



Received: 06/21/2019

Accepted: 4/29/2020

## **GEOGRAPHICAL COVERAGE OF THE REGIONAL DEVELOPMENT POLICIES IN BRAZIL**

## **ABRANGÊNCIA GEOGRÁFICA DAS POLÍTICAS DE DESENVOLVIMENTO REGIONAL NO BRASIL**

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### **Abstract**

The aim of this work is to analyze the geographical coverage of the regional development policies adopted in Brazil. In particular, we evaluate to what extent the current legal landmark and the legislative proposals still in process focus on the regions that present aggregate indicators below the national average. We briefly discuss the concept of regional development policy and circumscribe the analysis to the exogenous policies implemented by the central government in subnational jurisdictions. The analysis focuses on the superintendences for regional development, the constitutional financing funds and the special economic zones such as the Manaus Free Trade Zone. We show that in spite of the absence of a constitutional or legal criterion to select priority regions, regional development policies currently adopted in Brazil tend to focus on the regions that present aggregate indicators below the national average. The analysis of the legislative proposals concerning regional development policies in Brazil indicates that the new initiatives focus on: i) the expansion of the geographical coverage of the superintendence for regional development of the Northeast (Sudene) towards the Southeastern region of Brazil; and ii) the creation of new special economic zones inspired in the Manaus Free Trade Zone. Data show that congressmen and senators have an incentive to try to benefit their voter bases, even if the potentially benefited regions present indicators above the national average. As a result, the geographical coverage of the regional development policies adopted in Brazil results not only from economic criteria applied by the executive power, but also from its relationship with the legislative power.

**Keywords:** Regional development policies. Geographical coverage. Superintendences for regional development. Constitutional financing funds. Special economic zones.

### **Resumo**

O objetivo deste trabalho é analisar a abrangência geográfica das políticas de desenvolvimento regional adotadas no Brasil. Busca-se, em particular, verificar em que medida a legislação em vigor e as proposições legislativas em tramitação privilegiam as regiões que apresentam indicadores agregados inferiores à média nacional. Discute-se, inicialmente, o conceito de política de

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desenvolvimento regional e delimita-se a análise às políticas de caráter exógeno implementadas pela União nas jurisdições subnacionais. O foco da análise empírica recai sobre as superintendências de desenvolvimento regional, sobre os fundos constitucionais de financiamento e sobre as zonas econômicas especiais como a Zona Franca de Manaus (ZFM). Demonstra-se que, embora não haja um critério constitucional ou legal para a definição das regiões prioritárias, as políticas de desenvolvimento regional em vigor no Brasil usualmente privilegiam as regiões que têm menores níveis de renda *per capita*. A análise das proposições legislativas sobre o tema indica, contudo, que as novas iniciativas se concentram: *i*) na ampliação da área de atuação da Superintendência do Desenvolvimento do Nordeste (SUDENE) em direção à região Sudeste; e *ii*) na criação de novas zonas econômicas especiais inspiradas na ZFM. Os dados indicam que há um incentivo para que os parlamentares busquem beneficiar as regiões onde estão suas bases eleitorais, ainda que os indicadores agregados dessas regiões não sejam necessariamente inferiores à média nacional. Nesse sentido, a abrangência geográfica das políticas de desenvolvimento regional adotadas no Brasil resulta não apenas da aplicação de critérios econômicos pelo Poder Executivo, mas também de sua relação com o Poder Legislativo.

**Palavras-chave:** Políticas de desenvolvimento regional. Abrangência geográfica. Superintendências de desenvolvimento regional. Fundos constitucionais de financiamento. Zonas econômicas especiais.

## Introduction

Income geographical inequalities have been a characteristic of the Brazilian economy since colonial times (BAER, 2008, p. 243). Since the mid of the 20th century these inequalities have motivated the adoption of development policies explicitly focusing on given portions of the national territory. Indeed, the adoption of regional development policies dates back to the 1950s, when the Northeast Bank of Brazil (BNB),<sup>2</sup> the Superintendence for the Plan to Promote the Development of the Amazon (SPVEA), later transformed into the Superintendence for the Development of the Amazon (Sudam),<sup>3</sup> and the Superintendence for the Development of the Northeast (Sudene)<sup>4</sup> were created. Likewise, the Manaus Free Trade Zone (ZFM) dates back to the second half of the 1950s. The rationale for such initiatives was systematized in 1959, when the Working Group for the Development of the Northeast<sup>5</sup> drew attention to the high levels of regional inequalities in Brazil and proposed a series of public policies aimed at the development of the northeastern region of the country (GTDN, 1959). The original initiatives were continuously modified and new policy instruments – such as constitutional financing funds, free trade areas (FTAs) and export processing zones (EPZs) – were attached to the portfolio of the Brazilian regional development policies.

