

# FOODFIRST

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### Agricultural Trade Liberalization and Brazil's Rural Poor: Consolidating Inequality

by Amanda Cassel and Raj Patel

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Raj Patel, Ph.D.  
Policy Analyst  
Institute for Food and Development Policy/Food First  
Oakland, CA

Amanda Cassel  
Intern  
Institute for Food and Development Policy/Food First  
Oakland, CA

**FOR THE RIGHT TO BE FREE FROM HUNGER**

**398 - 60TH STREET OAKLAND, CALIFORNIA 94618**  
**TEL: (510) 654-4400 FAX (510) 654-4551 [www.foodfirst.org](http://www.foodfirst.org).**

## Executive Summary<sup>1</sup>

Everything about Brazil is big – its area, its population, its economy, its inequality. The poorest Brazilians live in rural areas, working in and around agriculture. This report surveys the history and trajectory of Brazilian agriculture, and its experience under liberalization of agriculture. The data, assembled from the Brazilian government, World Bank, United Nations and scholarly sources, suggest that liberalization, rather than redressing the inequality that has persisted in rural Brazilian life, has cemented it.

The liberalization process began with the first structural adjustment programs. As a result of the debt crisis at the outset of the 1980s, Brazil signed its first structural adjustment deal with the International Monetary Fund in 1982, followed by another in 1988. In the agricultural sector, the result was that rural credit, producer price supports, and marketing services virtually disappeared after 1987. Despite heterodox efforts to stabilize the economy without raising interest rates, by temporarily freezing prices (Cruzado Plan 1986, Bresser Plan 1987), both inflation and interest rates spiraled out of control for much of the decade. In addition, with the removal of regulations on prices, the cost of land soared, making it even more difficult for the poor to acquire and retain land.

Liberalization had a predictable and negative effect on prices: world prices for Brazil's major crops, including its principal exports coffee and sugar, have been falling since the early 1980s. Poor farmers who attempted to enter the agro-export markets alongside profitable large producers were hit hardest by this trend because of their vulnerability to loss. In addition, prices for crops on the domestic market have fallen almost as drastically. From 1980-1991 alone, real producer prices for both domestic crops and exports were cut in half. Prices have continued to drop in the 1990s. Over the last thirty years, rice prices have declined 53% and maize prices by 60%. Again, the rural poor suffered, as rice and maize are two of their principal crops.

In 1991, Brazil entered, MERCOSUL, also known as MERCOSUR, or the Southern Cone Common Market. It called for all members to eliminate tariff and non-tariff barriers to trade by 1994, with a few exceptions granted for vital commodities. The agreement also specified reductions in support for agricultural production. Brazil and Argentina, the regional giants, pushed for its formation and have been its principal beneficiaries. Brazil's exports have grown significantly since its implementation, and it is by far the largest exporter in the group. At the same time, competition from Argentina in certain sectors, most notably wheat, has driven Brazil almost entirely out of the market. Since the inception of MERCOSUL, Brazil has begun importing more food.

Brazil joined the World Trade Organization upon its formation in 1995. The WTO was formed out of the former GATT (General Agreement on Tariffs and Trade) as a governing body over international trade rules. The Uruguay Round of the GATT, 1986-1994, gave rise to the formation of the WTO and mandated major reductions in tariffs, export subsidies, and domestic price supports. Developing member countries, including Brazil, were to reduce import tariffs and export subsidies by 24% and to reduce domestic price supports by 13.3%, both over a period of ten years. By joining the WTO, Brazil agreed to extend market integration from a regional to a global level. The Uruguay Round contained a specific Agreement on Agriculture that required

unprecedented liberalization of agricultural markets. As predicted, trade liberalization increased Brazil's international trade. But it also increased Brazilian farmers' exposure to the fluctuations of international prices.

Brazil is currently in negotiations with the U.S. and other Latin American countries over the creation of a trading bloc that would reach from Canada to Chile, essentially expanding NAFTA to the rest of the continent. The FTAA would involve more of the same for Brazil: lower tariffs, taxes, and export subsidies, and more competition from abroad. Competition would now come from the United States, which is hesitant to hold itself to the same standards. So far, the U.S. government has refused to eliminate the billions of dollars in subsidies it provides to its farmers. If the FTAA goes through without stronger anti-dumping provisions and major cuts in U.S. farm subsidies, Latin American farmers will be even more threatened by cheap food crops pouring in from the North.

Against this backdrop, the conditions of the poorest Brazilians remain grim. While estimates for poverty in Brazil range from the World Bank's 20% to UNICEF's 32%, with rural poverty twice as high as urban poverty (a conservative World Bank estimate placed rural poverty at 41%), authorities agree that the reforms of the 1990s failed to improve the lot of Brazil's poor. Small farmers were hardest hit by the changes, unable to withstand the price fluctuations that came with trade liberalization and the elimination of price controls. In addition, despite the fact that Brazil is a food exporter and enjoys the world's 10<sup>th</sup> largest economy, 10% of Brazil's people are hungry; half of the poorest live in rural areas, where food is grown.

Brazil is infamous for its income inequality. The UNDP's Human Development Report in 2003 found that Brazil had the greatest inequality among middle income countries, and was surpassed on the global level only by Sierra Leone. For the past twenty-five years, throughout the period of trade liberalization, Brazil's GINI coefficient has held fast at around .59 or .60, settling at .61 in 2003. Putting these trends in words, the data show that the poorest 10% of the population receives just 0.7% of total income, while the richest 10% receives almost half.

This situation is particularly severe for Brazil's rural population. Rural workers include independent small farmers, sharecroppers, tenant farmers, and agricultural day laborers. They are Brazil's poorest and most vulnerable sector, and they depend upon the land to produce the crops that are their livelihood. Yet, at last count, 40% of farmers shared a mere 1% of the land, while the richest 20% owned 88% of the land. Despite an feeble attempt at land reform during the 1990s, land tenure has not become more equitable over the last two decades. The Landless Workers' Movement (MST) estimates that there are 20 million landless people in Brazil (4 million families), while 7 million more barely survive as squatters, sharecroppers, and migrant workers.

In large part, the continuing poor distribution of land is due to liberalization policies that favor large-scale, technologically-advanced, export-oriented agriculture rather than small farmers growing for local markets.

The result of trade liberalization has been to consolidate these inequalities. In a study of the impacts of the Uruguay Round of WTO negotiations and its Agreement on Agriculture, the FAO

found a trend of larger farms dominating, with the consolidation of maize and soybean farms, import substitution of wheat, rice, and cotton production, and increased firm failure in the dairy industry, while larger farms and foreign companies such as Nestlé and Parmalat take hold.

The Brazilian government support for its soybean sector has been lauded as an example for other developing countries to follow. Because of government support, soybean earnings jumped from US\$393 million in 1980 to US\$2.7 billion in 2001, and Brazil is now the second largest producer of soy in the world. Yet this support would now be illegal under the current international trading regime. In addition, the benefits of this sort of aggressive state intervention on behalf of the industry have concentrated the benefits in the hands of a few; soy producers tend to be large scale operators, and this has resulted in the displacement of smaller farmers. In addition, while soybean production is capital-intensive, it requires very little labor. A 1000 hectare soybean farm employs only three people. Two consequences of this type of production deserve note: first, the growing profits from soybean production remain in the hands of relatively few already rich producers, and second, soybean production fails to fill the social need for employment in the countryside and thus stem the tide of urban immigration.

Contrary to the aims of the government, the expansion of soybean production has actually diminished food security. The government's stated aim in its initial subsidy of soybean production was to bolster food security by providing an inexpensive component of poultry feed, which would in turn make chicken a more affordable source of animal protein for Brazilians. There was a problem with this; officials apparently overlooked the fact that soybeans would compete with food crops for land use, and the farmers who grow them. In the first years of soybean production (1970-1973), 90% of soybean expansion displaced other crops such as rice, beans, manioc, potatoes, and corn. While later expansion often involved cultivating new land, soybeans have continued to compete with (and often replace) production of staple food crops.

There are alternatives to the export-agriculture model that has failed the majority of poor Brazilians. Social movements in Brazil, among them the Landless Peasant Movement (MST) have proposed and implemented bold reforms, including 'bottom-up' land reform and redistribution, which have demonstrably improved the lives of hundreds of thousands of its members, despite frequent opposition and footdragging from state and federal government. The MST are clear about their vision of rural development – it is a vision that unites democracy, social justice, and ecological sensitivity. It has flourished in certain parts of Brazil while other rural communities have withered. Their major new campaign of land settlement is one that deserves welcome and support from the government, whose own history of rural policy has reinforced historical patterns of inequality. It is time, in other words, that the government started to support the policies tried and tested by the very people in whose name it rules.

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## **Introduction**

Since 1998, a team of negotiators from thirty-four countries of North, Central, and South America have been discussing the terms of a Free Trade Area of the Americas. Otherwise known as the FTAA, or the ALCA in Spanish, this U.S.-backed agreement would create a continent-wide trading bloc that would rewrite the rules of trade and investment, while sharply reducing or eliminating most existing tariffs and quotas between every American nation save Cuba. Since January 1 of 2003, however, the U.S.'s efforts to expedite an agreement have been frustrated. Newly-elected President Luis Inacio Lula da Silva of Brazil has taken a tough stance on the FTAA, refusing to accept U.S. government proposals which, he asserts, demand much from developing Latin American countries while offering little in return. With Brazil and the United States as the co-chairs of the Trade Negotiations Committee, the two governments have butted heads over a range of issues, but none more than agriculture. President Lula is under tremendous pressure from the Brazilian public to resist the U.S.'s efforts to force free trade on Latin America<sup>2</sup>. Lula has pledged that he will accept an FTAA only on his own terms and the terms of the Brazilian people. His ability to make good on this promise will be a significant factor in the way the Brazilian public evaluates his Presidency. Already, in his choice of Minister for Agriculture – an advocate for the soy farming industry – Lula's presidency has come under attack from poor rural constituents.

Why should it be that Brazilians are so strongly suspicious of this free trade agreement? The answer seems to be that the Brazilian people have learned from experience. Brazil has swallowed the "medicine" of neoliberal economic orthodoxy, including trade liberalization, privatization of industries and services, and domestic austerity measures, for nearly two decades. Contrary to the assurances of the U.S.-dominated International Monetary Fund and the World Bank, the result has been disappointing growth marked by economic crises, relentlessly high levels of poverty and inequality, and diminishing sovereignty for Brazil's leaders to determine an appropriate path for national development. While a few sectors, such as soybean production, have seen enormous expansion, other parts of the Brazilian economy, including those vital to the poorest Brazilians, have seen little improvement.

Mounting frustration over these conditions, and disenchantment with the dominant development model, drove the Brazilian people in October 2002 to defy the threats of the United States and powerful domestic interests by electing the leftist candidate of the Workers' Party (PT), Lula da Silva. Lula's campaign platform was founded on his commitment to resist the demands of the U.S. and multilateral lending institutions and to forge an independent path of development, incorporating the needs and interests of all sectors of Brazilian society. Lula pitted himself against the incumbent Fernando Enrique Cardoso (1995-2002), who had embraced the World Trade Organization and signed onto two condition-laden aid deals with the IMF. In this context, a vote for Lula was a vote against neoliberalism and against further trade liberalization. A vote for Lula was a vote of faith in his skill and the political will to reverse the history of deep poverty, inequality, and class divides which have marked Brazil's development for centuries.

At the heart of the debate over trade liberalization for the majority of Brazilians is a question about poverty: has liberalization provided opportunities for Brazil's poor and improved the welfare of all? Will more liberalization produce different effects? In particular, how has

liberalization affected the agricultural sector, in which the poorest of the poor in Brazil are employed? Contrary to the assumptions of ideologues on both sides of the debate, Brazil's problems neither began nor ended with trade liberalization. In fact, compared to countries such as Mexico and the United States, trade liberalization has had relatively little direct effect on Brazil's poor. So far, unlike Mexico for example, no free trade agreement to which Brazil is party has opened the floodgates to cheap imports competing with the products that Brazil's small farmers produce, although there have been some effects in terms of lower prices on domestic prices caused by a shift in production by large farmers from food to export crops. This has hit small farmers, who depend on high prices for these crops for their living.

