At the same time, it created the basis for association with large foreign oligopolistic companies, integrating the Brazilian economy into the movement of international capitalization.

This governmental action would justify the thesis of various authors who argue that, after the Goals Plan, the industrialized Brazilian economy would have entered a new phase and would find internal sources of stimulus and expansion more important than the import substitution process that took place. This is because capitalist investment would explain growth. In other words, in an economy with a diversified industrial park, the demand from some secondary sectors would raise the production of the national industry, resulting in the country's growth. In Marxist theoretical terms, this would be equivalent to saying that capitalism moves through internal contradictions, and as Brazil is a capitalist economy, it would have a dynamic of internal growth, unlike an agro-export economy whose dynamics depend on the external market, that is, it grows when it exports.

For dependency theorists, a school of economic and social thought that emerged in Latin America in the 20th century, the most critical aspect of economic development would be the elimination of 'bottlenecks' in the economy. These bottlenecks are understood as structural barriers that hinder sustainable economic growth and the autonomy of developing countries, particularly in relation to more industrialized nations.

Irrespective of the foundations of different economic thought schools, such as neoliberalism, Keynesianism, or dependency theory, a notable fact is that robust state intervention played a key role in overcoming obstacles to achieving belated industrialisation in many countries, particularly in those termed developing countries.

The Juscelino Kubitschek administration was marked by the idea of development, as highlighted by the Goals Plan and the internalisation of capital. His government blended liberal tendencies aimed at attracting foreign capital, particularly European, with nationalist stances, as evidenced in the divergences with the United States. This became apparent in the creation of the Pan-American Operation and the break with the International Monetary Fund (IMF) and the World Bank.

### **Period 67/73**

In the 1960s, stagnationist theories predicted that the Brazilian economy was doomed to non-growth because the import substitution process, which was the main driver of growth, had become exhausted. According to Furtado (2009), stagnation would be the consequence of a loss of dynamism in the import substitution process and a decline in exports.

Contrary to these expectations, the Brazilian economy resumed growth between 1967 and 1978. The government adopted a set of measures, including the reform of the National Financial System and the implementation of a wage policy that facilitated the resumption of government investment and the civil construction sector. The latter was boosted by the strengthening of the National Housing Bank. In other words, with the reform of the National Financial System, obstacles to the development of Brazilian capitalism were removed, contributing to the creation of a market with 10 million consumers. Thus, the public sector played a decisive role in the country's economic development.

The objectives of the 1964 reform were to neutralise the effects of inflation on financial intermediation, especially in long-term contracts for the financing of fixed investments, to restore the state's ability to obtain non-inflationary refinancing, to expand the specialisation of the Financial System in order to increase its efficiency in the allocation of domestic savings, and to establish the foundations of a risk capital market for long-term financing of the productive sector.

In this new financial configuration, commercial banks were to provide short- and medium-term credit for working capital in commerce and industry, as well as loans to individuals, using sight deposits as funding. Finance companies would specialise in providing consumer credit, backed by bills of exchange. Investment banks would be responsible for creating the long-term capital market, issuing term deposits, and underwriting shares and debentures. The real estate credit societies, operating under the supervision of the National Housing Bank, would take charge of providing mortgage credit, with sources of funding including savings accounts and deposits from the Time of Service Guarantee Fund (FGTS).

Thus, the entire period from 1967 to 1973 was marked by growth rates of around 13% per annum. This dynamism was driven by exports and by the sectors of durable consumer goods and construction, whose

expansion was significantly ahead of the capital goods sector. The growth of these sectors was accompanied by the diversification of activities of public companies, as evidenced by the creation of subsidiaries.

The growth model adopted, however, accentuated the already high dependence of domestic production on imports and resulted in the transfer of a portion of the income growth's accelerative effect abroad. The opening to foreign markets was made possible by the rapid growth of exports and significant external financing.

