The limits of Brazilian development: between 2003 and 2016

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Abstract

This article examines Brazil's economic experience between 2003 and 2016, its limits in promoting development and structural change while analyzing the policies adopted and their consequences. The economic growth model based on the combination of competing interests and the maintenance of liberal orthodoxy proved unsustainable in the medium term. Maintaining the overvalued exchange rate and high interest rates hindered industrial and national development. The fiscal approach at development policies could not contain the process of deindustrialization and financialization. The neoliberal agenda was maintained, which prevented structural changes and deepened financialization.

Keywords: economic development, neo-developmentalist, deindustrialization, financialization, Brazil

1. INTRODUCTION

The Latin American debt crisis of the 1980s severely weakened national economies, leading to a long period of rising inflation. In the 1990s, unable to resolve the crisis and pressured by the emerging Washington Consensus arrangement, governments submitted to structural adjustment and reforms advocated by the World Bank and the International Monetary Fund (IMF). These reforms allowed for privatization and trade and financial liberalization, although they failed to return to the growth levels of the previous period (1955-1989). Per capita growth rates in the region did not exceed 1%, while inequality and financialization deepened (Bresee-Peñea, 2016).

In Brazil, the Fernando Collor government (1989-1992) marked the abandonment of developmental policies and the introduction of reforms to open up the domestic market, giving the country a neoliberal turn. As such, "neoliberalism" can be characterized as a historical process informed by a neoliberalist practical consciousness of the world economy, which understands welfare as a result of the guarantees of individual freedoms and the market (Stalder and Lavelle, 2014). To achieve this, the role of the State is to ensure the institutional arrangement that makes these freedoms, property rights and defense viable. State action should be restricted to areas where the market cannot meet demand (in other words, water, education, security, environmental protection and health). Since the 1970s, the policies of Western countries have been strongly influenced by this conception through deregulation, privatization and reduction of state provision in areas of social interest (Stroh, 2017). According to Arruz and Bresee-Peñea (2016), this neoliberal process arrived in Brazil in the 1980s, presenting itself as the modernization required by a globalized world.

The economic crisis, coupled with the failure of the neoliberal reforms instituted by the "Collor Plan," led to the impeachment of President Collor in 1992. Brazilian inflation was controlled in 1994 with the creation of the Real Plan by the new government of Fernando Collor's successor and vice-president, Itamar Franca (1992-1994). In the Real Plan, to manage the inflationary instability, Brazil was turned to a fixed exchange rate with the U.S. dollar, maintaining the currency at an advantageous level.

In 1998, the adoption of a new macroeconomic arrangement based on a floating exchange rate, fiscal surplus and inflation targets - conventionally referred to as the macroeconomic tripod - was accompanied by the devaluation of the Real, rising inflation and, consequently, the maintenance of the high exchange rate to meet inflation targets (Safadi and Hu, 2015). Between 1998 and 2002, this arrangement failed to remove rapid and sustained growth but meant the consolidation of neoliberal reforms and the emergence of a new model of financial accumulation: public debt (Bresee-Peñea, 2013). The governments of Collor and Cardoso seem to reflect a more advanced stage of this economic and political elements of the collapse of the historical developmental bias. The structural adjustment and liberalizing reforms imposed on the Brazilian economy in the 1990s contributed to the dismantling and development of macroeconomic and institutional policies and the development of a new model of financial accumulation and a new social dynamic.

Thus, upon coming to power in 2010, the Partido das Trabalhadores (PT) found a country with significant challenges for development. Despite starting industrialization and being a middle-income nation, the Brazilian economy was pathetically embedded in the international financial system and unable to grow at the levels necessary to reduce inequality. Moreover, the weakening of social forces (unions and popular movements) and the strengthening of new interest groups linked to the financial market represented the emergence and consolidation of a new power bloc with diverse and conflicting interests throughout the PT governments (de Oliveira, 2018).

Over the last two decades, the Argentine and Brazilian experiences have been paradigmatic and sociopolitical neo-developmentalist inspiration have defined their limitations. For example, Costantini and Cardemil (2017) describe neo-developmentalist in Argentina as a response of the power bloc that failed to contain the crisis of the neoliberal model catalyzed by the end of Convertibility in 2001. In other words, it is a process of incipient construction led by industrial and political powers that present a progressive program intended to avoid or correct or reverse the privatization and financialization of social groups to the process (Costantini and Cardemil, 2017, Katz, 2014). For its part, Bresee-Peñea (2016) uses the term neo-developmentalism to refer to the insufficiently developmentalist essay attempted by the PT governments (2010-2016).