The majority of Brazilians desperately need a change for the better. For centuries, Brazil's development has produced large profits and larger measures of inequality. While Brazil's economy ranks tenth in the world, it comes in a lowly 65<sup>th</sup> in the world in human development and 150<sup>th</sup> out of 151 nations in income distribution.<sup>3</sup> President Lula da Silva has promised to adopt policies which attack these problems directly, earning him a strong base of support among the poor and the left. Lula now faces a difficult choice: many powerful sectors inside Brazil and in the international community, on whom Brazil's financial stability depends, insist that Brazil join the FTAA; on the other hand, massive numbers of Brazilian people, those who voted for Lula in the recent election, demand that he reject the current terms of the FTAA.

This report is an effort to assess this debate. We will examine the recent trends in agricultural policy and evaluate the effects of trade liberalization on Brazil's agricultural sector, with a special focus on small farmers and the rural poor. The experiences of the past two decades provide lessons about the efficacy of the current economic wisdom, and more importantly, they have predictive value for the effects of a future Free Trade Area of the Americas.

Our findings demonstrate that the process of tariff reduction up to this point has had a moderate direct effect on Brazil's agricultural economy. While Brazil's entrance into the Southern Cone Common Market (MERCOSUL) and the World Trade Organization in the 1990s did contribute to growing overall levels of trade, this growth was moderated by the effects of a poor world environment for Brazil's products and domestic recession. Brazil's largest free trade agreement as yet is with the MERCOSUL, in which it is the regional giant. Therefore, it has not been subject to the disadvantages other developing nations have faced in agreements with larger, more developed economies, such as Mexico in NAFTA. In addition, the structure of Brazil's rural economy, with the small family farm sector already isolated from major markets, meant that the rural poor were not significantly affected by changes in Brazil's international tariff structure.

Trade liberalization, however, involves more than just tariff reduction. It involves a systematic shift in the political economy of agriculture. For instance, in attempting to take advantage of opening MERCOSUL markets, Brazil's government favored the growth of the large agro-export sector. This was coupled with a dramatic reduction in state-sponsored domestic support for producers, which disproportionately hurt small farmers who depended almost exclusively on the public sector for affordable credit and technical assistance. The restructuring of state entitlements, which form part of the package of trade liberalization and, indeed, preceded Brazil's entry into MERCOSUL, has proved far more significant to the poorest farmers. To put this bluntly, the benefits of trade liberalization through reciprocal tariff reduction have accrued to



the rich, while the costs in terms of lower producer prices and reduced state entitlements have been borne largely by the poor.

The fact that conditions for Brazil's rural poor have not improved and in some cases have deteriorated during the period of trade liberalization is important to predicting the effects of further liberalization through the FTAA. If poor farmers failed to benefit when Brazil was the dominant nation in the free trade area, how might they fare if Brazil opens its markets to a competitor as formidable as the United States, which currently subsidizes its farmers to an extent unimaginable in Brazil?

### *Methodology*

In order to reflect the complexity of forces working to determine economic and human development in Brazil's rural sector, this report approaches the subject from a variety of angles. The analysis incorporates the following perspectives:

- Historical: the development over time of Brazil's agricultural economy and demographics, major events in Brazil's history, and an overview of the international economic climate, from colonization to the present
- Political: changes in the domestic and international political environment which have impacted the rural poor, including trade policy, agricultural policy, and welfare policy
- Macro-economic: GDP growth, foreign direct investment, import/export growth
- Social: trends in poverty rates, inequality, income distribution, urbanization, real wages over the period of liberalization
- Sector-specific: compares agro-export sector (particularly soybeans) development to smallholder food-producing sector (cassava, maize, rice, beans), examining how changes in the flow of credit and subsidies and the accessibility of markets and technology have changed with liberalization; tracks prices, production, and consumption
- Brazilians' responses: the responses of Brazilian farmers and civil society to these changes, including coping strategies, protest, major social movements such as the MST (Landless Workers' Movement)

The report is constrained by the paucity of data on poverty and inequality, some contradictions among sources, and by the difficulty of attributing changes in the lives of the rural poor to specific policies. Trade liberalization is part of a cluster of neoliberal policies promoted by the International Monetary Fund, the World Trade Organization, and acolytes within the domestic political elite. Such measures include not only free trade, but also structural adjustment programs, privatization, prioritized debt service, and reduced sovereignty over markets. While it is not within the scope of this report to assess all of these issues, we have tried to approach the question of trade liberalization with sensitivity to this context. We have collated data from such disparate sources as academic papers, government documents, statistical databases, NGO websites, personal interviews, and reports from such major institutions as the United Nations and the World Bank. This spectrum of sources helps to balance out the theoretical or political biases inherent in all of these documents.

Given that liberalization was an ongoing process throughout the 1980s, it is hard to provide a direct counterfactual case for what the Brazilian economy might have looked like without liberalization. As we have noted, liberalization is a multi-dimensional set of policies, affecting everything from media, ideas of the role of the state and citizens entitlements, to the exchange rate and tariffs. Rather than attempt to build a model that takes these and other features into account to provide a counterfactual case, we use the experiences of the past twenty years to accumulate trend data, which is then used to suggest possible effects of further liberalization. The report begins with background information on Brazil and its history in Part I, followed by a more detailed look at the developments of the last twenty years in agricultural policy and production in Part II. Part III focuses on trends in social indicators such as poverty and inequality over the same period, while Part IV provides an analysis of agricultural producers, large- and small-scale. Finally, Part V highlights the responses of Brazilian farmers and social movements to all these changes, thus giving the “last word” to Brazilians themselves.

## **I Brazil at a Glance**

### *Land and People*

Brazil covers nearly half the landmass of South America; it is the fifth largest and fifth most populous country in the world.<sup>4</sup> Its enormous area provides a range of terrains and climates, from tropical rainforests in the Amazon River basin to hot dry conditions in the Northeast to cool fertile plateaus in the South. The Northeast is the poorest and most rural region of Brazil, home to vast sugar plantations dating from the 16<sup>th</sup> century. Brazil’s population and wealth are concentrated in the South, where its major cities lie, and where its agriculture and industry are most developed. Due to centuries of slavery, European immigration, and frequent intermarriage, Brazil’s population is ethnically diverse. Census data report that about half are of primarily European descent; 38% are mulattoes or mestizos, 6% are black, a small number are Asian, and less than 1% are indigenous people.<sup>5</sup> These statistics, based upon self-reporting, are highly unreliable and may more accurately reflect the relative social value of “whiteness” and “blackness” than Brazil’s actual racial distribution. Nevertheless, we can conclude from census data that Brazil has a range of ethnic groups with a corresponding range of experiences and opportunities, including a sizable mixed-race population.

### *History*

Brazil was a Portuguese colony from 1500 to 1822. It became an independent monarchy under a breakaway branch of the Portuguese ruling family until 1889, when the Brazilian emperor was overthrown and the nation was constituted as a Republic. Brazil was one of the countries to maintain slavery the longest, until 1888. In the early colonial period, sugar plantations in the North worked by slaves provided the basis of Brazil’s agricultural economy. In the 18<sup>th</sup> and 19<sup>th</sup> centuries, coffee and cotton, also based on the plantation or *latifundio* system, gained in importance.<sup>6</sup> Because of the early and strong development of export agriculture in Brazil, in addition to the prolonged use of slaves and indentured slaves for labor, Brazil is unique among Latin American states in that it does not have a traditional sector of smallholder peasant farmers.<sup>7</sup> Only the southern states of Paraná, Santa Catarina, and Rio Grande do Sul, have a sizable population of family farms.<sup>8</sup> In the central and northern regions of Brazil, the rural poor have

long provided cheap labor and contract work for large estates. In other words, Brazil's economy has been dominated for centuries by a small elites, controlling vast tracts of land for large-scale agricultural production. For a century after abolition, the *colonato* system replaced slavery on many farms. Under this arrangement, former slaves and peasants and their families remained living and working on the plantation, exchanging labor in the owner's fields for a meager piece-meal salary during the harvest and a small plot of land on which to grow subsistence crops.<sup>9</sup> In recent decades, this semi-feudal relationship has largely transformed into a capitalist one in which many peasants work on large farms for a wage and rent land from a local landowner, or live on their own plots.

Brazil has long been regarded as a land of opportunity, with a large agricultural frontier and immeasurable plant and mineral wealth. That potential blossomed in the mid 20<sup>th</sup> century. Brazil experienced tremendous growth from 1960-1980, a period over which average *per capita* income grew 141%.<sup>10</sup> This prosperity occurred despite almost continuous political turmoil and a brutal military dictatorship that took over in 1964. The growth was not well-distributed, however, and inequality remained a serious problem. In the mid 1980s, the dictatorship finally gave way to a shaky democracy. The 1980s were a period of difficult transition. By the late 1970s, Brazil had become the world's most indebted country, and the debt crisis that infected all of Latin America in the 1980s hit Brazil hard. The government responded to the crisis by seeking stabilization loans from multilateral financial institutions. These loans came with conditionalities, which involved the implementation of a moderate structural adjustment program in 1982, followed by a more severe SAP in the late 1980s under the new democratic government.

By the 1990s, Brazil was in the full swing of neoliberal economic policies, tightening its budget and cutting social services, maintaining high interest rates, and aiming to increase foreign investment and trade. Due to hyperinflation, then-Finance Minister Fernando Henrique Cardoso designed the Real Plan to stabilize the currency by pegging it loosely to the dollar and further limiting government spending. In 1995, Cardoso was elected president. In 1998, Brazil entered into economic crisis after a major currency devaluation and accepted a "bailout" from the International Monetary Fund, conditioned on its implementation of IMF-recommended policies. Despite these narrow recoveries from crisis, the 1990s remained a decade of low growth in Brazil, with GDP per capita growth generally hovering between -2% and 2%.<sup>11</sup> In large part because of the failure of Cardoso's policies to produce their promised economic transformation, Lula da Silva overcame several failed campaigns in the 1980s and 1990s to win the presidency by a remarkable 62% majority 2002.<sup>12</sup>

## **II Major Developments in Agriculture 1980-2003**

- Soybean production: Perhaps the most important development in the agricultural sector over the last quarter century is the birth and rapid expansion of the soybean industry. Farmers began experimenting with soybeans in the 1960s, and by the 1980s, Brazil was one of the world's leading producers of soybeans and soy derivatives. Production further soared from 124.6 hectares per capita in 1980 to 239.85 hectares per capita in 2002.<sup>13</sup> In certain regions, the industry grew even more quickly: in the Mato Grosso region, it took only seven years (1987-1994) for production to double.<sup>14</sup> Soya has provided some products for the domestic market, but it has primarily flourished as an export crop.

Nevertheless, this expansion predominantly has benefited the few large producers who control the industry.

- **Structural Adjustment Programs:** As a result of the debt crisis at the outset of the 1980s, Brazil signed its first structural adjustment deal with the International Monetary Fund in 1982, followed by another in 1988. In exchange for the restructuring of its debt, Brazil agreed to implement austerity measures. In short, these measures meant that the government cut both jobs and services. Later in the 1980s, Brazil began privatizing major industries and financial services. In the agricultural sector, the result was that rural credit, producer price supports, and marketing services virtually disappeared after 1987.<sup>15</sup> Despite heterodox efforts to stabilize the economy without raising interest rates, by temporarily freezing prices (Cruzado Plan 1986, Bresser Plan 1987), both inflation and interest rates spiraled out of control for much of the decade. In addition, with the removal of controls on prices, the cost of land soared, making it even more difficult for the poor to acquire and retain land.<sup>16</sup>
- **Falling prices:** world prices for Brazil's major crops, including its principal exports coffee and sugar, have been falling since the early 1980s. Poor farmers who attempted to enter the agro-export markets alongside profitable large producers were hit hardest by this trend because of their vulnerability to loss. In addition, prices for crops on the domestic market have fallen almost as drastically. From 1980-1991 alone, real producer prices for both domestic crops and exports were cut in half.<sup>17</sup> Prices have continued to drop in the 1990s. Over the last thirty years, rice prices have declined 53% and maize prices by 60%.<sup>18</sup> Again, the rural poor suffered, as rice and maize are two of their principal crops cultivated.
- **MERCOSUL:** The Portuguese acronym is also known as MERCOSUR or the Southern Cone Common Market. The MERCOSUL agreement was signed in 1991 to integrate South American economies. It called for all members to eliminate tariff and non-tariff barriers to trade by 1994, with a few exceptions granted for vital commodities. The agreement also specified reductions in support for agricultural production. Brazil and Argentina, the regional giants, pushed for its formation and have been its principal beneficiaries. Brazil's exports have grown significantly since its implementation, and it is by far the largest exporter in the group. At the same time, competition from Argentina in certain sectors, most notably wheat, has driven Brazil almost entirely out of the market. Since the inception of MERCOSUL, Brazil has begun importing more food.
- **WTO membership:** Brazil joined the World Trade Organization upon its formation in 1995. The WTO formed out of the former GATT (General Agreement on Tariffs and Trade) as a governing body over international trade rules. The Uruguay Round of the GATT, 1986-1994, gave rise to the formation of the WTO and mandated major reductions in tariffs, export subsidies, and domestic price supports.<sup>19</sup> Developing member countries, including Brazil, were to reduce import tariffs and export subsidies by 24% and to reduce domestic price supports by 13.3%, both over a period of ten years.<sup>20</sup> By joining the WTO, Brazil agreed to extend market integration from a regional to a global level. The Uruguay Round contained a specific Agreement on Agriculture that

required unprecedented liberalization of agricultural markets. As predicted, trade liberalization increased Brazil's international trade. But it also increased Brazilian farmers' exposure to the fluctuations of international prices.