It should be noted that exports increased not only in volume, due to the policy of mini-devaluations, but also in value, thanks to the improvement in terms of trade brought about by the increased relative weight of industrialised products in the export list.

The increase in demand for durable consumer goods was made possible by adopting an income-concentrating growth model. This income concentration is reflected in the average real wage growing much less than productivity and the widening differential between wages. Furthermore, the reform of the Financial System and the consequent increase in personal indebtedness also gave higher purchasing power to the upper-middle income groups.

The growth of agricultural production was modest compared to industrial growth and wage mass, leading to a situation where domestic consumption was compromised to increase agricultural exports.

The idle capacity inherited from the previous expansion cycle (1956-1961) and the years of semi-stagnation allowed inflation rates to have a declining trend, except during the biennium of 1972-1973 (the peak of the cycle) when the structural disproportions of the model became more evident. This stagnation occurred despite the economic authorities' efforts to encourage the capital goods industry.

This historical digression within this section aims to present the thesis that the Independent Foreign Policy, formulated during the government of Jânio Quadros, marked a turning point in Brazilian foreign policy. Prior to that, only references to the United States served as a guide, whether through a conflicting or allying attitude. Independent Foreign Policy is the expression of a country that believes it has reached such a point of development that it can implement its foreign actions based solely on its own will, especially since the continuation of the development process involves greater international activity through the discovery of new markets and the diversification of dependencies.

The rejection of an international order polarised by the East-West conflict, the resumption of diplomatic ties with the Soviet Union, the approach to African countries advocating for decolonisation, the rapprochement with China, and the openness to the Third World were not intended to deny the West, but rather to stimulate market openings. Simultaneously, on the political front, there was an appeal to reduce disparities between the Global South and North. Development was the primary objective of the Independent Foreign Policy, with little regard for the ideologies dominating the world at the time. The increased professionalisation of Brazilian diplomacy further enhanced the trend towards economic diplomacy, primarily aimed at development.

However, the discourse for the unity of the South was sterile, as the country, despite the legitimacy of its theses, as seen in Fonseca (1993), could not significantly influence the highly polarised global political game. Nonetheless, the attempt was valid, as the Independent Foreign Policy offered a universal perspective for Brazilian foreign policy.

The Independent Foreign Policy, implemented prior to the 1964 Military Coup in Brazil, contributed to intensifying internal polarisation, although it did not have major impacts on the international stage. The 1964 Coup marked a significant shift in Brazilian foreign policy, characterised by a more liberal, conservative orientation aligned with the interests of the United States. The American military support for the coup was promptly offered, as this realignment was in line with the US National Security Doctrine in the region. However, the period from 1964 to 1967 did not bring the economic development advancements many had anticipated. A faction of military officers with nationalist leanings staged a 'coup within a coup', consolidating the authoritarian regime through Institutional Act No. 5. This movement also marked a return to a nationalist tendency in Brazilian foreign policy.

The period from 1967 to 1974 was characterised by intense economic development in Brazil, marked by a significant influx of capital through external loans. During this phase, the import substitution process reached its zenith, turning the country into a producer of durable consumer goods. This advancement in production led to a substantial increase in productivity, which in turn made it imperative to seek new external markets to accommodate the surplus production.

Brazil's economic growth during this period was primarily driven by the expansion of state-owned enterprises and an increasing external debt of the State. Despite this growth, the country remained vulnerable in many aspects, particularly in the energy sector. The 1973 oil crisis had a particularly detrimental impact, as Brazil, with its more diversified industrial base, had a growing energy demand and faced high costs for oil imports, resulting in significant trade deficits. The favourable international liquidity conditions and low interest rates in the euro money market enabled Brazil to increase its debt further to purchase the necessary fuel. Therefore, the oil crisis further intensified the country's trend towards economic growth based on external

indebtedness, a dynamic that, as Sant'Ana (1992) points out, would lead to significant challenges in the following decade.