Although classical developmentalism was conceived in the context of the struggle for dominance between the United States and the Soviet Union after World War II, neo-developmentalism can be understood as a response to the crisis of neoliberalism in Latin America (Katz, 2006). In general terms, neo-developmentalist is a political economy conceived at the beginning of the 21st century that draws on elements of classical developmentalism and post-Keynesian theory, which can be understood in three broad areas: political economy, microeconomics and macroeconomics. Political economy addresses issues related to capitalism's economic and political organization, nationalism, developmental class coalitions, and the critique of modern finance. On the other hand, microeconomics addresses the role of profit to stimulate business investment, adopting the labor-value theory and emphasizing growth as a result of the transfer of labor to more productive sectors. In turn, macroeconomic neo-developmentalism is the most advanced field and focuses on the main macroeconomic pricess: interest rates, exchange rates, profits, inflation, and wages (Bresee-Peñea, 2018).

This paper, based on developmental macroeconomics and a more analytical viewpoint of political economy, aims to discuss the Brazilian experiences between 2003 and 2016 and its limits in pursuing economic development and changes in the economic structure. To this end, the economic policies adopted and their consequences were analyzed.

The first section presents the main concepts mobilized by neo-developmentalist macroeconomics to analyze the economic structures of middle-income countries that have begun industrialization. It then analyzes the Brazilian experience under the PT governments and its limits in promoting structural change.

2. NEO-DEVELOPMENTALIST MACROECONOMICS AND OBSTACLES TO ECONOMIC DEVELOPMENT

Neo-developmentalist macroeconomics is the result of the combination of several trends throughout the 2000s compiled in the book Macroeconomía y Socialismo, a doctrine of the new economic approach or neo-developmentalist (Bresee-Peñea et al., 2016). Within the framework of this neo-developmentalist macroeconomics, the role of the state as economic and social control is strictly defined. The model of economic exchange rate, interest rate, wages, inflation and profits results from these policies and the diagnosis of the structural obstacles to the economic development of underdeveloped and middle-income economies, a set of alternative policies to those indicated by liberal orthodoxy is proposed. The main elements lie in the proposals on monetary, exchange rate and fiscal policy, as well as in the measures for the control of inflation, interest rate costs and the neutralization of blood letting. Furthermore, the neo-developmentalist proposal includes social and redistributive policies that allow sustainable economic growth with social inclusion through an increase in the real wages, the domestic market, and investment in health, education, transportation, and public services (Stroh et al., 2017, Bresee-Peñea and Reis, 2021).

Unlike liberal orthodoxy, neo-developmentalist calls for maintaining the interest rate at a relatively low level, as opposed to a competitive exchange rate policy and a fiscal policy that, despite being responsible, also has countercyclical elements (Bresee-Peñea, 2014). This model, based on the same economic approach, is characterized by the policy of growth with external savings and exchange rate policies, adopted in the governments of Fernando Henrique Cardoso and the high interest rate maintained by the governments of Luiz Inácio Lula da Silva and Dilma Rousseff, by deepening the appreciation of the exchange rate, contributed to premature deindustrialization.

In addition to lowering profit and investment, the high interest rate is also associated with the Brazilian financialization process. This change occurs in a context of exchange rate hierarchy. By the international system, in which the currencies of the central countries, despite having a low liquidity premium, are considered safer by investors and are therefore preferred in times of uncertainty, which explains the flight of capital to central countries. In this context, less developed countries maintain a higher interest rate to attract capital and try to reduce the volatility of financial flows, which generates a nutrition in economic policy. The inflow of capital attracted by the high interest rate, in turn increases the exchange rate appreciation caused by Dutch disease and, therefore, the high interest rate trap remains and further contributes to premature deindustrialization (Crespo et al., 2020).