- FTAA: At the moment, Brazil is in negotiations with the U.S. and other Latin American countries regarding the creation of a trading bloc that would reach from Canada to Chile, essentially expanding NAFTA to the rest of the continent. The FTAA would involve more of the same for Brazil: lower tariffs, taxes, and export subsidies, and more competition from abroad. Competition would now come from the United States, which is hesitant to hold itself to the same standards. So far, the U.S. government has refused to eliminate the billions of dollars in subsidies it provides to its farmers. If the FTAA goes through, with its weak anti-dumping provisions and untouched U.S. large-scale farm subsidies, Latin American farmers will be yet further threatened by cheap food crops pouring in from the North.
- Since President Lula's inauguration in January 2003, Brazilian agricultural policy has shifted to a two-track approach to development. In accordance with his alliance with Brazil's business community, Lula is extending the policies of his predecessors by encouraging the growth of the agro-export sector and pursuing deals in the FTAA and the WTO that will open foreign markets to Brazil's soybeans, frozen orange juice concentrate, and sugar. At the same time, he is honoring his commitment to Brazil's poor by pursuing agrarian reform and proffering support for small farmers producing for local markets. Lula's program for the latter includes the widely publicized "Projeto Fome Zero," or the Zero Hunger Program. The Zero Hunger Program combines both welfare and structural change strategies; as Lula puts it, it is necessary both to "give people fish" and to "teach them to fish." The program has four main components.<sup>21</sup>
  1. Income improvement (including land reform)
  2. Reduction of food prices
  3. Increase of basic food supply
  4. Emergency measures (such as food stamps, provision of food to children in school, etc.)

To raise incomes and increase Brazil's food security, Lula has committed to redistributing land to hundreds of thousands of families. According to the government, new policies will also provide incentives for family agriculture, making credit and technical support available and tailoring agricultural research to the needs of small production.<sup>22</sup> In one innovative approach, the government plans to utilize only local production for food service in state institutions such as schools, hospitals, and prisons. Quite whether this program can succeed, given the domestic and international pressures to which Lula's government is also beholden, remains to be seen. Some critics have suggested that Fome Zero is a cosmetic fix to a fundamentally flawed economic system. It is clear that, unless Lula's land reform is serious and widespread, the causes of poverty will persist in Brazil.

- Peasant groups and social movements have mobilized on an unprecedented scale to assert their rights and aspirations for a different Brazil. Angus Wright and Wendy Wolford's *To Inherit the Earth* details the most widely cited example: the Landless Workers

Movement (MST).<sup>23</sup> The MST has captured world attention by successfully organizing tens of thousands of families to occupy and eventually gain legal title to underutilized lands in Brazil. The MST has galvanized the support of millions of Brazilians and international actors, and has used its power to assert outspoken views on the need for land reform, the shortcomings of the Brazilian government's programs, and the structure of Brazilian agriculture. The MST's work has spurred dozens of scholars and activists to document the movement. While it is certainly the largest, best organized, and most well-known of Brazil's peasant movements, many other organizations are also constructing their own responses and alternatives to the neoliberal regime.

### ***Brazil's Economic Development in Historical Perspective***

	1918	1950	1982	1990	2003
Pre WWI	1918-1950	1950-1982	1982-1992	1992-2003	
<i>Primary Exporting Economy</i>	<i>Early Industrialization</i>	<i>Import Substitution Industrialization</i>	<i>The "Lost Decade"</i>	<i>Neoliberal Economics</i>	

Time Period	Economic Development
Pre-WWI	Primary Exporting Economy: Brazil's economy was based on the export of coffee, sugar, cacao, and other agricultural products. The agricultural sector was dominated by large plantations functioning much as they did during the slave era. During the 19 <sup>th</sup> and early 20 <sup>th</sup> centuries, Brazil was an informal colony of Britain.
1918-1950	Early Industrialization: The loss of British imports provided an opportunity for Brazil's industry to grow, as well as for the entrance of U.S. investment. Later, import restrictions safeguarded industry's success, bringing Brazil out of the Depression early on. Meanwhile, coffee, representing 70% of Brazil's exports, was highly protected.
1950-1982	Import Substitution Industrialization: Like many other Latin American countries, Brazil promoted ISI development, protecting major industries. This was a period of high growth, with quickly expanding industry and some diversification of agricultural exports into soybeans and orange juice. Agriculture was subsidized and protected from import competition. Heavy borrowing led to mounting debt.
1982-1992	The "Lost Decade:" The debt crisis led to recession and austerity measures. In order to stabilize the economy and begin servicing the debt, government cut public spending, including credit, marketing, and income support measures in agriculture. Growth stagnated, real incomes fell and inequality increased.
1992-2003	Neoliberal Economics: Brazil implemented structural adjustment programs, further contracting social services, curbing inflation (1994 Real Plan), attempting to attract foreign investment. Support for agriculture disappeared. Moderate trade liberalization, primarily within South America (MERCOSUL), led to growing agricultural trade, led by soybean exports and increasing food imports. Unsuccessful agrarian reform in response to protest and land occupations.

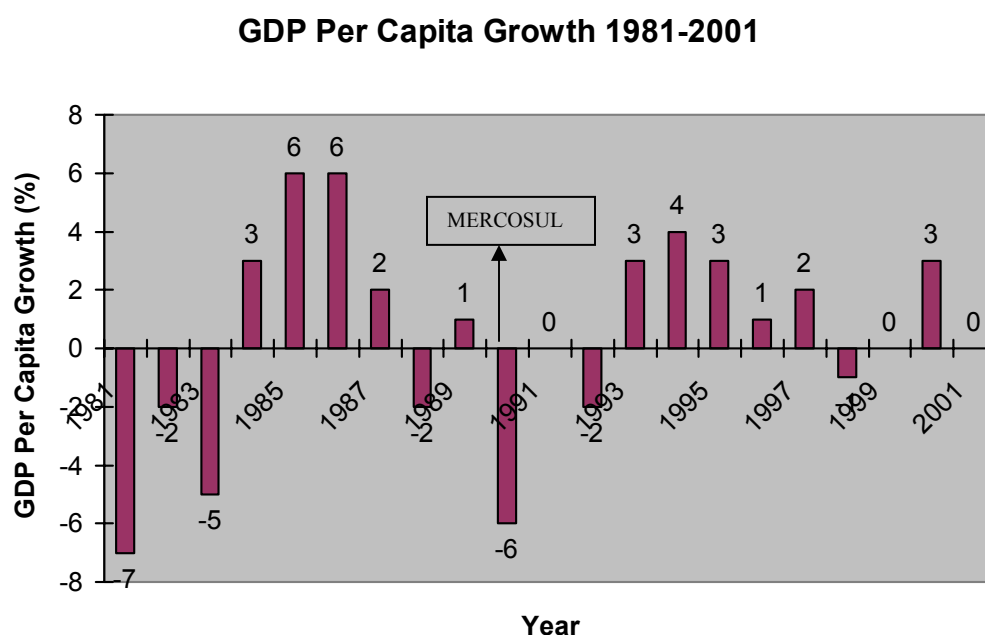
**Figure 1: Brazil's economic development in historical perspective: Brazil's economic development in historical perspective**

### III Tracking the Social Landscape Over the Period of Liberalization

While the complexity of factors at play makes it impossible to directly link changes in the welfare of Brazilian people to a particular policy, it is certainly possible to track the development of trade liberalization and trends in the welfare of the poor as parallel and related processes. Hundreds of years of development preceded the current wave of free trade, and so free trade cannot be named as the exclusive cause of Brazil's social ills today. Still, proponents of free trade have billed it as a panacea for poverty and underdevelopment. These claims deserve scrutiny. The available data indicates that liberalization has not reduced poverty or inequality, and in the case of the rural population, the years of liberalization have brought more difficult times.

#### *Macroeconomic indicators*

Before moving to an analysis of the status of Brazil's poor, let us look at the big picture. A primary argument behind trade liberalization has been that it stimulates economic growth, which is in turn said to be the key to resolving poverty and hunger. Brazil's macroeconomic performance over the last twenty years has, however, been disappointing. GDP per capita growth has not been above 4% since 1986.



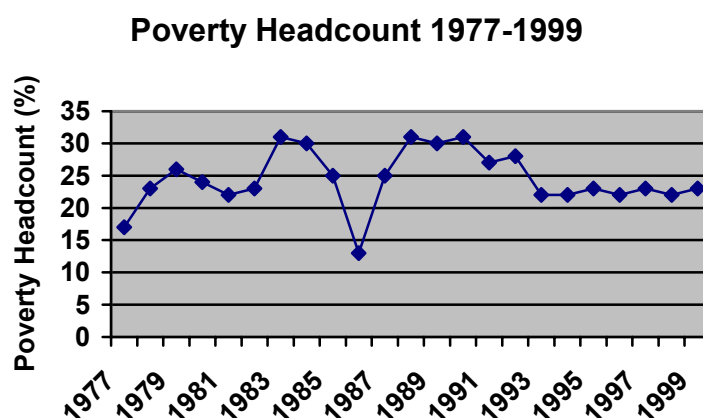
**Figure 2: GDP per capita growth 1981-2001**

Source: World Bank World Development Indicators

Meanwhile, growth in foreign direct investment, which goes hand in hand with GDP growth as the great promised reward of economic reform, remained negligible at 0%-1% until 1997, when it finally began a slow ascent to 6% in 2000, after which it again began to drop.<sup>24</sup> Even by these crude aggregate measures, which say nothing about the winners and losers of these changes, trade liberalization has not fulfilled its goal of appreciably improving the state of Brazil's economy.

### *Poverty and Inequality*

Figures on poverty and inequality tell a similar story. While estimates for poverty in Brazil range from 20% (World Bank) to 32% (UNICEF), with rural poverty twice as high as urban poverty (a conservative World Bank estimate placed rural poverty at 41%<sup>25</sup>), diverse sources agree that the reforms of the 1990s failed to improve the lot of Brazil's poor.<sup>26</sup> These studies point out that small farmers were hardest hit by the changes, unable to withstand the price fluctuations that came with trade liberalization and the elimination of price controls.<sup>27</sup> In addition, despite the fact that Brazil is a food exporter and enjoys the world's 10<sup>th</sup> largest economy, 10% of Brazil's people are hungry;<sup>28</sup> half of those live in rural areas, where food is grown.



**Figure 2: Poverty headcount, 1977-1999**

Source: IPEA data

Figure 2 tracks the poverty headcount in Brazil over the years 1977-1999. Poverty rates started to rise in the early 1980s at the same time as recession set in, prompted by the debt crisis, and the government implemented the first Structural Adjustment Program. 1986 registered an abrupt and short-lived drop in poverty when the government temporarily froze prices under the Cruzado Plan to curb spiraling inflation rates. The fact that poverty remained highest (25-31%) until 1993 reflected extremely high rates of inflation. By 1994, inflation was under control, which significantly raised real incomes. Poverty has, however, remained fairly constant since 1994, and in 1999, it was not quite down to the level of 1981. We can conclude from the graph that:

- 1) The 1980s and early 1990s were a period of severe crisis for Brazil.
- 2) After the stabilization of inflation, the reforms of the 1990s have done little to reduce poverty. Poverty rates remain above the level of 1981.