During the period of economic growth in Brazil, the media and politicians popularised the idea of a 'Great Brazil'. In foreign policy, this was reflected in adopting what was conceptualised as 'responsible pragmatism'. To some extent, this approach revisits the principles of independent foreign policy. Despite the differences in the international and national context between the periods (1964–1974) and the temporal gap, there is a line of continuity between the two policies, as noted by Fonseca Jr. (1993).

Brazil sought to strengthen its strategic interests on the international stage, characterised by *détente*, as evidenced by the nuclear agreement with Germany. Furthermore, the country entered into explicit conflicts with the United States, notably by refusing to sign the Nuclear Non-Proliferation Treaty (NPT) and denouncing the 1943 military agreement. Domestically, Brazil's strong and centralised regime was marked by a qualitative and quantitative leap in economic production. These combined factors shaped a new approach to foreign policy. The Brazilian population experienced the enthusiasm of *Great Brazil*, and many international analysts viewed the country as an emerging power, an expectation that would be frustrated in the following decade.

In summary, 'responsible pragmatism' was not limited to using the South-South approach merely as rhetoric but primarily employed it as a strategy for economic interests. To this end, the Brazilian government sought to exploit opportunities offered by the East-West bipolar system. In this context, it is crucial to highlight the contradiction between foreign policy, which was remarkably flexible and devoid of ideological constraints, and domestic authoritarianism. Thus, both in the Independent Foreign Policy and Responsible Pragmatism, Brazil aimed to overcome any external ideological limitations to maximise economic profits and promote development.

Consequently, Responsible Pragmatism represents the continuity of the evolution of Brazilian diplomacy, which began with the Independent Foreign Policy. These two foreign policy models differed in some ways because they were both dependent on the internal circumstances of the nation and the international environment at different times. Furthermore, the main point of convergence between them lies in a standard internal paradigm: the need for development. This paradigm would undergo a dramatic change in the following decade.

#### **Period 74/82**

Due to demand pressures, the 1973 oil shock impacted an already inflation-tense situation and tendencies towards significant deficits in the Balance of Payments. This oil shock initiated a phase of slowing economic growth, with rates around 6% per annum between 1974 and 1980.

At this juncture, the Brazilian Government faced a dilemma: adopt a recessionary policy to correct the deficit and adjust to the global scenario, or increase indebtedness to overcome the oil crisis, some of which was considered temporary. The choice was to pursue growth through indebtedness, as the Second National Development Plan outlined. This plan aimed to sustain the high growth rates of the previous period, especially encouraging the capital goods sector. Such a decision was in line with the theory of monopolist capital, which sees the state as a defender of the corporate profit rate.

The Government sought to implement a national project centred on state-owned companies producing basic inputs and capital goods. Thus, a concentrated effort was undertaken for a non-recessionary economic adjustment through import substitution, export expansion, and strengthening of the industrial park in response to the balance of payments imbalance. Therefore, even under the influence of international big capital, the current accumulation pattern has facilitated the integration of various segments and accelerated the modernisation of certain areas of the previous industrial structure.

At that time, the prevailing ideology in Brazil was that of a *giant Brazil*. The Armed Forces aimed to promote the country's development while preventing a social crisis. According to the military's viewpoint, there was a 'red threat' posed by armed movements disrupting social peace. Implementing economic cooling policies, which would increase unemployment, could encourage subversive groups' armed struggle. Thus, state expenditure served as a foundation for the growth of the monopolistic production sector. In other words, the state sector of the economy was expanding to foster Brazilian capitalist development. Public and foreign investment, as demonstrated in the Goals Plan, jointly propelled private investment. The State was required to maintain or create conditions conducive to profitable capital accumulation and social harmony. To facilitate the expansion of the capital goods sector, there was another shift in the allocation of resources from the National Bank for Economic Development. This time, the focus was on supporting the national industry, particularly the mechanical industry. Furthermore, the volume of resources provided doubled in a short period.