Moreover, in developing countries with an economy marked by financialization, wealth accumulation begins to occur, predominantly through financial channels, to the detriment of production activities. Significant financial gains promoted by high interest rates drain resources invested in production (industry, trade and agriculture) (Bresee-Peñea, 2011; Salinas, 2016; Diouf, 2017). In Brazil, Dutch disease and the growing financialization of the economy contributed to the premature deindustrialization...
3. LUIZ INÁCIO LULA DA SILVA'S GOVERNMENTS: ECONOMIC GROWTH AND INCOME DISTRIBUTION WITHOUT STRUCTURAL CHANGE

In 2012, the effects of the global financial crisis and the recessionary results of neoliberalism, especially the increase in poverty, inequality and unstable labor, highlighted the limits of the macroeconomic tripod. Political and economic instability in a scenario of growth and recognition of the PT contributed to the election of Luiz Inácio Lula da Silva in the second electoral round with 53.7% voting against José Serra (PSDB) with 46.3%. However, when the PT came to power, it found the national labor market still significant challenges for development. Despite having started its industrialization process and being a middle-income country, partly, the Brazilian economy was deeply embedded in the international financial system and could not grow at the levels required to reduce inequality. Furthermore, the weakening of unions and popular movements and the strengthening of groups linked to the financial market would render the consolidation of a new power bloc, sufficiently stable and with diverse interests throughout the PT governments (de Oliveira, 2013).

The political coalition that brought Lula to power was a diverse alliance formed by the labor movement. Their alliance (Sidaeflrio and Minas, 2018) was formed by the PT's support base. In other words, the urbanized urban and rural working class and sectors of the professional middle class, sectors of the informal working class attacked by the defence of income transfer and social programs, sectors of the national bourgeoisie who despite supporting neoliberal fiscal, labor and social reforms, were hurt by high interest rates, competition from imported products, deindustrialization and the shrinking of the domestic market, and by right-wing oligarchs, landowners and local politicians from Brazil's poorest regions, who lost political influence to financial groups from the southeastern macro-region that began to fill spaces generally occupied by the traditional oligarchy in the National Congress (Sidaeflrio and Minas, 2018, Sinner, 2018).

In mid-2012, Lula's isolation and defense of the rupture with the neoliberal model in a period of strong speculation, exchange rate instability and capital flight. Thus, with the support of the leading national media, the financial groups' tremendous economic and political power pushed for the guarantee of the continuity of the macroeconomic tripod by the presidential candidates. Against this background, on June 22, 2012, to appease the markets and secure the election, Lula's campaign launched the Carteiro Pass Brasileiro, committing itself to the demands of financial capital. Despite initially appearing to be a campaign strategy, the proposals it contained were approved by the National Congress by the PT and included in the government program of the Lula President Coalition, thus marking the abandonment of the program of structural reforms and critics of neoliberalism similarly defended by the PT (Singer, 2012, Gentil and Ramos, 2020, Rodrigues, 2015).

After making significant concessions to financial groups, Lula came to power as a political alliance incapable of offering consistent support to the government. This scenario would contribute to maintaining the macroeconomic tripod and economic policies implemented by Cardoso. In fact, in the first year of Lula's term, his economic policy was marked by a far greater fiscal adjustment than necessary to pursue inflation targets and the continuous increase in interest rates to gain the confidence of the Brazilian and financial groups (Bresser-Pereira, 2015). Thus, instead of undertaking the structural reforms of the Populous Democratic Program drawn up with the organized working class and defended by the PT since the 1980s, the PT gave way to the program approved by Congress and the demands of social policies already within the political balance (Lula, 2012, Gauff and Ramos, 2020).

Between 2003 and 2008, the Bolivarian process, five significant increases in the real minimum wage and the expansion of family credit resulted in the reduction of poverty, the expansion of consumption and economic growth starting in 2004. This became known as the “Lula Real” and was made possible by the highly underestimated exchange rate intensified from the PT government and the commodity boom driven by China’s growth (Singer, 2018, Cavalcante, 2010). Thanks to the appreciation of the Real and the maintenance of high interest rates, the Lula government managed to control the inflation and financial market’s reaction with economy’s growth, the minimum wage and investments. However, the abandonment of structural reforms, the 2004 pension reform and the Menalo-scarabattis in 2008 led to the rupture of part of the middle sectors with the PT. Even so, Lula remained strong and was re-elected thanks to a qualitative change in the profile of his electorate, which, according to Bresser-Pereira (2019), was called “underground movements”.