Currently, the legal basis for these initiatives is provided by the 1988 Federal Constitution, which establishes the reduction of regional inequalities as one of the fundamental objectives of the Federative Republic of Brazil. Based upon specific provisions of the Constitution, upon the laws that regulate them or that deals with the subject and upon several regulations, the Federal Government has a reasonably large number of instruments to reduce regional inequalities at its disposal. Regional development policies are also the subject of legislative proposals aiming at changing their operational conditions or their geographical coverage.

Theoretically, those policies seek “to correct regional imbalances in order to ensure a more even distribution of the population and economic activities over the whole of a territory” (MAILLAT, 1998). At first, they were typically exogeneous or top-down, *i.e.*, implemented by some national authority in specific regions of the territory. In the Brazilian case, they were implemented by the federal government in macro-regions, states or the federal district. Those policies have been questioned because, on several occasions, they have shown little capability to deal with the modern production patterns (PIKE et al., 2006). Another kind of regional development policy tries to foster

<sup>2</sup> Banco do Nordeste do Brasil (BNB).

<sup>3</sup> Respectively Superintendência do Plano de Valorização Econômica da Amazônia (SPVEA) and Superintendência do Desenvolvimento da Amazônia (SUDAM).

<sup>4</sup> Superintendência do Desenvolvimento do Nordeste (SUDENE).

<sup>5</sup> Grupo de Trabalho para o Desenvolvimento do Nordeste (GTDN).

the creation of specific local resources and to empower local actors. Those endogenous or bottom-up regional development policies aim at improving the efficiency of territorial production systems and involve “training of labor, development of local know-how, regional innovation policy, improving the regional financial system, improving accessibility by transport and communications infrastructure works” (Maillat, 1998). Those policies require some degree of autonomy of local authorities and agents. However, endogenous regional development policies are proportionally less adopted in developing countries (CRESCENZI; RODRIGUEZ-POSE, 2011). Frequently those endogenous policies are adopted together with other exogenous and incentive-based ones. That explains why top-down regional development policies still play a relevant role in countries like Brazil.

Yet theoretically aimed at reducing regional inequalities, the geographical coverage of those policies is not defined only on the basis of economic criteria. In the Brazilian case, the laws that regulate the regional development policies are elaborated not only by the executive power (which tends to have an aggregate or national point of view) but also by the legislative power (which is formed by representatives that tend to have a more regional or local point of view).

The aim of this work is to analyze the geographical coverage of the regional development policies adopted in Brazil. In particular, we evaluate to what extent the current legal landmark and the legislative proposals still in process focus on the regions that present aggregate indicators below the national average. Besides this introduction, the paper is structured in three sections. Section 2 discusses the concept of regional development policy and circumscribes the analysis to the exogeneous ones implemented by the federal government in the subnational jurisdictions. The empirical analysis presented in section 3 focuses on the superintendencies for regional development, the constitutional financing funds and the special economic zones (SEZs) such as the Manaus Free Trade Zone. We analyze not only the currently adopted policies (based upon the legislation in force) but also the legislative proposals still in process aiming at broadening the geographical coverage of those initiatives. Finally, section 4 presents the concluding remarks.

## Regional development policies

A general definition of regional development policies is essentially tautological. In effect these policies are basically those that aim at promoting the development of the less developed regions (cf. MAILLAT, 1998). Explicit regional policies (*i.e.*, the ones that openly focus on the reduction of regional inequalities) date back to the 1950s, when authors like Perroux (1955), Myrdal (1957) and Hirschman (1958) drew attention to the fact that, by following their natural path, economic activities would be increasingly spatially concentrated. Relying on the concepts of “growth pole” (PERROUX, 1955), “circular cumulative causation” (MYRDAL, 1957) and “backward and forward effects” (HIRSCHMAN, 1958), these authors credited the concentration trend to the agglomeration economies. Following Rosenstein-Rodan’s (1943) and Nurkse’s (1953) works, the basic idea was to justify the adoption of public policies aiming at promoting the development and at reducing inequalities thorough public investments (both in the productive sector and in infrastructure) and through fiscal and financial incentives to foster private investments. This is essentially the theoretical foundation of the exogeneous policies mentioned in the introduction of this paper.