Up to this point, in the trajectory of Brazilian nationalisation, the Goals Plan had been the peak moment in coordinating a financing scheme for the state's productive base and the coordinated expansion of a significant number of industrial sectors. Despite some valid criticisms, this plan successfully prevented the deepening of the demand slowdown and promoted a process of import substitution.

During 1976–1978, the Second National Development Plan was partially deactivated due to anti-inflationary measures, which included curbing public spending on infrastructure and social purposes and increasing interest rates. On one hand, there was a need to contain inflation by adopting restrictive internal policies. The result, despite the reduced growth of inflation, was an increase in the investment rate, primarily driven by the public sector, as there were no physical restrictions on imports. With the increase in interest rates, a response to inflation, there is a potential exacerbation of the recession, as resources that could be invested in the productive market are shifted to the financial market, a phenomenon known as *financial roundabout*.

In 1979, the economic situation worsened with the second oil shock, exacerbated by the rise in interest rates. The then Finance Minister, Simonsen, proposed recessionary measures as a shock treatment: cuts in public spending, debt reduction through reserves, credit containment, and others. Despite losing the support of the business community, his successor, Delfin Neto, continued with similar policies, arguing that one cannot 'abort in the eighth month'.

During the years 1974/75, Brazil still found external credit, but in 1979/80, with developed countries facing deficits, there was an intense search for financial resources. In the USA, the expansion of internal spending was one of the factors that drove up interest rates.

This complex international scenario resulted in an endogenous crisis, where the rise in interest rates did not decrease the demand for credit but increased it due to the high cost of loans. In Brazil, this dynamic translated into increasing indebtedness at progressive rates, characterised as *moral hazard*. However, the increase in debt service exceeded the growth of loans, reducing the net inflow of capital. Thus, from 1981 onwards, credit became an urgent obligation, considered by Minsky (1986) as speculative financing, where payments exceed revenues.

The economic model that had been adopted was characterised by catering to a sophisticated demand profile, coupled with a supply structure that favoured the production of durable consumer goods. A sudden redistribution of income would not be effective, as, in the short term, the existing supply structure could not adapt. In simpler terms, with income redistribution, there would not be sufficient demand for cars and other luxury products. Therefore, maintaining domestic production required an increasing concentration of income.

Given the impossibility of dramatically reducing imports without compromising the adopted growth model and risking political destabilisation, the government chose to continue the import substitution process. It also sought to develop new export opportunities and enhance the country's technological capacity. However, the decision to import more high-tech products increased the short-term vulnerability of the balance of payments due to growing dependence on imported oil and technology.

The situation became increasingly challenging. On the one hand, industrialised countries raised the prices of the industrial products Brazil was importing; on the other, Brazil could not reflect this increase in the prices of the raw materials it exported, mainly due to the rising cost of oil. For developed countries, this was reflected in an increase in terms of trade: 5.9% in 1974 and 8.5% in 1975. For Brazil, however, there was a 19% decline in its terms of trade due to the increased oil price.

Due to the acceleration of inflation and the instability of interest rates, private industrial and commercial enterprises have adopted a defensive posture, reducing their reliance on foreign loans. State-owned enterprises have been employed as instruments for short-term economic policies, Nunes & Nunes (1998). The government has implemented price and public tariff controls to reduce inflation and, simultaneously, sought to capture resources abroad to finance the Balance of Payments.

The manipulation of public prices becomes evident when observing the prices of goods produced by the steel, energy, and communications sectors. There has been a decline in the relative prices of the main goods and services provided by state-owned enterprises, adjusted for inflation. This phenomenon has placed these companies in a position of financial fragility, hampering the resumption of economic growth. Additionally, the reduced public prices and tariffs have increased demand, leading to a bottleneck in production capacity. Therefore, these sectors urgently required capacity expansion and modernisation. However, as the Brazilian state did not implement a tariff increase and lacked the resources to invest in the companies and offset the losses it was causing, it ended up accelerating the obsolescence of these state-owned enterprises.