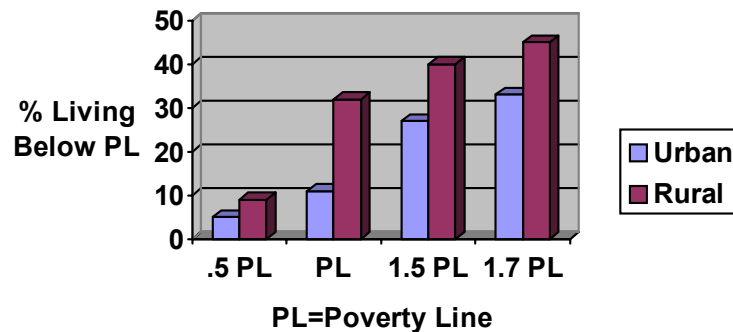
### Urban vs Rural Poverty in Latin America

	Urban	Rural	Rural Poverty/Urban Poverty
1986	25.4	50.8	2.0
1989	30.3	54.2	1.8
1992	31.7	61.4	1.9
1995	29.2	57.6	2.0
1998	27.5	55.6	2.0

**Figure 3: Urban vs rural poverty in Latin America**

Source: World Bank. *Reaching the Rural Poor: A Rural Development Strategy for Latin America and the Caribbean*.

### Urban vs Rural Poverty in Brazil (1995)



**Figure 4: Urban vs. rural poverty in Brazil (1995)**

Source: World Bank. *Brazil: A Poverty Assessment*.

Figure 3 and Figure 4 explore the geographical differentials of poverty, the former setting the context for Latin America, and the latter locating it within Brazil. Using multiples of the poverty line gives us an understanding of the depth of poverty, and helps to broaden the scope of our understanding of poverty away from the binary status of being above or below an arbitrary income level. As we can see, poverty is systematically deeper in rural areas. The bulk of the rural poor are located between 50% of the poverty line and the line itself, whereas the urban poor tend to have a slightly higher income. This may be due to the mere fact that in order to survive in an urban context, with limited space for subsistence farming, some income is necessary to exist. Furthermore, by opening the criterion of poverty to 1.7 times the existing poverty line brings in over 40% of the population living in rural areas, and over 30% of the urban population.

The presence of a large proportion of the population at low income distributions should come as no surprise. Brazil is infamous for its income inequality. The UNDP's Human Development Report in 2003 found that Brazil had the greatest inequality among middle income countries, and was surpassed on the global level only by Sierra Leone. Inequality is commonly measured by the GINI coefficient on a scale from 0 to 1, with 0 being perfect equality in the distribution of

income and 1 being perfect inequality. Figure 5 shows Brazil's inequality figures, while Figure 6 puts them in international context. For the past twenty-five years, throughout the period of trade liberalization, Brazil's GINI coefficient has held fast at around .59 or .60,<sup>29</sup> settling at .61 in 2003.<sup>30</sup> Figure 7 shows the increasing trends in inequality. Putting these trends in words, the data show that the poorest 10% of the population receives just 0.7% of total income, while the richest 10% receives almost half.<sup>31</sup>

<b>Population Share</b>	<b>Income Share</b>
Poorest 10%	0.7%
Poorest 20%	2%
Richest 10%	48%
Richest 20%	64%

**Figure 5: Income Shares of Different Sectors**

Source: UNDP Human Development Report 2003

Proportion of Income Share of Richest 10% to Income Share of Poorest 40%: Brazil vs. Representative Countries

<b>Low</b>	China	1.6	<b>High</b>	U.S.	1.6	<b>Latin America</b>	Brazil	5.6
<b>Income</b>	Egypt	1.3	<b>Income</b>	U.K.	1.9		Argentina	2.8
	India	1.4		Sweden	1.0		Chile	4.4
	Nigeria	2.4		Germany	1.3		Mexico	4.4
	Pakistan	1.2		France	2.1		Peru	2.6

**Figure 6: Proportion of Income Share of Richest 10% to Income Share of Poorest 40%: Brazil vs. Representative Countries**

Source: Amann and Baer

Brazil's Inequality Over Time	
	GINI Coefficient
1960-1970	.50
1970-1980	.56
1980-1990	.58
1990-1995	.60
1995-2003	.61

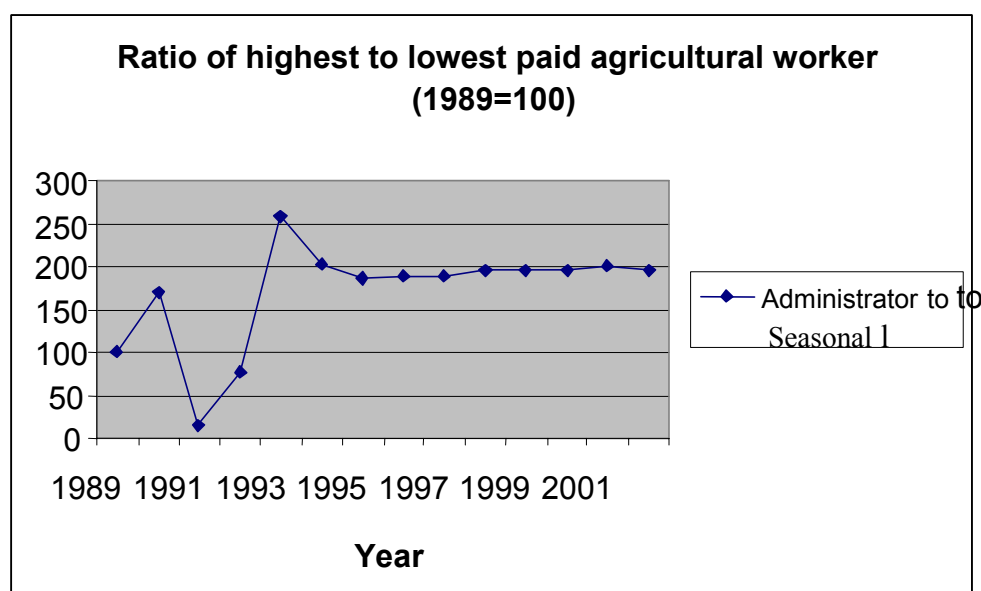
**Figure 7: Brazil's Gini coefficient over time**

Source: Instituto Brasileiro de Geografia y Estadística

This situation is particularly severe for Brazil's rural population. Rural workers include independent small farmers, sharecroppers, tenant farmers, and agricultural day laborers. They are Brazil's poorest and most vulnerable sector, and they depend upon the land to produce the crops that are their livelihood. Yet, at last count, 40% of farmers shared a mere 1% of the land, while the richest 20% owned 88% of the land.<sup>32</sup> Despite an unsuccessful attempt at land reform during the 1990s, land tenure has not become more equitable over the last two decades. The

Landless Workers' Movement (MST) estimates that there are 20 million landless people in Brazil (4 million families), while 7 million more barely survive as squatters, sharecroppers, and migrant workers.

Trends in wages for agricultural employment also reflect increasing levels of inequality. Taking the ratio of wages for temporary workers to those of high-rank administrators, Figure 8 shows an increased disparity between seasonal laborers and their full time equivalent. Similar trends vis-à-vis seasonal labor are discernable with other employment categories, suggesting that those lucky enough to have full time work, at whatever rate, have managed to keep pace with wage increases, possibly through unionization. This also suggests, knowing what we do about the magnitude of rural unemployment, underemployment and poverty, that the poorest have flooded the market for part-time labor and are seeing their wages reduced compared to full-time workers as a result.



**Figure 8 Ratio of highest to lowest paid agricultural workers 1989-2002**

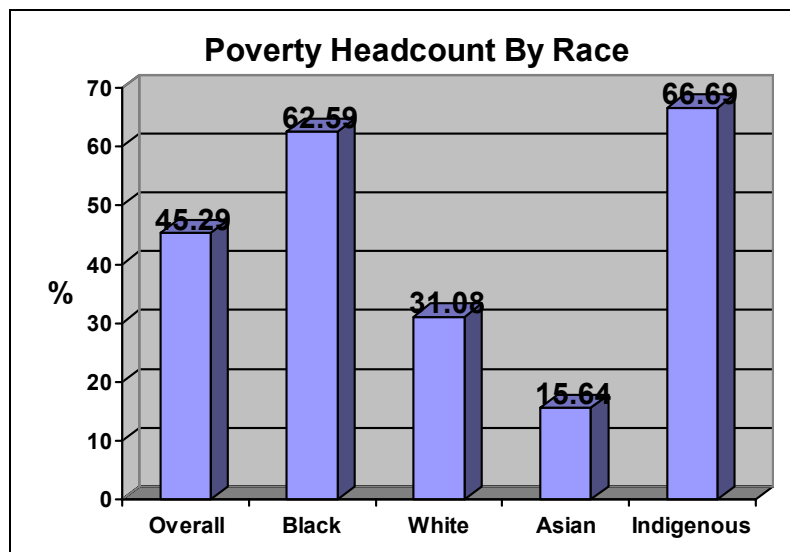
Source: Instituto de Pesquisa Economica Aplicada, 2003

In large part, the continuing poor distribution of land is due to liberalization policies that favor large-scale, technologically-advanced, export-oriented agriculture rather than small farmers growing for local markets. The evidence suggests that liberalization consolidates existing patterns of inequity, a process which is discussed in further detail below.

Inequality is also manifest along race and gender lines in Brazil. Both factors are highly correlated with access to dependable income and land. The dominant literature and accepted measures of development largely ignore race. Texts on Brazil commonly refer to the Northeast as Brazil's poorest region, but most sources fail to point out that the Northeast is also predominantly black. A 2000 World Bank survey, based on household survey data, determined that the mean income of black-headed households was just 42% that of white-headed households and 24% of Asian-headed households.<sup>33</sup> Furthermore, black-headed homes represented 62% of poor families nationwide, and 78% in the North.<sup>34</sup> In viewing these figures, it is important to

recognize that they are severely prejudiced by the difficulty of distinguishing among races in a highly mixed-race society and by the subjectivity of self-identification in a nation where whiteness continues to be greatly privileged.<sup>35</sup> We would be wise to regard these statistics as indicative of trends rather than numerically exact.

Keeping these stipulations in mind, we can use Figure 9 to compare the poverty headcount for different racial groups in Brazil. If anything, the data may under-represent the income disparity among races, due to the social pressure to identify as “white.” According to the chart, the poverty rate for blacks is roughly double the poverty rate for whites. Indigenous people, though they represent only a tiny portion of the population, have the highest poverty rate, at 66.69%. Disappointingly, we have not been able to find data on changes in income inequality by race over the last decades. We do know that since the 1970s, agricultural work in the Northeast, where blacks represent 85% of the population in some areas,<sup>36</sup> has shifted increasingly from permanent to temporary and migrant work.<sup>37</sup> It is also reasonable to argue that since blacks are disproportionately represented among the poor, then they are most severely affected by widening inequality in Brazil.



**Figure 9: Poverty headcount by race**

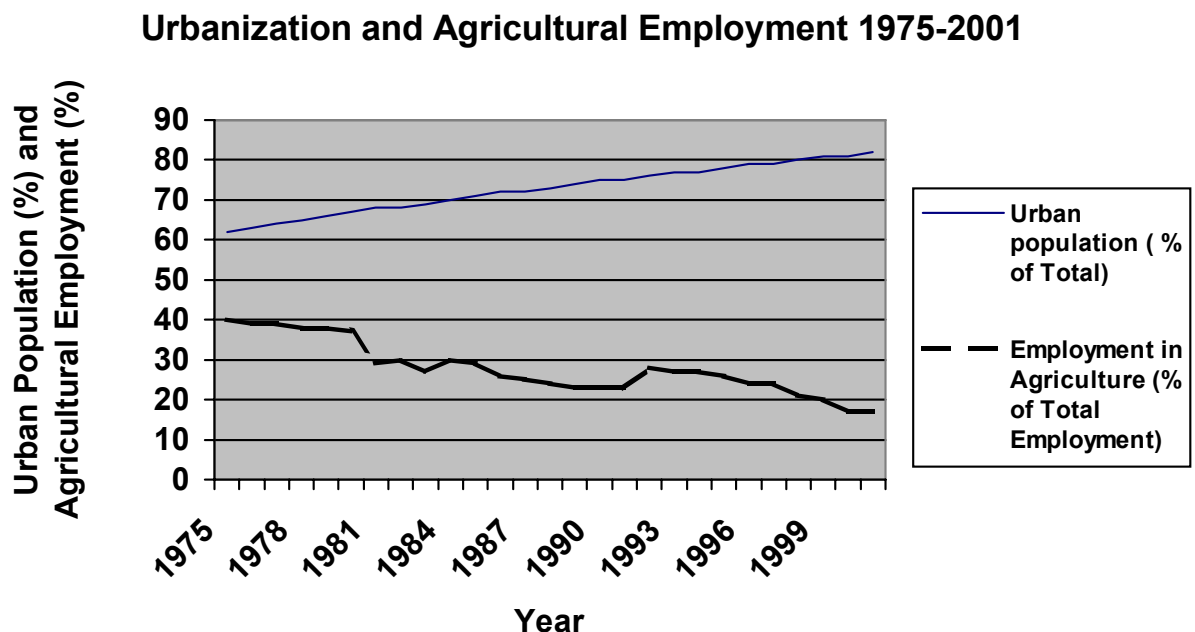
Source: Ferreira, et al. *A Robust Poverty Profile for Brazil*.