In the case of these exogenous policies, the reduction of regional inequalities would result, theoretically, through a resource allocation more favorable to the less developed regions. In practice, investments would be attracted to these regions because of the incentives that would make up for the additional costs of choosing a location where there are less agglomeration economies. Used for a given period, those incentives would be capable of creating, in the less developed regions, the agglomeration economies that would allow them to dismiss the regional policies and to follow their own development path.

From the late 1970s onwards, the lower GDP growth rates and the geographical restructuring and reorganizing of production patterns led to a new generation of regional development policies focusing on the creation of specific regional resources (Maillat, 1998). As a result, the debate about regional development began to incorporate endogenous policies. In the 1990s, the spreading of the concept of social capital (PUTNAM, 1993) contributed to a changing theoretical perspective about regional development. The focus moved to more abstract features such “relational assets” and “cooperative networks”. Storper (1997, p. 4) segmented these policies in three main schools: *i)* those

interested in institutions; *ii*) those focusing on industrial organization; and *iii*) those who concentrate their attention on technological change and learning.

Although broadly spread at the theoretical level, those approaches – on which the concepts of “innovative environments”, “regional systems of innovation” or “local productive arrangements” – do not seem to have been used in effective, widely spread, regional development policies. As highlighted by Uderman (2007), a public intervention agenda relying on the concept of social capital has not been implemented in practice in Brazil. As a result, in spite of the new rhetoric, the regional development policies remained attached to the traditional instruments (CAVALCANTE; UDERMAN, 2009).

Exogeneous and endogenous regional development policies have been adopted in several countries. Even in the United States (where, theoretically, a lower level of government intervention was expected), the government played, on several occasions, an important role in redistributing economic activities across the territory (COBB, 1993; BAER; MILES, 1999). However, it is the European Union, especially through the structural funds, the most important reference for the contemporary debate about regional policies.

At any rate, regional policies require, by definition, the identification of the target regions. If there are no target regions, it makes little sense to speak in regional policies, even if the impacts of a given action might be territorially uneven. Accordingly, excessively broad regional policies (*i.e.*, that target a large portion of the national territory) might have limited impact on the reduction of regional inequalities. On the edge, a regional policy that targets all regions the same way could not be considered a regional policy and would lead to a “zero sum game” analogous to the one described by Rodríguez-Pose and Arbix (2001) when discussing fiscal competition.

In the case of the European Union, the distribution of resources is based upon a regional typology explicitly defined and upon objective criteria. Although such criteria tend to reduce the probability of allocating resources in regions that should not, in principle, be the target of the regional policies, there are evidences that economic criteria are not the only determinants of resource allocation. In fact, Bouvet and Dall’Erba (2010) argue that the political situation in each country and the relationships among the various layers of political governance also affects the allocation of the European Union structural funds.

The Brazilian Regional Development Policy (*PNDR*)<sup>6</sup> segmented regions according to municipal per capita income and GDP per capita growth. Theoretically these criteria should guide the allocation of resources related to the regional policies in the country. However, the *PNDR* is just a regulation and as such has no constitutional or legal force. As a result, the geographical coverage of the specific instruments of the regional development policies may be established on an *ad hoc* basis (*i.e.*, specific criteria for each specific instrument) and do not necessarily follow the criteria established in the *PNDR*.

In order to characterize these instruments and to analyze their geographical coverage, we assumed, in this paper, that regional development policies: *i*) explicitly target predefined regions of the national territory; *ii*) are applied by a larger jurisdiction (*e.g.*, the federal government has policies targeting states or states have policies targeting municipalities); and *iii*) involve resource allocation. The first criterion excludes from the regional development policies, for example, poverty reduction policies that do not target predetermined regions even if their regional impact is uneven. The second criterion excludes actions adopted by a jurisdiction to promote its own development (*e.g.*, fiscal incentives regarding state taxes provided by the state itself to attract investments). Finally, on the basis of the third criterion, we consider regional policies the tax expenditures (which are associated to fiscal incentives) and the allocation of budget resources in the funds to promote regional development, but we exclude the initiatives that have no practical impact on investments decisions (*e.g.*, generic regional development plans).