Some companies have become deficit-ridden mainly due to state intervention, which sets low tariffs and encourages the procurement of loans from abroad. The reduction in state spending was also a strategy to combat inflation. This cutback in government expenditure decreased aggregate demand. The decrease in government investments dampened production and, as a result, imports. Furthermore, companies were encouraged to seek funding overseas, which helped balance the Balance of Payments. However, with the successive currency devaluations, they ended up bearing the costs privately.

### **III. Financial Turbulence and Strategic Diplomacy: Brazil's Economic Journey in the 1980s Period 1982/87**

A drastic reduction in the liquidity of the international financial system characterises the period from 1982 to 1987. In 1982, the debt moratorium by Mexico, followed by Brazil and Argentina, triggered a credibility crisis in the financial system. It is well-known that a widespread panic in a credit-based system can be catastrophic. Interest rates were raised again to ensure profitability, offset the risk and retain deposits. As a result, the country faced a rapid depletion of its reserves. In the same year, the country renegotiated its debt under the auspices of the IMF, setting a target that inflation should not exceed 70% per annum. However, this target had already been exceeded, and the agreement ended in a conspicuous failure. Moreover, the country carried out a 30% currency devaluation without consulting the IMF, preventing banks from granting loans to Brazil. This action resulted in an almost complete cut-off of external resource inflow.

From 1983 onwards, Brazil began to service its debt using primarily its own resources, in contrast to the previous method of refinancing based on new loans. At this time, the resources transferred abroad represented 40% of Brazilian exports, aided by increased domestic oil production. In 1984, despite recession predictions, the GDP grew by 5.7%. The investments made under the Second National Development Plan were believed to be crucial for the resumption of economic growth. Investments in infrastructure helped reduce the costs of Brazilian products, enhancing their competitiveness in the international market and promoting an increase in exports.

While Brazil was engaged in completing its industrialisation, exporting manufactured goods, other Latin American countries were undergoing deindustrialisation, focusing on the export of primary products. However, this did not prevent the growth of their debts, which, per capita and relative to the product, are higher than Brazil's. Moreover, these countries, having gone through the recession of the previous years, did not experience the economic recovery that Brazil saw in 1984/85.

In 1985, with the implementation of the Cruzado Plan, Brazil moved from a recovery phase into expansion. However, this was a distorted expansion, based solely on final consumer goods sectors and driven by a surge in consumption. As the production capacity could not adapt swiftly enough, reserves were depleted, and the trade balance was negatively impacted, resulting in a surprising increase in imports.

The state ownership of companies, forming the productive base of the Brazilian state, has always been justified by the essential nature of the enterprise for industrial development and the low level of capitalist concentration achieved by private capital. The socialisation of costs and the private appropriation of profits resulted in a fiscal crisis characterised by a structural mismatch between state expenditures and revenues. This action led to a tendency for public expenditures to grow more rapidly than the means to finance them.

This trend in the growth of state expenditure is evident in the fact that, in the long run, monopolistic capital tends to increasingly socialise the costs of capital and the social expenses of production, while profits are not socialised. In reality, this socialisation of costs and expenses aims to increase profits and the growth of the private sector. This situation becomes evident when freezing public prices increases oligopolistic sectors' profits, which may not pass on cost reductions to prices. That state action protects the economy from the impact of the recession, supporting and accelerating the industrialisation process. This movement includes the nationalisation of deficit-running companies. For all these reasons, the essence of the debate on nationalisation in Brazil should be understood in the political and ideological context, rather than in the practical sphere of dividing activities between the public and private sectors.