In recent years, gender has received much attention from non-governmental organizations and financial institutions. The United Nations tracks six different measures of gender equality in its Human Development Indicators. These data suggest that gender appears to be a less significant factor than race in Brazil in predicting poverty.<sup>38</sup> Most poverty measures are, however, calculated at the household level and therefore mask intra-familial inequality in access to resources. Literature dedicated to the issue of gender inequality in Brazil points out that women in the rural sector are rarely paid for their work or even recognized as part of the economically active population.<sup>39</sup> This is because agricultural work is often a family affair, where women and children contribute their labor but the male head of household conducts financial interactions with contractors or buyers.<sup>40</sup> As a consequence, men hold more effect power over income earned by the entire family. Similarly, land titles are almost always in the man’s name, often

leaving women landless in the case of divorce or widowhood<sup>41</sup>. Though gender has become a major issue on the development agenda, these circumstances have been slow to change in the relatively traditional rural areas. Women have in fact taken on a greater burden in recent years, as difficult circumstances in the countryside have driven men to migrate to the cities while women shoulder the entire agricultural and domestic workload on their own.<sup>42</sup>

### *Rural Exodus*

Over the past twenty years, Brazil has seen a rapid increase in urbanization. The urban population jumped from 62% in 1975 to 81% in 2000; it is projected to be 88% by 2010.<sup>43</sup> At the same time, agricultural workers represented 37% of total employment in 1980; in 2000, that figure was down to 17%, representing a 54% decline.<sup>44</sup> Figure 10 shows these trends over the past 25 years.

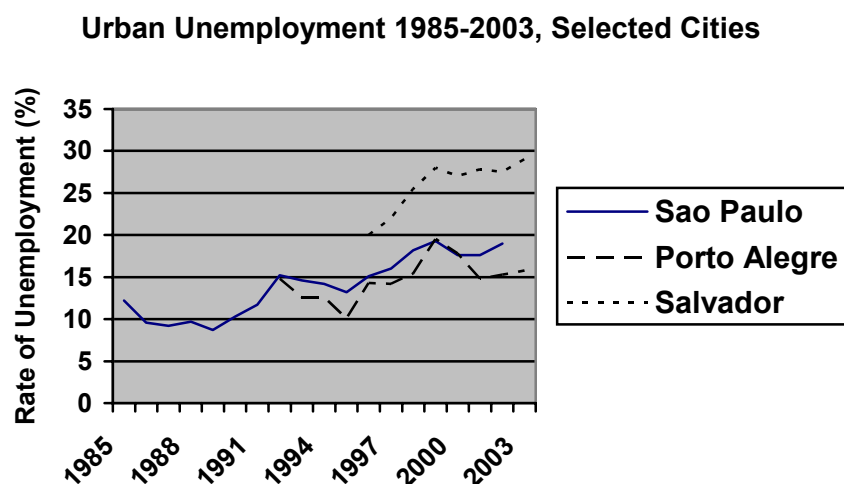


**Figure 10: Urbanization and Agricultural Employment 1975-2001**

Source: World Bank World Development Indicators

Urbanization is a familiar phenomenon; it does not necessarily represent a crisis in the rural sector. It is usually attributed to industrialization and a subsequent boom of high-paying jobs in urban centers. Yet recent history in Brazil has not borne out this theory. The urban pull factor is minimal: Brazil's cities are infamous for their sprawling *favelas* with high crime rates and miserable conditions. Rather than adding jobs, Brazil's economy has lost them: unemployment figures have climbed steadily over the last couple of decades from 3% in 1980<sup>45</sup> to 6% in 1995 to almost 13% in 2003.<sup>46</sup> Figure 11 shows these trends for three cities in Brazil. The graph reveals that urban unemployment has barely fallen below 10% since 1985. The graph also shows that

unemployment rates in Brazil's cities have tended to grow over time, reaching as high as almost 30% by 2003 in one of Brazil's largest cities, Salvador. These figures suggest that the rate of job creation has not been able to keep pace with the constant inflow of migrants from the countryside.



**Figure 11: Urban unemployment 1985-2003, selected cities**

Source: Departamento Intersindical de Estatística e Estudos Socio-Economicos. Pesquisa de Emprego e Desemprego

Given these circumstances, Brazil's rural exodus is more indicative of a desperate situation in the countryside than of a desirable one in the cities. The period of trade liberalization, then, has been associated with conditions so intolerable in rural Brazil that millions of people have fled to the unwelcoming cities.

#### **IV Differential Development: Winners and Losers in Agricultural Trade Liberalization**

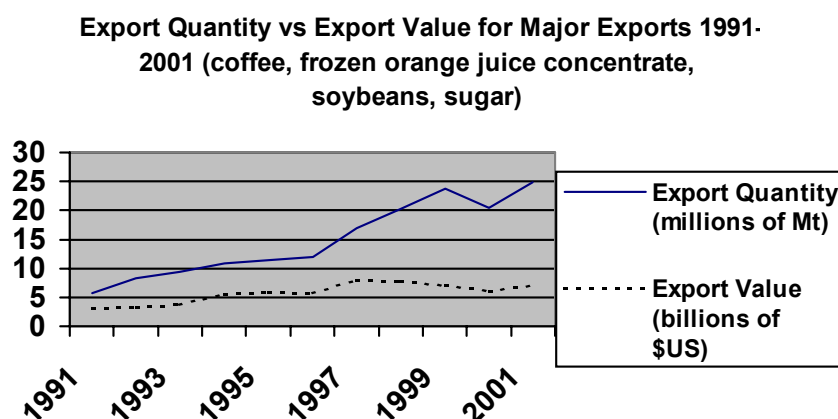
In the previous section, we pointed to social indicators to demonstrate that the recent period of trade liberalization has been one of deepening crisis for the rural poor. In this section, we explain how liberalization policies have shaped the rural landscape in Brazil, favoring larger, richer growers and keeping small farmers out of the market. Our findings suggest that liberalization has led to divergent results for large versus small agricultural producers. Larger farms have generally benefited from the opening of South American economies and the subsequent expansion of export markets, although low world prices have capped profits. For small farmers, who have never held a significant share in Brazil's plantation dominated agro-export economy, diminishing credit and marketing support dashed any hopes they might have had to secure and increase their income.

##### *Macroeconomic Changes in Agricultural Trade Patterns*

Since the signing of the MERCOSUL agreement in 1991, international trade in agricultural products has expanded significantly, with soybean exports driving growth. MERCOSUL

facilitated the flow of goods by reducing tariffs and other barriers to trade. Brazil, which accounts for almost half of Latin America's regional economy, was able to expand its reach more easily than its smaller neighbors. Agricultural exports have more than doubled since MERCOSUL's inception, from US\$7.9 billion in 1991 to US\$16 billion in 2001.<sup>47</sup> Yet these values are, however, deceptive. Unfortunately, revenues from exports did not increase nearly as fast as did export-oriented production. With the exception of soybeans, the prices of many of Brazil's primary exports fell during the 1990s. For example, Brazil is the world leader in sugar production. While the amount of sugar exports increased almost 700% 1991 to 2001, the total dollar value of sugar exports increased only 270%.<sup>48</sup> Brazil also holds the world's largest share of the coffee market, but the coffee crisis led coffee revenues to decline while export amounts increased.<sup>49</sup> Due to falling prices, Brazil's overall growth in agriculture during the 1990s was disappointing relative to expectations. Brazil therefore gained in growth, although not as much as hoped, at the price of becoming increasingly dependent upon the volatility of the world market.

Figure 12 depicts the growth in the quantity of major exports compared to the growth in the total value of those exports. The steepness of the lines indicates the rate of growth. According to the graph, export quantity grew much faster than export value during the 1990s, implying that falling prices held export earnings down compared to the amount being exported.



**Figure 12: Export quantity vs export value 1991-2001**

Source: FAO Stat

During the 1990s, agricultural imports rivaled exports in trade growth. Imports grew even faster than exports until 1998, from US\$2.8 billion in 1991 to US\$6.6 billion 1997, an increase of 14.9% per year, before falling back down to US\$3.2 billion in 2001.<sup>50</sup> Import growth has been concentrated in some of the crops necessary for food security: food represents 80% of agricultural imports.<sup>51</sup> After the implementation of MERCOSUL, large scale domestic producers faced incentives to grow food for the export market rather than for domestic food consumption, and therefore, with reduced local output, food imports began to rise.<sup>52</sup> Brazil now imports wheat, dairy, rice, and maize. In particular, the period after 1994 saw food imports skyrocket. Comparing the periods 1995-1998 to 1990-1994, imports of wheat have increased by 69.3%, dairy by 201.0%, rice by 51.4%, and maize by 4.2%.<sup>53</sup> Furthermore, the slowdown in

imports over the last few years has largely been due to rising import prices,<sup>54</sup> which means that some are no longer able to afford the price of imported food. While Brazil is still a food exporter, the dramatic rise in food imports may be reason for concern about Brazil's food security.

Figure 13 shows the strong growth in Brazil's imports and exports since 1985.

Agricultural trade, 1985-98 (in billion US\$; thick lines are actual values, thin lines are trends for 1985-94 extrapolated to 1998)

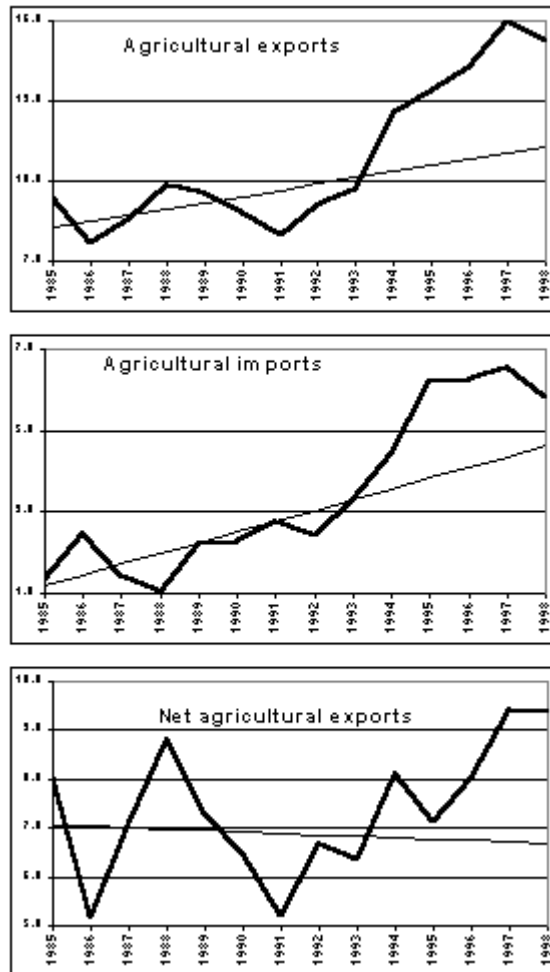


Figure 13: Agricultural trade 1985-1998

Source: FAOSTAT

### *Policies Favor Rich Agricultural Producers*

The trade liberalization measures mandated by the MERCOSUL agreement and membership in the World Trade Organization fall into two main categories: removing tariff barriers to trade and



eliminating state support for domestic production. Many of the changes in the structure of the agricultural sector can be connected to this second condition. In terms of agriculture, governments must eliminate or significantly reduce price supports, low-interest rural credit, input subsidies, controls on land prices, and any other financial assistance provided to farmers. In Brazil, these supports had largely disappeared even before the signing of MERCOSUL. Structural Adjustment Programs starting in 1982 removed them as part of budgetary belt-tightening. Under privatization, rural credit was only available through private banks,<sup>55</sup> and after 1987 price supports and marketing assistance for farmers had also dried up.<sup>56</sup> The free trade policies of the 1990s accelerated this process. Moreover, Brazil's governments in the 1990s chose to reduce such support to farmers far beyond what was mandated by trade agreements as part of a domestic policy effort to eliminate state interference in markets. Figure 14 shows the downward trends in domestic support. Particularly interesting is the difference in percentage reduction for key export crops in which Brazil's more powerful agricultural interests had a stake—maize and soy, which were relatively cushioned to external price factors compared to other crops.