[... ] there was an underground movement of very low-income voters, who treat it necessary to rally to its ranks. [...] In the Lula era, the government, effectively led a significant amount of the support it had in the 1980s elections. Among the middle classes, rejection was transformed into a clear preference for an opposition presidential candidate in 2006. “Among Brazilians with a higher level of education, Lula's disadvantage jumped 16 percentage points, from 34% in August to 56% today,” writes Fafa, in the Folha de São Paulo on October 21, 2006. However, three months later, while the no-one, following the agreement, now a new political agenda is born (for the three PSDB's candidates, among those with a family income of up to 5 minimum wages, there was a turn in the opposite direction, with an increase in the satisfaction ratings with Lula in turn to date, Singer, 2018, p. 14).

In 2009, Lula was re-elected after the Menalo-scarabattis scandal with the promise to improve economic policy to maintain the stability of the PT government and rebuild its support base. After that, changes were made to the original neoliberal economic team, with the appointment of Guido Marçal as Minister of Finance and Luiz Cunha to the presidency of the National Bank for Economic and Social Development (BNDES). Nevertheless, the maintenance of Henrique Meirelles as president of the Central Bank led to the maintenance of the regime of inflation targets and high interest rates and, thus, the assumption of authority in the macroeconomic tripod (Bresser-Pereira, 2016, Sidaeflrio and Minas, 2018). Either because he understood that it was politically impossible to abandon the orthodox macroeconomic agenda or because he believed that the inefficiency of public administration would help stabilize his government, Lula chose to introduce re-activating elements within the macroeconomic tripod, in a fashion that follows Sidaeflrio and Minas (2018) called developmental neoliberalism and Bolivarian stabilization (Bresser-Pereira, 2015) as operationalized. The adopted policies included the launch of the Program of Acceleration of the Firms (PAF) in 2007, which coordinated public and private sector investments in energy, transportation and infrastructure. At the same time, the PAF was accompanied by tax incentives for specific sectors and credit separation through state-owned financial institutions, especially the BNDES.

After the 2008 crisis, public investment in education, health and housing (Bola Family and Minas Casa Minha Vida) was expanded and significant increases were implemented. However, the counter-cyclical policy was limited, as the Central Bank continued to raise interest rates until January 2019, which contributed to the stagnation of the Brazilian GDP and the fall in industrial production (Cavalcante, 2018, Bresser-Pereira, 2016). Despite being significantly lower than the interest rates applied between 2002 and 2006, throughout Lula’s government, the basic interest rate of the Brazilian economy (Selic) remained high, even in a scenario of financial instability. The most significant reduction occurred in 2009 when it reached 11% in a counter-cyclical response to the 2008 crisis.

The high interest rate and the failure to neutralize Dutch disease further strengthened the Real, hitting US$1.55 in December 2010. Regardless of the degree of awareness, the country managed the exchange rate by maintaining the high basic interest rates and by using the market. In this context, policy was cut by the Brazilian Federal Reserve Bank (BCB), which in turn enacted measures to reduce the effective exchange rate by increasing the risk levels associated with investments and consolidating itself as a new center of accumulation, more attractive and profitable than the productive sector.

In the context of an extra-ordinary strong exchange rate and loss of competitiveness in industry, Gilma Rousseff’s government was powerless to political support to push for the monetary depreciation of the currency, which at that time averaged 19%. In an attempt to meet the demands of the productive sector (comprised of the organized working class and industrial enterprises), which since 1990 had been demanding the deindustrialization process, the government adopted the agenda advocated by the Federation of Industries of the State of São Paulo (Fiep). In 2011, the president abandoned the macroeconomic tripod and inaugurated the new macroeconomic matrix, or Fiep Agenda, making tax exemptions, interest rate reductions (from 12.25 to 7.25%), expansion of credit lines and devaluations of the Real (Cavalcante, 2016, Singer, 2018, Bresser-Pereira, 2016).