In conclusion, formulating the Second National Development Plan and implementing a block of state investments combined with the national capital goods sectors created an expansion front for the Brazilian economy. This investment block could neutralise the decline in private investment and establish a new standard of industrialisation. The economy could then experience self-sustained growth. The significant investments would stimulate intersectoral demand in the industry, leading to economic growth and the expansion of the productive base. As the interaction between various industrial sectors increases, the dependence on final demand for the realisation of production diminishes. In other words, the accelerator effect would be more significant than the income and employment multiplier effect. It is important to note that the impact of the accelerator depends on the absolute and relative dimensions of the capital goods sector, its integration with the technical base of the leading sectors, and the import coefficient.

The next phase in Brazil's industrial development should focus on advancing cutting-edge technologies. This could be achieved through investments in research and development of new products, as well as the implementation of protectionist measures. There was an expectation that the government would pursue these goals.

However, the direction taken was different. In 1979, the Secretariat for Coordination and Governance of State Enterprises was established with the aim of effectively coordinating various segments of state production. Yet, the long-term perspective regarding public investment was abandoned in favour of adherence to budgetary targets and short-term economic policy priorities.

Furthermore, the approach of financial control of expenditure in state-owned enterprises encourages non-selective cuts in expenses. This absolute reduction in spending levels, with a financial rather than strategic

focus by the Secretariat for Coordination and Governance of State Enterprises, hampers the performance of these companies. The reduction of state investments prevents the companies from expanding production and improving their financial health. In the most deficit-ridden state enterprises, the personnel reduction targets often result in the departure of the most qualified employees and the retention of the less competitive ones.

Since the mid-1950s, Brazil had been attempting to give a more dynamic and universal character to its foreign policy. It can be said that the country was prosperous, and in the early 1980s, this process peaked. The initial goal of foreign policy has always been development. Economic diplomacy, the focus since the fifties, was striving towards this goal. In the early eighties, the country had achieved significant international projection. Indeed, the rhetoric of ecumenical action and alignment with the third world for diversification of economic dependence, market expansion, and the pursuit of greater international weight, present in speeches at multilateral forums, had become a reality, accompanied by practical actions.

In the 1980s, Brazilian diplomacy significantly expanded its areas of operation, as described by Valentino Sobrinho (1985). This expansion extended beyond merely establishing diplomatic missions, representing a diversification in international relations, both asymmetric and symmetric. Brazil, adopting a global perspective and opposing the traditional world directory, actively sought to diversify its asymmetric relations, strengthening ties primarily with the European Economic Community and Japan. Simultaneously, it invigorated relations with the Soviet Union and, later, China.

In symmetric relations, there was significant rapprochement with African countries and more intense operational cooperation with neighbouring nations, transforming and revitalising old commercial schemes. The result was a diversification of foreign trade and direct investments, with decreased participation from the USA and increased involvement from the European Economic Community and Japan. Moreover, there was a boost in trade with less developed countries, especially in Latin America, marking the first steps towards the formation of Mercosur during the Sarney government.

The strategy to diversify symmetric relations also manifested in the significant Brazilian presence in Africa and the Middle East. Brazilian engineering companies began to provide services and develop large projects in these regions, primarily aiming at energy security and the search for oil, especially following the second oil shock, which reignited concerns about Brazil's energy dependence.

The second oil shock, followed by the debt crisis and the exorbitant rise in international interest rates, brought increasing difficulties and had significant consequences for the country. These events contradicted the previous thesis, showing that external phenomena could destabilise the internal paradigm that, in part, shaped the country's foreign policy. The debt crisis, in particular, called the growth model based on state indebtedness into question. As Sant'Ana (1991) pointed out, this development model sustained by public sector borrowing had reached its limit.

The debt crisis had dramatic consequences. The international financial flows, which in the 1970s were predominantly from the North to the South, reversed, flowing from the South to the North. As a result, the state lost its capacity to invest in production. Internally indebted due to fiscal deficits, the government began issuing more currency and bonds, triggering an inflationary spiral that marked the 1980s.