Product-Specific Aggregate Measurement of Support (millions US\$)

<b>Crop</b>	<b>1986</b>	<b>1995/6</b>	<b>1996/7</b>
<i>Wheat</i>	437	41	26
<i>Coffee</i>	377	11	10
<i>Rice</i>	239	47	22
<i>Soybeans</i>	130	59	45
<i>Maize</i>	94	73	88
<i>Sugar</i>	77	19	16
<i>Other Crops*</i>	--	33	30
<b>Total</b>	1354+	283	237
<i>Committed</i>	--	1039	1025
<i>Maximum Level</i>			
<b>Actual Support as % of Maximum</b>	--	27%	23%

\*Barley, brazil wax, cashew nuts, cassava, castor oil, plant cotton, edible beans, garlic, grape, jute, oats, groundnuts, rye, sisal, and sorghum.

**Figure 14: Product Specific Aggregate Measurement of Support**

Source: FAO. *Agriculture, Trade, and Food Security*.

Under this package of neoliberal policies, interest rates were high by the end of the 1990s. In 1998, the lending interest rate was 86%, and in 2001 it was 58%.<sup>57</sup> Because small farmers rarely have the disposable income to invest in seeds, fertilizers, and other agricultural inputs during planting season, they often rely heavily upon affordable credit, which was not forthcoming in Brazil in the 1990s.

With the loss of support offered by the public sector, only rich producers, which tend to be large-scale agro-exporters, could afford to access these support services from the private sector. Only

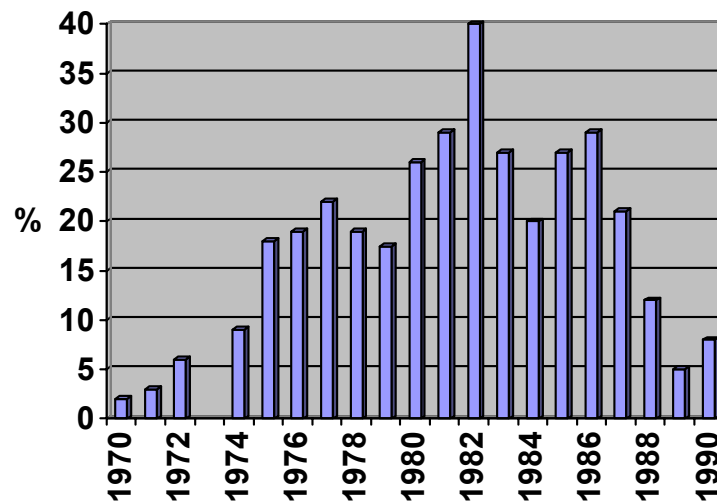
large producers have the property and resources to provide the collateral necessary for loans from private banks. In addition, the gap in access to credit is partly due to class prejudice and an ideological preference for export agriculture. Moreover, only relatively rich individuals and companies have the disposable income to pay high interest rates while awaiting a delayed profit or to hire professional agronomists and scientists to do research and give expert technical advice. Studies of agribusiness development in the 1980s and 1990s have found that rural policy worked to encourage medium to large-scale farming.<sup>58</sup> Indeed, in its analysis of the impacts of the Uruguay Round of WTO negotiations and its Agreement on Agriculture, the FAO found a trend of larger farms dominating. Specifically, the FAO reported that:

- *Maize* and *soybean* farms were being consolidated.
- *Wheat*, *rice*, and *cotton* production were declining and giving way to imports.
- In the *dairy* industry, cooperatives were failing while larger farms and foreign companies such as Nestlé and Parmalat took hold.<sup>59</sup>

It is important to emphasize that inequality in agricultural land and production is not new. The legacy of Portuguese colonizing rulers handing out expansive tracts of land to loyal subjects is reflected in land concentration patterns today. Throughout the 20<sup>th</sup> century, agribusiness firms took advantage of unregulated land titling to appropriate land occupied by peasants. They also gradually accumulated land by outbidding smaller farmers when land came up for sale.<sup>60</sup> Wealth concentration as measured by the GINI coefficient did increase over the last twenty years, but only slightly (from .58 to .61). What is most important is that rather than implementing policies effective at reducing the concentration of wealth and land, agricultural policy in the 1980s and 1990s actively promoted and perpetuated the consolidation of these inequalities.

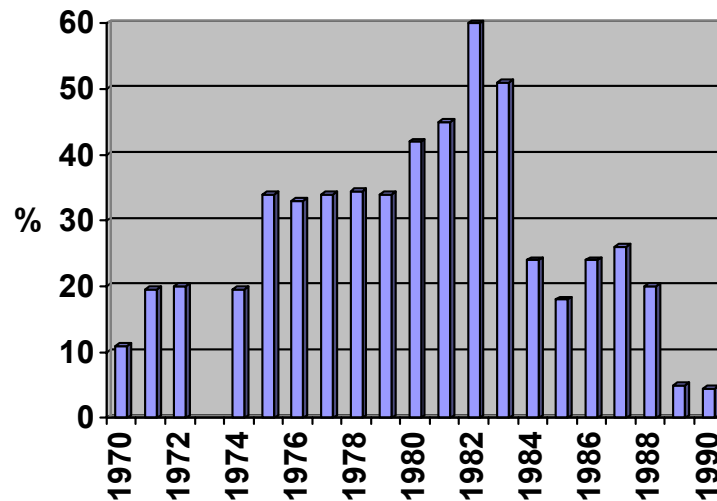
### *Soybean Production: A Case Study*

The case of soybean production is the most prominent example of the workings of consolidated inequity. Starting in the 1970s, the Brazilian government set up a complex incentive structure to encourage large-scale production of soybeans in an effort rapidly to increase export earnings, and to improve food security.<sup>61</sup> These incentives included devoting substantial resources to research on soybean production, providing highly subsidized loans during the 1970s and 1980s, and setting low tax rates on soybean production, processing, and export.<sup>62</sup> Figure 15 shows the privileged place that soybean producers held as recipients of up to 40% of total crop marketing credit during the 1970s and 1980s. Figure 16 tracks the percentage of soybean production financed by official marketing credit and demonstrates the high dependency of soybean production on state support during the industry's formative years. This is particularly interesting given the current rhetoric of trade liberalization – Brazil has only been able to have a viable agricultural export industry, and indeed become an active proponent of agricultural exporting through the Cairns Group *because* of prior state subsidy. It suggests also that the agricultural export model is one geared to larger farming concerns, i.e. those able to secure access to limited state funding. As such, it casts *prima facie* doubts about the possibility of a viable pan-Third World export-led agricultural model. This is a hypothesis supported by recent comparative work.<sup>63</sup>



**Figure 15: Soybean marketing credit as a percentage of total crop marketing credit in Brazil (1970-1990)**

Source: Philip F. Warnken. *The Development and Growth of the Soybean Industry in Brazil*.

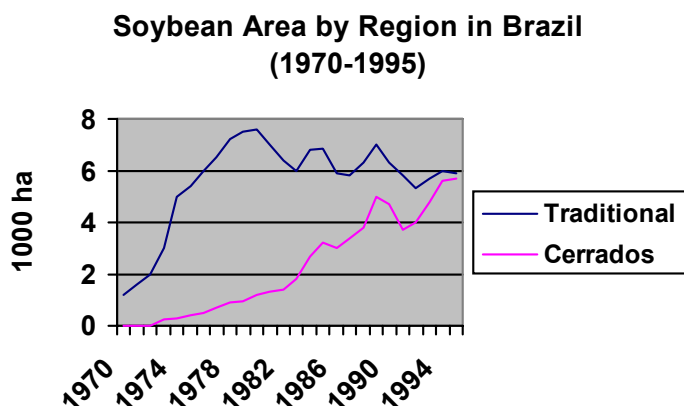


**Figure 16: Percentage of soybean production financed by official marketing loans in Brazil (1970-1990)**

Source: Philip F. Warnken. *The Development and Growth of the Soybean Industry in Brazil*.

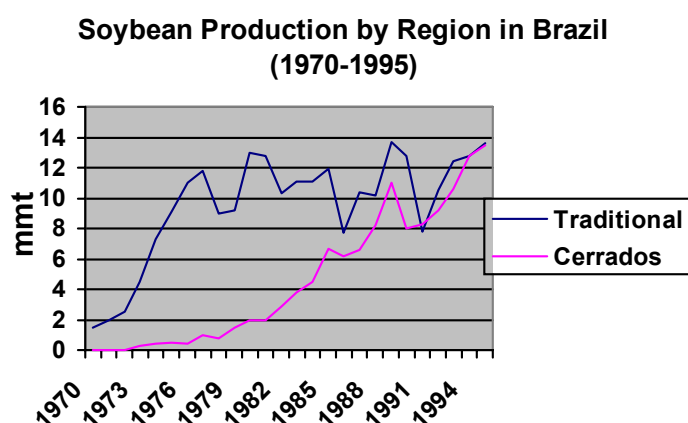
In response to these measures, soybean production exploded at the end of the 20<sup>th</sup> century. The new industry failed, however, to provide a living to many Brazilians. Though soybean earnings jumped from US\$393 million in 1980 to US\$2.7 billion in 2001,<sup>64</sup> and Brazil is now the second largest producer of soy in the world, profit from the soybean boom has chiefly benefited a few large producers. Only 35 exporters are responsible for 95% of Brazil's soy exports.<sup>65</sup> Soybeans were originally grown mainly on small farms in southern Brazil, but large farms soon extended production into the frontier of central Brazil, known as the *cerrado* region. Almost 60% of the cultivated land in the *cerrados* is on farms larger than 1,000 hectares.<sup>66</sup> The *cerrado* farms have gained an increasing share in the market. Figure 17 and Figure 18 follow the growth of soybeans

by production and area in the traditional and the *cerrado* regions. While the traditional regions, where farm size is diverse, dominated in the early years of the soybean boom, the *cerrado* regions, where large estates employ few workers, were on the verge of surpassing traditional production by the mid 1990s.



**Figure 17: Soybean area by region in Brazil (1970-1995)**

Source: Based on data from Warnken: 25



**Figure 18: Soybean production by region in Brazil (1970-1995)**

Source: Based on data from Warnken: 25

In addition, soybean production utilizes more advanced technology than any other crop in Brazil.<sup>67</sup> The cost of technology is therefore a barrier to market entry. Only those agribusiness firms and individuals with substantial capital are able to invest in the necessary technology to produce the quality and volume of soybeans necessary to compete in the market. In fact, the Brazilian government estimated the cost of mechanized soybean production at US\$307 per hectare;<sup>68</sup> this figure equals the amount that many Brazilian peasant farmers make in a year!

Nevertheless, the Brazilian government aggressively promoted soybean production throughout the 1970s, 1980s, and 1990s. Despite its relatively limited social benefits, they considered it a model for the benefits of free trade. This is important to note, since the kinds of strategies required to put Brazil on an export footing were, far from promoting abstemious government,

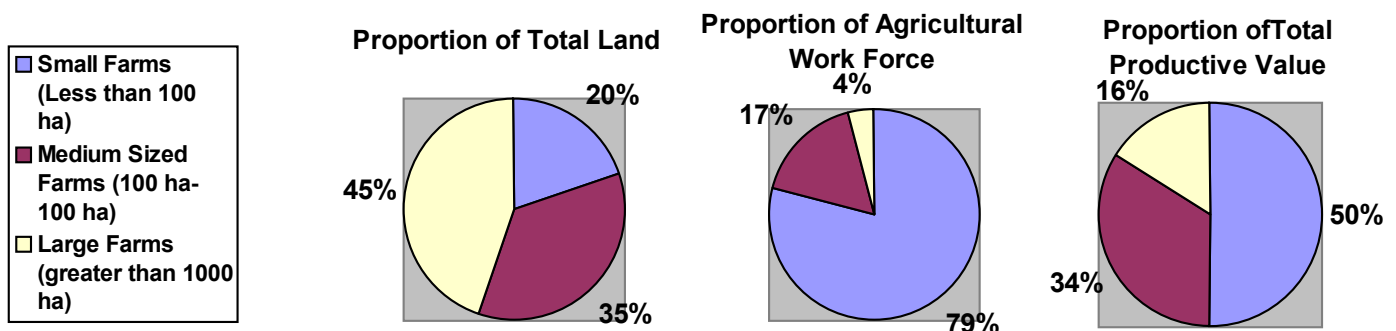
incredible heavy on state intervention. Brazil's representatives worked hard to make sure that overseas markets would be open to soy exports. Credit, marketing, and tax policies under the auspices of MERCOSUL and WTO regulations all worked to promote the highly consolidated soybean industry.<sup>69</sup> The soybean industry bloomed in the 1980s, when structural adjustment and agricultural policy resulted in survival of the richest farming. But it has flourished in the 1990s when trade agreements have locked these policies into place.