Based upon these criteria, the regional development policies adopted in Brazil can be segmented in three groups: *i*) fiscal incentives; *ii*) financial incentives; and *iii*) investments. The first group comprises, for example, the fiscal incentives directed to investments in the coverage areas of the superintendencies for regional development or in the *ZFM*. The financial incentives involve budget resources directed to the constitutional financing funds or to the regional development funds. The third group includes, for example, direct investments by the federal government in some regions explicitly aiming to foster their development. Usually, the values associate to this group in Brazil are

<sup>6</sup> *Política Nacional de Desenvolvimento Regional (PNDR)*.

relatively smaller. Besides, the coverage area of these investments is, by definition, established on an *ad hoc* basis. As a result, the regional coverage of the direct investments by the federal government is not analyzed in this work.

These elements led to the three basic initiatives related to the regional development policies in Brazil:

The superintendences for regional development, which correspond to the *Sudam*, the *Sudene* and the Superintendence for the Development of the Central-West (*Sudeco*)<sup>7</sup> and involve fiscal incentives directed to macro-regions (formed by several states) and the access to credit at more favorable conditions (resources of the regional development funds).

The constitutional financing funds, that finance investments at more favorable conditions in the regions North, Northeast and Central-West as well as in a small portion of the region Southeast.

Special economic zones (SEZs), which involve the *ZFM*, the free trade areas (FTAs) and the export processing zones (EPZs). These initiatives are usually based on fiscal incentives limited to relatively small spaces, usually inside a given municipality.

The regional coverage of these policies – on the basis of the legislation in force – and the legislative proposals still in process aiming at expand them – are the subject of the next section.

### Abrangência geográfica

According to the Brazilian Institute of Geography and Statistics (*IBGE*)<sup>8</sup> data regarding the year 2015, the GDP per capita of the Northern and the Northeaster regions rank below the national average (ratios of 0.63 and 0.51, respectively), whereas the GDP per capita of the Southeastern, Southern and Central-Western regions rank above it (ratios of 1.29, 1.18 and 1.28, respectively). As the focus of the instruments mentioned in the previous section are the regions North, Northeast and Central-West, it is reasonable to state that the benefited regions present aggregate indicators below the national average. The exception is the Central-West region, which presents indicators above the national level and yet counts on a superintendence for regional development, a constitutional financing fund and a development fund.

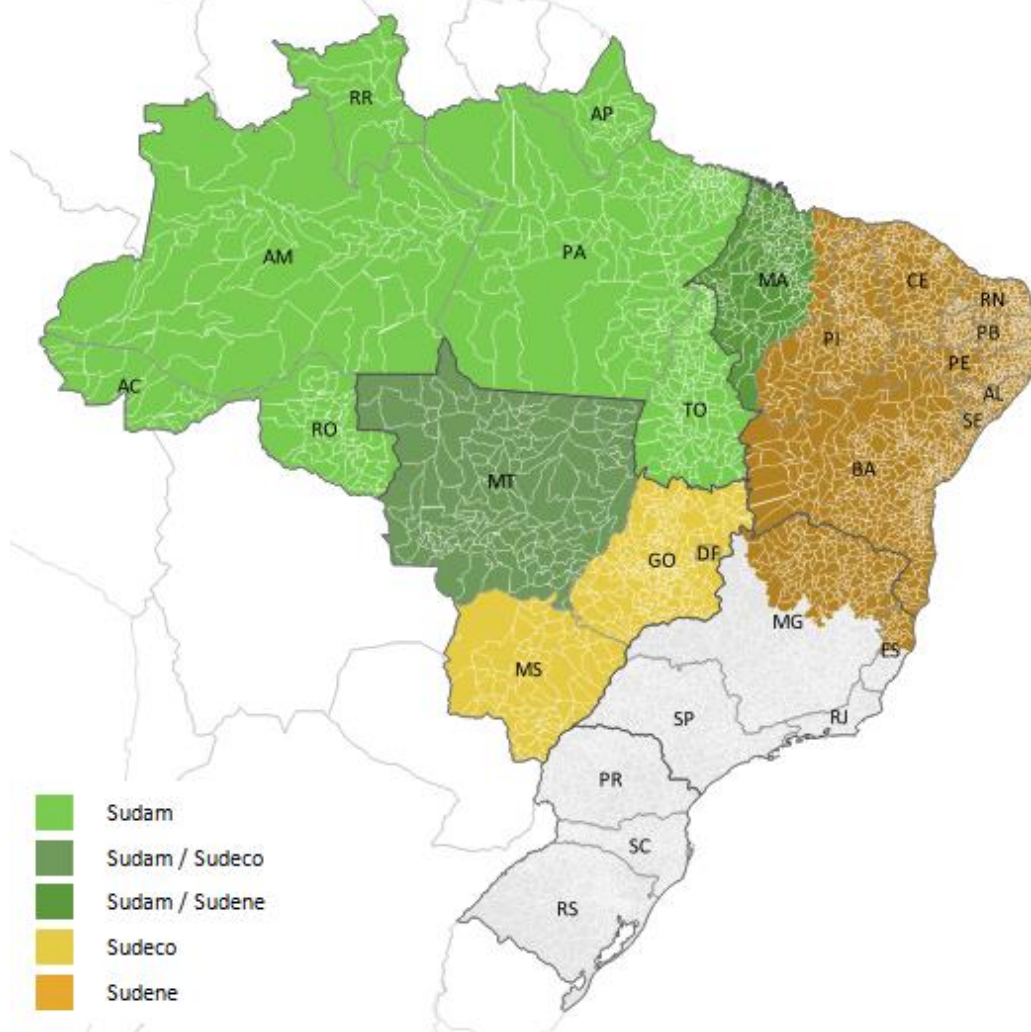
This broad view can be deepened if an analysis of the geographical coverage of the superintendences for regional development, the constitutional financing funds and the special economic zones is carried out. This analysis indicates to what extent the current legal landmark and the legislative proposals still in process focus on the regions that present aggregate indicators below the national average.