The Third World countries, including Brazil, had to seek constant surpluses in the Trade Balance to pay for the debt services. Brazil, which had been pursuing the diversification of trade markets as an economic policy strategy to increase its international presence and stimulate internal development, was forced to export as much as possible to the new markets it had previously secured. At the same time, the neo-protectionism of developed countries, based mainly on non-tariff barriers such as technical barriers and quotas, significantly hindered the achievement of these surpluses.

The internal crisis in Brazil, triggered by debt and the state's bankruptcy, had significant consequences for the country's foreign policy. The development strategy through internal and external state indebtedness had ended; as a result, the country's strategic development project was destroyed. Brazilian diplomacy lost part of its reference point, as since the 1950s, its main focus had been economic diplomacy, which was a part of this national development project.

The democratisation of Brazil from 1984 on aimed to establish a new strategic project for the country but faced significant challenges. Although attempts were made to kickstart a new wave of growth, internal and external challenges posed significant obstacles.

During the latter half of the 1980s, concurrently with the establishment of the new democratic government, the international scene was presenting emerging challenges that Brazil was not prepared to address immediately. In the political field, paradigm shifts were prominent, such as the rapprochement between the United States and the Soviet Union, eventually leading to the end of bipolarity. In the economic field, the globalisation and regionalisation of the economy raised protectionist concerns.

Moreover, new issues began positioning countries, including Brazil, as hostages internationally. Among these, the environment and, to a lesser extent, human rights became prominent. These emerging issues in the late '80s and early '90s would be central themes in the third part of the historical context under discussion.

#### **IV- Reorientation and Challenges of Brazilian Foreign Policy in the Post-Cold War Context**

The rapprochement between the USA and the USSR from the mid-eighties onwards was a dramatic change in the international situation, according to Lafer (1993). The erosion of the East/West paradigm that shaped the entire international order had consequences for all countries worldwide, and Brazil was no exception. Brazil's foreign policy, with its pacifist motivations, never used the East-West dichotomy to maximise strategic military gains but always did so to achieve economic dividends and, in a way, political ones, as the country advocated free trade between countries regardless of ideological motivations and used this premise to gain an international presence.

One of the main consequences of the change in configuration for the country is that Eastern Europe and Russia, with their struggling economies, do not offer advantages for trade with Brazil. Another significant consequence, this one more serious, is that the recovery of the economies of the East will require capital from Western countries that could be invested in Brazil.

In short, the East-West paradigm's bipolar power configuration influenced Brazilian foreign policy. The fall of this bipolar configuration and the rise of multilateralism, especially in the economic field, will have consequences for Brazil's international integration.

One of the causes of the end of bipolarism, which was marked by the fall of the Berlin Wall, was the Soviet incapacity to continue the arms race with the USA. Defence spending exhausted the Soviet economy, and it proved inefficient. However, the consequences for the Americans were also dire: they were forced to spend on armaments, increased public deficits, and lost economic competitiveness to Germany and Japan. The growth of German and Japanese economic power concerns the Americans and, at the same time, significantly alters the international scene.

For this reason, Bergsten (1993) believes that the 1980s enshrined the primacy of economic issues over strategic-military concerns, and it is in this direction that American foreign policy should have headed in the 1990s.

The emergence of new economic power centres was the hallmark of the 1980s. The globalisation of the world economy and increasing competitiveness led to the creation of these trade blocs. Regionalisation is a phenomenon that concerns Brazilian foreign policymakers. Protectionism exists and causes problems for developing countries; the GATT impasse over agricultural subsidies in the European Economic Community is a clear example that trade blocs can often divert trade rather than create it. In this context, it is important to note that Brazil benefited as a free rider from the conflicts between developed nations, as Lima (1991) described.