Yet, the benefits of this sort of aggressive state intervention on behalf of the industry have remained concentrated. While soybean production is capital-intensive, it requires very little labor. A 1000 hectare soybean farm employs only three people.<sup>70</sup> Two consequences of this type of production deserve note: first, the growing profits from soybean production remain in the hands of relatively few already rich producers, and second, soybean production fails to fill the social need for employment in the countryside and thus stem the tide of urban immigration.

Finally, contrary to the aims of the government, the expansion of soybean production has actually diminished food security. The government's stated aim in its initial subsidy of soybean production was to bolster food security by providing an inexpensive component of poultry feed, which would in turn make chicken a more affordable source of animal protein for Brazilians.<sup>71</sup> There was a problem with this; officials apparently overlooked the fact that soybeans would compete with food crops for land use. In the first years of soybean production (1970-1973), 90% of soybean expansion displaced other crops such as rice, beans, manioc, potatoes, and corn.<sup>72</sup> While later expansion often involved cultivating new land, soybeans have continued to compete with (and often replace) production of staple food crops. In particular, small farmers who have been able to adopt soybeans in response to credit and price incentives have often done so at the cost of staple food crops.

### *The Illusion of Economies of Scale*

While large, wealthy producers have thrived in the recent policy environment, they are in fact far less efficient than family farmers in Brazil. One major reason for this unexpected fact is that large estates tend to include enormous tracts of uncultivated land. Brazil's largest farms crop only 2% of their land on average, while small farms cultivate 90% of their land.<sup>73</sup> Therefore, small farms are far more productive per hectare. Despite the outcry by Brazil's millions of landless, much of the country's land lies idle. The National Institute for Land Settlement and Reform estimates that 100 million hectares of unused land could be farmed.<sup>74</sup> More evidence that larger farms are not more efficient lies in figures on contribution to production value. The largest farms (greater than 1000 ha) occupy 45% of the land but produce only 16% of total production value and employ only 4% of the rural workforce.<sup>75</sup> This is in contrast to farms smaller than 100 ha, which cover only 20% of land but turn out 50% of total productive value and employ 79% of the workforce.<sup>76</sup> Figure 19 shows these trends. Similarly, the FAO found that large farms needed 60 hectares to create one job, while a family farm created a new job with only 9 hectares.<sup>77</sup> In a country with mounting unemployment, most acutely in rural areas, together with a concomitantly high labor supply, it makes little sense to promote agricultural practices that eliminate jobs.



**Figure 19: Small vs large farms in proportion of total land, work force, and productive value**

Source: Masceno and Navarro

Another drawback of large-scale agriculture is that it tends to utilize more chemical fertilizers and ecologically damaging farming techniques. The effects of environmental degradation have already begun to damage soybean yields.<sup>78</sup> A joint study among various Brazilian government and United Nations agencies found that larger soybean farms left a greater environmental impact, were energy inefficient, poor creators of employment, and tended to encourage rural exodus and concentration of wealth.<sup>79</sup>

In sum, trade liberalization and its neoliberal policy companions have favored large-scale, capital-intensive agricultural production, which contributes both to wealth concentration and low productivity.

### *How the Other 80% Lives: Experiences of the Rural Poor*

Agricultural policy has worked to promote large-scale, export-oriented agriculture, and actively discouraged smallholder production for local markets. Unsurprisingly, the poorest of the poor in Brazil tend to be small family farmers producing crops for subsistence or local sale.<sup>80</sup>

While little investigation has been done on the experiences of the poorest Brazilians during trade liberalization, a fact which is in itself telling, the few extant studies indicate that small farmers have suffered. A survey of farmers in 1996-1997 yielded the following complaints from small farmers themselves:<sup>81</sup>

- Insecure land title
- Reduced access to agricultural land in the 1990s
- Contamination by pests and weeds from nearby single crop farms
- Lack of access to credit and technical assistance
- Difficulty in accessing markets and obtaining fair prices for crops
- Political exclusion

Two Food and Agricultural Organization reports reveal similar findings. One confirms that there was “simply no flow of credit for small farmers” after implementation of the Uruguay Round.<sup>82</sup> Another paper acknowledges but does not examine in depth the post-liberalization incidence of

“high social costs in several cases. High rural indebtedness, growing income disparity between small and large farmers, and the persistence of poverty and food insecurity are some of the transitional costs of the reform measures.”<sup>83</sup> These studies tend to agree that the benefits of trade liberalization and related policies are measured in aggregate monetary terms, while its fallout is measured at the level of nearly invisible family farmers in terms of human welfare.

Nevertheless, careful analysis of the available agricultural data does bear out the claim that the benefits of free trade to the poor are unfounded. Historically, Brazil’s poor farmers tend to produce subsistence crops. Brazil’s 4.8 million family farmers cultivate a substantial portion of the nation’s basic food crops: 33% of the land area sown to maize, 61% of the area dedicated to beans (67% of bean production), and 64% of the area dedicated to cassava (84% of cassava production).<sup>84</sup> In the South, many of these farmers produce on their own small plots of land. In the North, however, most cultivate these crops for subsistence while they do wage or contract work for large plantations.<sup>85</sup> For many of these staple crops, production, consumption, and producer prices have dropped over the last two decades, indicating troubled times for these farmers. Most notably, per capita production of rice fell by 25% between 1980 and 2002, and cassava production fell by one third.<sup>86</sup> In the Mato Grosso area, where rice and beans are key staples, data for 1987-1994, which covers the time before and after MERCOSUL, shows that rice production fell from 700,000 ha to 500,000 and bean production decreased drastically from 83,000 ha to 39,000 ha.<sup>87</sup> Food crop prices fell by nearly 50% during the 1980s.<sup>88</sup> Also, according to a UNICAMP article, the Real Plan led to a 150% drop in agricultural prices, while the prices paid by farmers increased 30%.<sup>89</sup>

Falling/unstable real producer prices, especially relative to export crops such as soybeans, tobacco, and sugar, help to explain the decline in production of basic food items. Farmers often convert part of their land to agro-exports, leaving only a fraction for food crops. Nevertheless, their limited production capacity and lack of resources to invest in inputs prevents small farmers from obtaining market prices for their crops. As the example of soybeans demonstrates, success in the export crop market often requires more mechanization and inputs than small farmers have access to.

Figure 20 and Figure 21 compare the total per capita production and area harvested for five crops over the period from 1980 to 2002. It is interesting to note the difference in trends between subsistence crops and export commodities. Cassava and rice, grown almost exclusively for domestic consumption, register significant declines in production by both measures. Soybeans, grown largely for export, have grown to surpass all of the other crops. Maize, which is both consumed locally and sold on international markets, has grown slightly. According to this data, circumstances on the ground have accurately reflected economic policies which favor cash earnings for exports over food security.

### Production Per Capita: Selected Crops

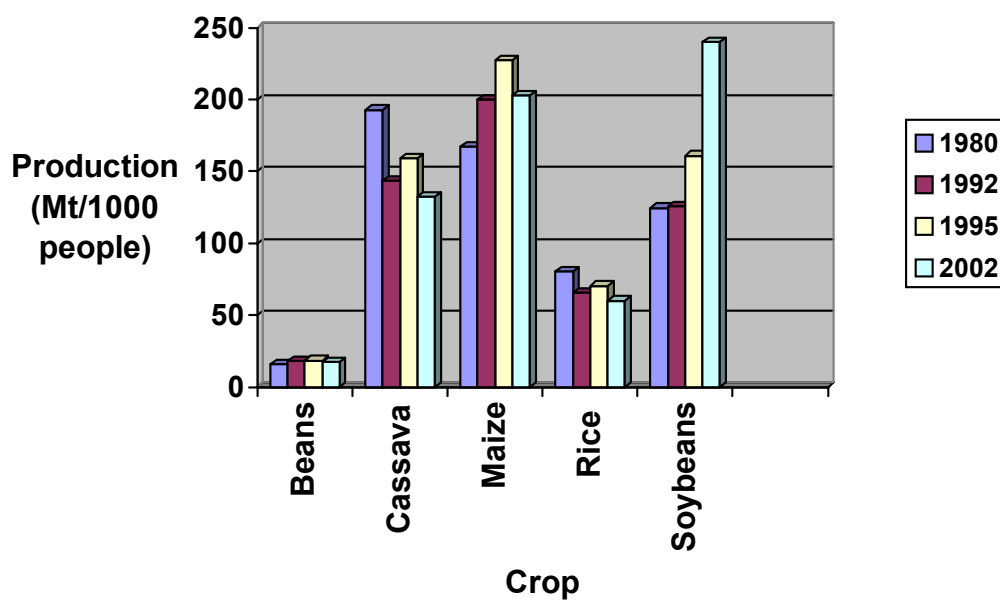


Figure 20: Production per capita: selected crops

Source: FAO Stat

### Area Harvested: Selected Crops

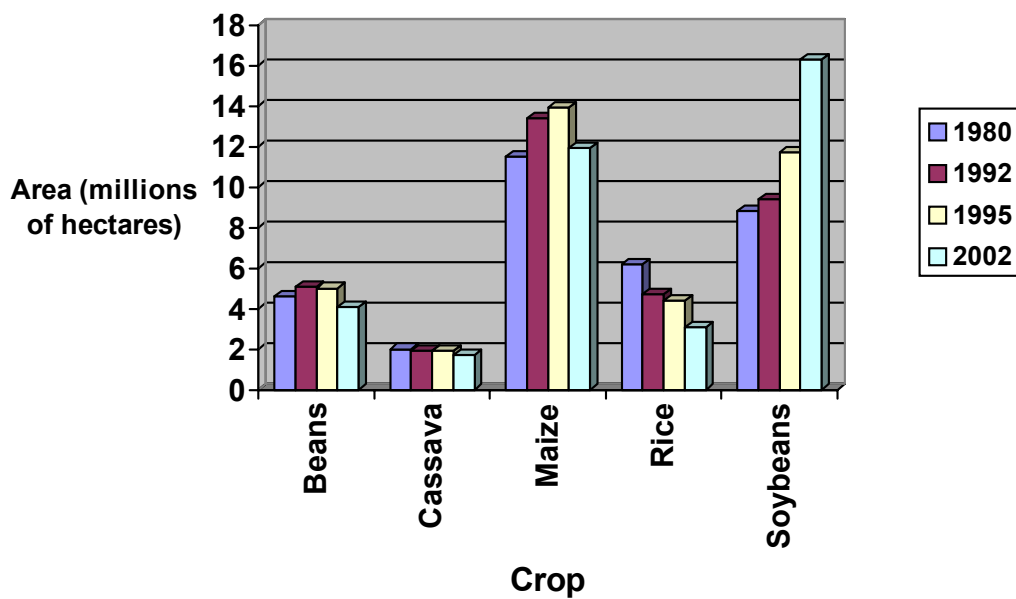


Figure 21: Area harvested: selected crops

Source: FAO Stat



It is important to note these aggregate data on food production and prices do not tell the whole story. They don't show us who is producing what. Even if total food production does not fall, it is possible that larger farms are taking over more of the land as smaller farmers drop out of the market because of a lack of access to credit and markets and move to the city. Also, market food prices may not represent the actual price that isolated small farmers receive. Studies on agricultural markets around the world have shown that farmers who live far from roads and markets must accept lower than market prices from intermediaries who will sell their products in cities.

While statistics on food prices and production can hide farm consolidation and profiteering by intermediaries, statistics on rural exodus (see page 20) are more certain indicators of the state of rural societies. By moving to the cities, millions of Brazilians have shown that conditions under the policies of the last twenty years, policies grounded in the principles of neoliberal economics and free trade, are unbearable for the rural poor.

Poor food producers are not the only ones being adversely affected by the advent of agricultural trade liberalization. Evidence demonstrates that food consumers are also losing out. While theory predicts that unregulated competition will lead to lower food prices, the contrary has in fact been true. World Bank statistics show that food prices spiraled out of control with hyperinflation in the early 1990s, then dropped with the currency stabilization of 1994, but prices have grown steadily from 1994 to 2001, which is the most up to date information available.<sup>90</sup> An income index for the poor would allow us to determine whether increases in income kept up with increases in food prices, but no such data is available. The aggregate data below show that the food price index has lagged a little behind the consumer price index. This is unsurprising given that the constituent components of the consumer price index are more connected to inflationary pressures (such as interest and exchange rates) than the inputs for food.