### Superintendences for regional development

The regions included in the coverage areas of the superintendences for regional development have access to fiscal incentives, in the cases of *Sudam* and *Sudene*, and to financial incentives, in their cases and in the case of *Sudeco*. The coverage areas of these three institutions (created, respectively, by the Supplementary Laws 124/2007, 125/2007 and 129/2009) are indicated in map 1 below:

<sup>7</sup> Superintendência do Desenvolvimento do Centro-Oeste (*Sudeco*).

<sup>8</sup> Instituto Brasileiro de Geografia e Estatística (*IBGE*).

**Map 1:** Sudam's Sudene's and Sudeco's geographical coverages

Source: elaborated by the author.

As shown in the map, *Sudam's* geographical coverage corresponds to the so called “Legal Amazon”, which is formed by the seven states of the Northern regions plus the State of Mato Grosso and the western portion of the state of Maranhão. *Sudene's* geographical coverage is formed by the nine states of the Northeastern regions plus portions of the states of Minas Gerais and Espírito Santo, as indicated in the law that created that superintendence. Finally, *Sudeco's* geographical coverage corresponds to the Central-Western region.

Map 1 shows that:

The western portion of the state of Maranhão (one of the lowest GDP per capita levels of the country) is included both in *Sudam's* and *Sudene's* coverage areas.

The state of Mato Grosso (which presents a GDP per capita 12% above the national average) is included both in *Sudam's* and in *Sudeco's* coverage areas.

Some municipalities of the states of Minas Gerais and Espírito Santo are included in *Sudene's* coverage area.

There is a large number of legislative proposals still in process both in the Federal Senate and in the House of Representatives aiming at expanding *Sudene's* and, to a lower degree, *Sudam's* and *Sudeco's* coverage areas. In most cases, the targets are municipalities of the Southeastern region, as indicated in box 1 (which indicates the proposals in process in 2018). In box 1, we also indicate the federative unit the congressmen or senators come from.

**Box 1: Legislative proposals in process in 2018 aiming at expanding the coverage area of the superintendences for regional development**