Ultimately, the globalised economy and the formation of regional blocs in the late 1980s presented two challenges to Brazil's foreign economic policy: (i) Despite its stage of development and the diversification of trade partners, Brazil had a relatively uncompetitive and closed economy. The election of a president with a liberal platform in 1990 highlighted the seriousness of this issue, as the technological and productive enhancement of the Brazilian industry was essential for the country's integration into the global economy. (ii) The second challenge arose from the configuration of the new economic order, which intensified Regionalisation, forcing smaller economies to align with economic power centres. For example, North Africa was mainly oriented towards the European Economic Community, Southeast Asia towards Japan, etc. Thus, Brazil faced a contradiction: the diversification of dependencies, a goal since the 1950s, did not bring advantages in the 1990s.

With the end of the bipolar era and, to some extent, the East-West dynamic, the attention of developed countries shifted to some of the South's problems, mainly the environmental issue. Other issues, such as drug trafficking, adherence to non-proliferation of nuclear weapons, and human rights, also became prominent, albeit on a smaller scale. However, this concern did not arise to question the divide between the North and the South, but rather through an unprecedented demand by developed countries on internal matters. This paradoxical reversal of demands contributed to delegitimising the South's perspective in the global arena, according to Lafer (1993).

Indeed, globalisation extended beyond economic themes, permeating political issues as well. The concept of *global commons* heightened environmental concerns towards the end of the previous decade. Consequently, Brazilian diplomacy found itself pressured to address previously peripheral topics. The thematisation of international issues represented a profound shift in the paradigms of Brazilian foreign policy. In the 1980s, Brazil's involvement in these matters was still uncoordinated. However, in the early 1990s, with events such as the Rio 92 Conference, the 1993 Vienna Conference, and the conclusion of the Uruguay Round, new action perspectives for Brazil emerged.

A strategy considered at the time was to link themes such as the Environment, Drug Trafficking, Human Rights, economic liberalisation, and the disparities between rich and poor countries. The idea was not to transfer all responsibility for the problems to developed countries, as in Brazilian diplomacy in the 1950s, but to argue that poverty and a lack of internal resources directly affected global problems. For instance, poverty leads

to the irrational use of natural resources, and a lack of education results in harmful technologies. Therefore, the transfer of resources, not just financial but primarily technological, could mitigate the problems of underdeveloped countries. Poverty also stimulates drug trafficking, suggesting that solutions like income transfer to poor regions and a more flexible approach to external debt issues could be effective.

By the late 1980s, Brazilian foreign policy was confronted by new external paradigms that changed its course of action. The collapse of bipolarity, globalisation, regionalisation, and thematic areas were identified as the main challenges of the 1990s.

## V. Conclusion

This study reveals Brazilian foreign policy's complex and multifaceted trajectory from the 1930s to the late 1980s, marked by intense transformations and adaptations. Foreign policy reflected internal and global conditions and was crucial in the country's economic and industrial development. From economic diversification in the 1930s and 1940s, through Kubitschek's developmental era, to independent diplomacy and responsible pragmatism during the military governments, foreign policy was fundamental to modern Brazil.

Brazilian foreign policy in the 1980s, marked by changes in internal and external paradigms, had to adapt to the end of the development process, the end of bipolarity, the emergence of multilateralism, and global themes. Despite following a logical development since the 1950s, the 1980s represented a breaking point that required reconsidering concepts and modifying lines of action.

In the 1980s, Brazil faced significant challenges, marked by the debt crisis and drastic changes in the international scene. The growing globalisation and emergence of new economic blocs demanded a reassessment and adaptation of Brazilian foreign policy. Confronted with new international paradigms, such as environmental issues, human rights, and drug trafficking, Brazil had to rethink and adjust its diplomatic approaches. The early 1990s conferences reflected this new reality, demanding more dynamic and adaptable diplomacy.

Therefore, Brazilian foreign policy reflected internal and global transformations throughout this period, playing a vital role in the country's development and positioning on the world stage—the challenges and opportunities faced shaped a foreign policy that was reactive yet also adaptive and innovative. The late 1980s and early 1990s marked a turning point, where Brazil began adapting to an increasingly globalised and interconnected world.

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