#### **Food Price Index 1990-2001**

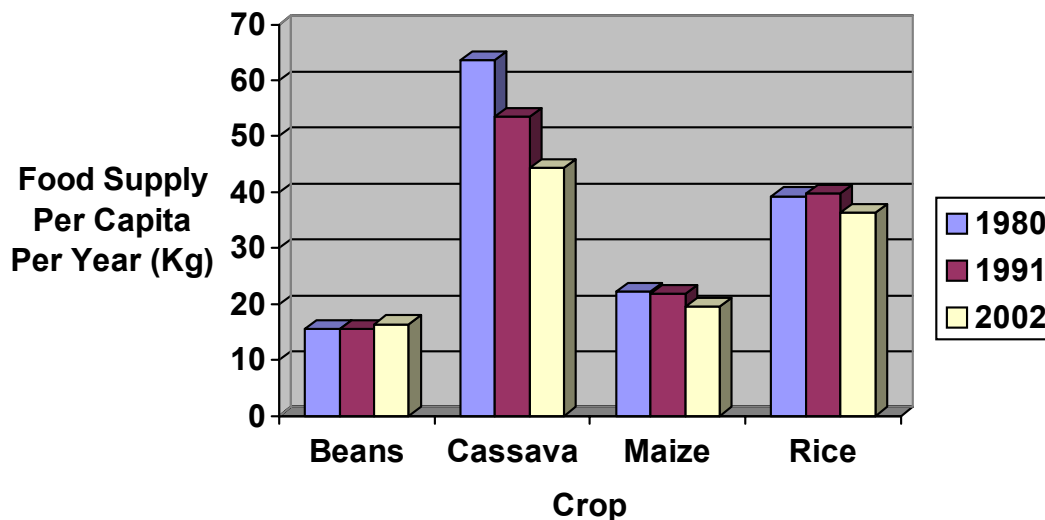
Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Food Price Index (1995=100)	63	309	3,386	69,400	63	100	106	107	110	113	119	127
Consumer price index (1995=100)	60	321	3377	68,447	60	100	116	124	128	134	143	60

**Figure 22: Food price index 1990-2001**

Source: World Bank World Development Indicators

We can, however, dig a little deeper to find out about how the poor have fared. According to a study for the FAO, food consumption fluctuated wildly during the 1990s, and consumption of all staple food items fell for the poor during the transitional period 1987-1996.<sup>91</sup> In addition, FAO data shows that food supply per capita for rice, maize, and cassava all declined from 1980-1991 and 1991-2001 (as shown in Figure 23).<sup>92</sup> Thus, reduced domestic production of foodstuffs, increases in higher-priced imports, and increases in overall food prices have combined to endanger food security for Brazil's poorest people from the early 1980s to the present.

## Food Supply: Selected Crops



**Figure 23: Food supply: selected crops**

Source: FAO Stat

In conclusion, an analysis of the experiences of Brazil's rural poor over the period of trade liberalization reveals a complex picture. The end results are more or less clear: the poor have not fared well. The causes, on the other hand, are multiple and interrelated. Brazil's trade liberalization has thus far been moderate, focused at the regional level. The subsequent changes in trade patterns have produced negligible direct benefits or harm for the poor. They have had neither the support nor the resources of their own to access new foreign markets, and they have so far been spared the flooding of Brazil's market by cheaper imports, largely because of the weakness of other MERCOSUL countries' economies. The impacts of trade liberalization on the poor have stemmed not from the reduced tariff barriers, but from other policies that have accompanied trade liberalization, namely the elimination of credit, marketing, and price supports. In addition, liberalization can be faulted for what it has *not* done, as can domestic agricultural policy. It has *not* made a dent in rural poverty, decreased inequality, improved domestic food security, nor increased the purchasing power of the urban poor. These goals are imperative to sustainable, socially just development in Brazil. So far, liberalization has shown no sign that it is an effective means to reach those objectives. It is unlikely that more of the same medicine will reverse these trends.

### **V Responses From the Poor**

The truism of 'lies, damned lies and statistics' is one to take seriously, particularly in this context. Many conflicting views of the welfare of Brazil's agricultural sector come complete with their own statistical data. Published reports, whether they come out of a government source, the World Bank, or a non-governmental organization, are imbued with some political or analytic

bias. To be clear, our biases lie with the poor. Our statistical data reflect this. We are aware that even at the level of raw data, the resources available in developing countries are often simply insufficient to produce accurate, comprehensive, and reliable results. Sometimes the best way to understand what is happening to the poor is to listen to the poor themselves. How have the rural poor responded to the developments in the economic and social climate in recent years?

Overwhelmingly, Brazil's peasants have responded by organizing themselves. The last twenty years have seen a surge in the number and power of grassroots social movements in the rural sector. Small farmers have banded together to survive hard times, and landless people have taken agrarian reform into their own hands.

*Box 1: Civil Society Plebiscite Rejects FTAA*

In September of 2002, a coalition of civil society organizations in Brazil held a national plebiscite to vote on the Free Trade Area of the Americas. Over 10 million people participated, with the following results:<sup>1</sup>

1. Should the Brazilian government sign the FTAA accord?  
Yes 113, 643 (1.12%)  
No 9,979,964 (98.33%)
2. Should the Brazilian government continue participating in the FTAA negotiations?  
Yes 341,593 (3.37%)  
No 9,737, 190 (95.94%)

The group organizing the plebiscite is called Jubilee South, and it is made up of mostly religious and social organizations. In anticipation of the plebiscite, Jubilee South did months of education and held public debates on the FTAA all over the country. On the day of the vote, they set up 41,758 polling locations spread across every state in Brazil.

While the overwhelming vote against the FTAA may not represent of the whole of Brazilian public opinion, the fact that more than 10 million people turned out simply to make a symbolic statement in an unofficial plebiscite is a powerful indication of the depth of opposition to the initiative. It remains to be seen whether the government is prepared to follow this up, as the organizers of the plebiscite demand, with an official national referendum on the subject. The MST's recent exasperation with Lula's policies suggest that genuine popular control of the Brazilian economy is still some way off.

*The MST*

Without a doubt, the Landless Rural Workers Movement known as the MST (Movimento dos Trabalhadores Rurais Sem Terra) has garnered the most attention for the tremendous mobilization it has organized since its beginnings in 1978.<sup>93</sup> The MST has organized hundreds of thousands of farmers all across Brazil to enact their own land reform. Landless Brazilians, both rural peasants and those who have been driven to the cities and found no job, occupy idle

lands belonging to large landowners, often with “peasant armies” thousands strong. They set up *campamentos* on the land and begin to cultivate it while they petition the government to grant them title to the land, appealing to a provision of the Brazilian Constitution which provides that the state can expropriate unproductive lands. With the cooperation of local PT (Lula’s Workers Party) governments, the MST has helped 350,000 families gain legal access to over 15 million hectares.<sup>94</sup> More than 80,000 more are currently awaiting legal title to lands they have occupied. In recent years, the MST has gained strong support from the Brazilian public as well as the international community.

A key element in the MST’s success is the fact that they help families gain access not only to land, but also to credit, technical advice, and education. Many official land reform programs, including Cardoso’s program in the 1990s, have failed because they give farmers land without helping them to attain the means to make the land productive and financially viable. For example, Cardoso often granted land in remote areas of the Amazon with little access to markets or infrastructure. At the same time, the policies of the 1990s did not provide financial or technical support to these newly-settled farming families. As a result, one in four beneficiaries of Cardoso’s agrarian reform program abandoned the land within two years.<sup>95</sup> Recognizing that most of Brazil’s landless have neither the experience to cultivate the land efficiently nor the ability to elicit credit from the state or private sector, the MST has set up a network of support to ensure that the movement’s farms and cooperatives succeed. The MST provides agricultural training, helps organize systems of credit, and even sets up schools on the settlements that educate about 50,000 children.<sup>96</sup>

In addition, the MST is endeavoring to transform Brazil’s agricultural economy, little by little, into one that will ensure both food security for consumers and a decent living for small producers. In response to the government’s promotion of agro-exports and the difference in price between exports and food crops, many small farmers have attempted to convert to export crops. In its early years, the MST encouraged farmers in the movement to do so. Over time, the MST and many peasants have grown frustrated with their inability to access markets and high prices. At the same time, they have been traveling miles to buy food grown hundreds of miles away. As a consequence, the MST has adopted a new model for its settlements over the last ten years, one which encourages local organic production and local markets for food. In many areas, it has been hard to convince people to diversify their crops and focus on food production. In the Northeast, for example, many in the movement have been growing sugar all their lives and are uneasy about trying new crops. It is a difficult transition, but the MST has grown disillusioned with the prospects for small farmers in the export market, and they believe that a small farm sector can flourish if it cultivates its own markets for local products rather than trying to compete with ever-larger agribusiness.<sup>97</sup>

For various reasons, the MST has never taken an unequivocal stance on trade liberalization. In part, this is true because in the Brazilian experience, the issue of land concentration far outweighs the issue of free trade in its impact on the rural poor. At the same time, free trade has not as yet had any significant detrimental impact on Brazilian food markets. At the moment, the position of the MST is that, for now, Lula’s two-track approach to rural development can work, with a large export sector alongside a smallholder food-producing sector. The MST has, however, voiced its strong opposition to the FTAA as proposed by the U.S.<sup>98</sup> They fear that if

subsidized products were to flood the Brazilian market, they could crush the local food market that is just beginning to grow. In addition, the MST has raised concerns that the FTAA would open the door to the unregulated import and use of genetically modified seeds and foods. GMOs currently face strong opposition from organic farmers and others in Brazil who are wary about possible environmental ramifications and about the increasing control of corporations over the seeds necessary to grow food.

### *Smallholder Organizing in the South*

Finding themselves unable and unwilling to compete in the large-scale world of export agriculture, many small farmers in the South have organized themselves to ensure a market for their production.<sup>99</sup> Brazil's southeast region is the only region with a significant smallholder farming population. During the 19<sup>th</sup> and early 20<sup>th</sup> centuries, the Brazilian government recruited European immigrants to go to Brazil to settle the fertile but sparsely inhabited South. Faced with the challenges of the last twenty years, these farmers have begun to organize themselves to mitigate the loss of state support under neoliberal policies. Many have begun to produce organically, and some have formed marketing cooperatives to sell their goods. They have also collaborated with local governments, usually PT officials, to set up farmers' markets to sell their crops locally. Though these initiatives still represent a relatively small proportion of farmers, they have generally met with success and are gaining popularity. Through these efforts, Brazil's few established smallholder farmers have declared that the export economy advanced by free trade is not *their* future.

### **Conclusion**

The Brazilian experience of agricultural liberalization is, above all, differentiated by class. Those with sufficient land holdings, money and power to access the government's strong support for key agricultural crops have done well out of liberalization. As the data for soy production shows, the government is willing and able to funnel resources to support strategic commodities, and thus strategic domestic interests. These kinds of supports have had the effect of consolidating the already extant inequalities rampant in Brazilian rural communities. These policies have, in turn, proved singularly inept at tackling poverty. Because of their dependence on capital and inputs, they have reduced demand for labor in rural areas. Urban unemployment, and the social turbulence that accompanies it, has increased as the destitute and landless from rural areas have been forced to migrate to the cities.

Key to the future of the Brazilian poor is land reform. The MST has shown that agrarian reform can and does work, despite frequent opposition and footdragging from state and federal government. The MST are clear about their vision of rural development – it is a vision that unites democracy, social justice, and ecological sensitivity. It has flourished in certain parts of Brazil while other rural communities have withered. Their major new campaign of land settlement is one that deserves welcome and support from the government, whose own history of rural policy has cemented patterns of inequality in place. It is time, in other words, that the government started to support the policies tried and tested by the very people in whose name it rules.

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<sup>1</sup> The authors gratefully acknowledge the support of all at Food First, and are particularly grateful for the detailed and constructive suggestions offered by Angus Wright.

<sup>2</sup> For more on the U.S. government's open market strategy, see Mittal, Anuradha, *Open Fire and Open Markets: Strategy of an Empire*. Food First Backgrounder, Vol. 9 No. 3, <http://www.foodfirst.org/pubs/backgrdrs/>

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<sup>8</sup> Wright, Angus. July 28, 2003.

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