Proposal (note 1)	Description	Federative unit the congressmen or senators come from
Legislative Proposal (Senate) 504/2017	Includes municipalities of the Northern and Northwestern regions of the state of Rio de Janeiro in Sudene's and FNE's coverage areas.	Rio de Janeiro
Legislative Proposal 148/2017 (House of Representatives, originated from the Supplementary Legislative Proposal 76/2007)	Includes municipalities of the states of Minas Gerais and Espírito Santo in Sudene's coverage area.	Minas Gerais
Supplementary Legislative Proposal 440/2017	Includes the municipalities of Brasilândia de Minas, João Pinheiro, Joaquim Felício, Augusto de Lima and Buenópolis (all in the state of Minas Gerais) in Sudene's coverage area.	Minas Gerais
Supplementary Legislative Proposal 445/2017 (attached to the Supplementary Legislative Proposal 424/2017)	Includes municipalities of the Northern region of the state of Goiás in Sudam's coverage area.	Goiás
Supplementary Legislative Proposal 424/2017	Includes municipalities located in the Paraguai River watershed area in Sudam's coverage area and changes its name to Superintendencia for the Development of the Amazon and Pantanal (Sudamp).	Mato Grosso do Sul
Supplementary Legislative Proposal 460/2017	Includes municipalities of the Northern and Northwestern regions of the state of Rio de Janeiro in Sudene's coverage area.	Rio de Janeiro
Supplementary Legislative Proposal 304/2016	Includes the municipality of Unai, in the state of Minas Gerais, in Sudeco's and FCO's coverage areas.	Distrito Federal
Supplementary Legislative Proposal (Senate) 276/2014	Includes the whole state of Espírito Santo in Sudene's coverage area.	Espírito Santo
Legislative Proposal 4961/2013	Includes all municipalities of the Northern region of the state of Minas Gerais in Sudene's coverage area.	Minas Gerais
Supplementary Legislative Proposal 287/2013	Includes surrounding municipalities of the Federal District (located in the states of Goiás and Minas Gerais) in Sudeco's and FCO's coverage area. In practice, the proposal includes the municipalities of the state of Minas Gerais that surround the Federal District in those coverage areas.	Minas Gerais
Legislative Proposal 88/2011 (identical to the Legislative Proposal 2388/2003)	Includes municipalities of the region of Médio Rio das Velhas (in the state of Minas Gerais) in the coverage area of the Agency for the Development of the Northeast (later transformed into the Sudene).	Minas Gerais
Legislative proposal 2388/2003	Includes municipalities of the region of Médio Rio das Velhas (in the state of Minas Gerais) in the coverage area of the Agency for the Development of the Northeast (later transformed into the Sudene).	Minas Gerais
Legislative proposal 7368/2002	Includes municipalities of the state of Minas Gerais in the Development Plan of the Agency for the Development of the Northeast (later transformed into the Sudene).	Suggested to the Parliament by a local association.

Note 1: the types of legislative proposal were freely translated into English.  
Source: elaborated by the author.

Theoretically, municipalities included in the coverage areas of the superintendences for regional development are capable of attracting additional investments (as they would have access to

fiscal or financial incentives). Not surprisingly, congressmen or senators with political connections to these municipalities try to benefit them by including them in the coverage areas of the superintendences. In fact, as shown in box 1, there is a strong correlation between the region intended to be benefited and the federative unit the congressmen or senators come from, and in just one case there is no such correlation. These results show that congressmen and senators have an incentive to try to benefit their voter bases, even if the potentially benefited regions present indicators above the national average.

An additional evidence are the amendments to the proposals indicated in box 1. On several occasions, these amendments aim at including new municipalities in the neighborhood of the original ones. The usual argument is that if one municipality has access to some kind of incentive and a similar and contiguous one does not, investments will flow to the first one. As a result, congressmen and senators with political connections to these municipalities mobilize to also include them in the coverage area of some superintendence. These movements reinforce the perception that the geographical coverage of the regional development policies adopted in Brazil results not only from economic criteria provided by the executive power, but also from its relationship with the legislative power.

### Constitutional financing funds and delimitation of the semi-arid region

The Federal Constitution establishes that the Union must transfer 3.0% of the collected taxes on income and on industrialized products to the productive sectors of the regions North, Northeast and Central-West. These resources are directed to the constitutional financing funds and, according to law 7827/1989, are distributed according to the following rule: 0.6% to the constitutional financing fund of the North (*FNO*),<sup>9</sup> 1.8% to the constitutional financing fund of the Northeast (*FNE*)<sup>10</sup> and 0.6% to the constitutional financing fund of the Central-West (*FCO*).<sup>11</sup>

Law 7827/1989 defines the coverage areas of these three funds as follows:

North: the region formed by the states of Acre, Amazonas, Amapá, Pará, Roraima, Rondônia e Tocantins;

Northeast: the region formed by the states of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe e Bahia plus the portions of the states of Minas Gerais and Espírito Santo included in *Sudene's* coverage area.