While the new matrix managed to produce a temporary acceleration in economic growth between August 2012 and March 2014, as the second quarter of 2014, the pace of growth had collapsed (see Figure 1). This was due to the sustained decline in return on equity (ROE) which became negative in real terms in 2014 (see Table 1). The industrial sector was the most affected by the ROE compression promoted by the fall in the profit rate. Among the leading causes were the increase in wages above labor productivity and the overvaluation of the exchange rate, which prevented the transfer of the salary increase to the prices of industrial products due to competition from imported products (Uematsu, 2017).

![Figure 1: Gross Domestic Product: real annual change (%)](source: gdpdata.org, compiled by authors)
While under Lula's government, public investment was fundamental for economic growth, Dilma's tax exemptions and spending cuts did not achieve the same result. The interest rate reductions, besides not being sufficient to reverse investment in industry, together with the expansion of credit granted by Banco do Brasil and Caixa Econômica Federal, ended up affecting the margins of private banks, being the subject of financial market representatives and analysts (Chené and D'Agostini, 2017).

Furthermore, in a scenario of growth in manufacturing imports and a radical fall in the industry's profit rate, the 20% devaluation of the exchange rate was not enough to reverse investment and competitiveness of the national industry (Bresser-Pereira, 2016).

In 2013, industrialists who previously advocated the new macroeconomic matrix progressively began to abandon their support for the government. The process of premature deindustrialization and financialization of the Brazilian economy meant that the remaining part of the industrial bourgeoisie had dual interests, both in policies promoting production and in those promoting the search for revenue (Singer, 2015). It is unsurprising that when the Thaip Euro did not yield the expected results, this bourgeoisie aligned itself with the interests of financial intermediaries and banks—which were also their interests—Thus, under pressure from the financial market, even in 2013, the interest rate of the public debt would fall again, from that point on, Dilma would abandon the new economic matrix in favor of the macroeconomic tripod.

In 2014, after being released by a narrow margin, the PT had to deal with the sclerosis of the Brazilian economy and the failure in the prices of raw materials, factors whose impacts were exacerbated by deindustrialization. However, the Brazilian recession that began that year was also the result of a contradiction in productive investments due to low demand and the indebtedness of families and companies in previous governments (Chené, 2017, Chené and D’Agostini, 2017). Dowell (2017) points out that financial investments in interest rates proposed in Brazil in the 2010s played a central role in this slow-down of the demand for money, given that the financial market was driving the measures that should have financed productive activities through public and private investments.

In her second term, Rousseff eventually abandoned financialized capitalism, abandoning the maintenance of social programs and the labor and income levels advocated throughout her campaign (Dowell, 2017). Fiscal tax exemptions, the high interest rate, and the economic slow-down increased public debt. Despite the reduction in public spending growth in 2015, public debt grew and more money was drained from public investments into retirement. Still, the narrative of public overproduction gained traction in the national media and the defense of cutting public investments. The effects of the neoliberal ideology of efficiency reflected by the national press were exacerbated by the worsening objective conditions of the economy and created the conditions for the coup in 2016.

5. FINAL REFLECTIONS

The reduction of inequalities and social and redistributive policies characterized the first two governments of Luiz Inácio Lula da Silva. In this period, economic growth was possible thanks to increased demand for commodities, credit expansion, and public investment in projects and programs such as PAC, Bolsa Família, and Minha Casa Minha Vida (Carvalho, 2017). Meanwhile, the increase in the real minimum wage above productivity and the control of inflation were only possible due to the continued appreciation of the Real caused by the non-exportation of Gold as a result of the decline in oil prices (Gardner, 2017). On the other hand, the high profitability of the Sindicato, accompanied by the compression of profits and return on investment, deepened the Brazilian economy's financialization process (Bresser-Pereira, 2011).

The tentative development experiment inaugurated by the new macroeconomic matrix of the first Dilma administration proved incapable of containing the ongoing process of deindustrialization and financialization. The exchange rate devaluations and the reduction of interest rates were not enough to reverse the investments of the industrial bourgeoisie, which, after more than a decade under the macroeconomic tripod, already had a double condition of industrialists and investors (Bresser-Pereira, 2016, Singer, 2015). In 2013, after the real market failed to reach the expected results and under pressure from the financial market and from industrialists, the interest rate was raised and economic policy was once again guided by the macroeconomic tripod (Singer, 2016). The tax exemptions proposed by Dilma's government, low GDP growth, and increased Sindicato caused public institutions to lose prestige, hence ensuring the maintenance of public debt as the axis of financial accumulation.

Following this logic, Bresser and Paulau (2019) argue that the current institutions associated with the functioning of Brazilian capitalism were constructed to serve the interests of domestic and international creditors. In fact, despite the differences between the PT, Lula and Dilma governments, the orientation marked by the neoliberal agenda remained practically unchanged.

This, therefore, explains the enormous financial agencies, with lack of control over international capital flows (IFC and Luiz), the internationalization of the Brazilian stock market (IFC), tax incentives for shareholders and financial gains of non-residents (IFC), legal charges to provide greater guarantees to creditors of the State (Federal Reserve Law of the FHC government) and the private sector (reform of the Installment Law during the Luiz government), changes in the general social security system (HNS) and the civil servants' regime (Lula government), and last but not least, the adoption of a macroeconomic recipe aggressively focused on the benefit of financial wealth, based on fiscal austerity and abnormally high real interest rates, generally the highest in the world (IHC and Lula) (Bresser and Paulau, 2019, p. 14).

This arrangement, inspired by Collor, consolidated and sustained throughout the PT governments, led to the final hospicing of the state by financial wealth during Dilma's administrations. In this regime of accumulation financed by public debt, financial intermediaries became increasingly capable of pressuring the government, the main objective of which was the realization of the interests of the financial market. Furthermore, the new working class that emerged during the PT government was precarious and disorganized, and, as Singer (2016) points out, does not consider itself as working class, easily allowing to the values of the financial elites. Furthermore, part of the industrial bourgeoisie, if the past had interests and disposals with the financial market and was among the losers of the neoliberal period, with the progress of deindustrialization and financialization of the economy, also became investors.

Thus, throughout the Lula and Dilma governments, the maintenance of the neoliberal agenda in the adoption of the macroeconomic tripod made structural changes to the economic system impossible and deepened the financial process fundamental for economic growth since the 1980s. The redistribution and social policies that, under Lula's governments, favored millions of people outside extreme poverty, under Dilma's governments proved unsustainable and insufficient to promote sustainable growth. Thus, the limits of Brazilian development remained and were deepened by deindustrialization and social and political obstacles to forming a power bloc capable of sustaining deeper reforms in the country's economic and social structure.

Bibliography


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1 El Color Nacional (1982-1986) constituye un caso de un modelo reformista que se orientó hacia la industrialización a través de la financiación y el financiamiento. Los objetivos principales de este modelo fueron priorizar la industrialización, favorecer la inversión privada y reducir la inflación.

2 En la década de los 1990, Chile, en el gobierno de la derecha, fue el primer caso de un modelo reformista en el que se combinó la liberalización económica con la estructuralización del sector privado. En este modelo, se buscaba promover la inversión privada para fomentar el desarrollo económico a través de mecanismos de financiación, la creación de capital de riesgo y la promoción del comercio internacional.

3 En el Brasil, bajo el gobierno de Luis Inácio Lula da Silva, se implementó un modelo reformista que combinaba la liberalización económica con la estructuralización del sector privado. Se buscaba fomentar la inversión privada para promover el desarrollo económico a través de mecanismos de financiación, la creación de capital de riesgo y la promoción del comercio internacional.

4 En la década de los 1990, Argentina, bajo el gobierno de Carlos Menem, fue el primer caso de un modelo reformista en el que se combinó la liberalización económica con la estructuralización del sector privado. Se buscaba fomentar la inversión privada para promover el desarrollo económico a través de mecanismos de financiación, la creación de capital de riesgo y la promoción del comercio internacional.

5 En la década de los 1990, Brasil, bajo el gobierno de Fernando Henrique Cardoso, fue el primer caso de un modelo reformista en el que se combinó la liberalización económica con la estructuralización del sector privado. Se buscaba fomentar la inversión privada para promover el desarrollo económico a través de mecanismos de financiación, la creación de capital de riesgo y la promoción del comercio internacional.

6 En la década de los 1990, Venezuela, bajo el gobierno de Hugo Chávez, fue el primer caso de un modelo reformista en el que se combinó la liberalización económica con la estructuralización del sector privado. Se buscaba fomentar la inversión privada para promover el desarrollo económico a través de mecanismos de financiación, la creación de capital de riesgo y la promoción del comercio internacional.