Central-West: the region formed by the states of Mato Grosso, Mato Grosso do Sul and Goiás e by the Federal District.

In short, *FNO* resources are directed to the Northern region exactly as defined by the *IBGE*. Accordingly, *FCO's* coverage area is simply the Central-Western region as defined by the *IBGE*. However, in the case of *FNE*, the coverage area includes not only the Northeastern region but also portions of the states of Minas Gerais and Espírito Santo. In opposition to the superintendences for regional development, there is no overlapping of the coverage areas of the three funds.

As a result, *Sudene's* coverage area matches *FNE's* one. Accordingly, *Sudeco's* one matches *FCO's* one. However, in the case of *Sudam* and of *FNO*, there is some degree of detachment, since *Sudam's* coverage area is the "Legal Amazon" and *FCO's* one corresponds to the states of the Northern region only. This detachment is precisely the subject of the Legislative Proposal 7434/2017, originated at the Federal Senate under the number 51/2016, which aims at extending *FNO's* coverage area to the State of Mato Grosso and the western portion of the state of Maranhão, as these territories belong to *Sudam's* coverage area. Besides this proposal, some other ones mentioned in section 3.1 aim at expanding the coverage area of the constitutional financing funds. These are the cases of the Legislative Proposal (Senate) 504/2017, that includes municipalities of the northern and northwestern regions of the state of Rio de Janeiro in *Sudene's* and *FNE's* coverage areas, of the Supplementary Legislative Proposal 304/2016, that includes the municipality of Unaí, in the state of Minas Gerais, in *Sudeco's* and *FCO's* coverage areas, and of the Supplementary Legislative Proposal 287/2013, that includes surrounding municipalities of the Federal District in *Sudeco's* and *FCO's* coverage area.

Although there is a reduced number of proposals aiming at expanding the coverage areas of the constitutional financing funds, several measures deal with the delimitation of the so called "semi-

<sup>9</sup> *Fundo Constitucional de Financiamento do Norte (FNO)*.

<sup>10</sup> *Fundo Constitucional de Financiamento do Nordeste (FNE)*.

<sup>11</sup> *Fundo Constitucional de Financiamento do Centro-Oeste (FCO)*.



arid” region because the Federal Constitution and some specific laws establish more favorable conditions to this region. In particular, there are two provisions in the Federal Constitution that establish more favorable conditions to the semi-arid region:

Half of the resources directed to *FNE*; and

Preferential treatment to access resources of the Union directed to irrigation.

Besides, there are laws that establish more favorable conditions to the semi-arid region. For example, Law 13340/2016, that authorizes the liquidation and the renegotiation of rural credit debts, allows higher rebates “in the case of debts related to projects located in the semi-arid regions, in the north of the state of Espírito Santo, and in the municipalities of the north of the state of Minas Gerais, of Vale do Jequitinhonha and of Vale do Mucuri included in *Sudene’s* coverage area”.<sup>12</sup>

As a result of these more favorable conditions, there is an increasing demand for the inclusion of municipalities in the semi-arid region. However, as detailed below, the delimitation of the semi-arid region follows technical criteria defined in specific regulations.

*Sudene’s* Advisory Board (*Condel*)<sup>13</sup> is legally entitled to “establish the technical and scientific criteria to mark off the semi-arid region included in *Sudene’s* coverage area” (Law 125/2007). The semi-arid region was initially marked off as the region inserted in *Sudene’s* coverage area with average annual rainfall up to 800 mm.<sup>14</sup> That allowed the superintendence to list the municipalities included in the semi-arid region back in 1995. Later on, in 2005, the former Ministry of National Integration updated the list of municipalities included in the semi-arid region. The list formed by 1,135 municipalities was the result of the application of the following criteria:

Average annual rainfall below 800 mm;

Aridity index up to 0.5 (calculated on the basis of rainfall and potential evapotranspiration during the period between 1961 and 1990); and

Drought risk above 60% (considering data regarding the period between 1970 and 1990).

Municipalities framed in at least one of these criteria were considered part of the semi-arid region and, as such, entitled to the more favorable conditions indicated above.

In 2014 the databases used to compute the data were updated to the period between 1981 and 2010. As a result, in 2017, a new delimitation of the semi-arid region (formed by 1,189 municipalities) was issued. After the appealing of some states, the list was extended do 1,262 municipalities.

As shown in box 2, three legislative proposals dealing with the delimitation criteria of the semi-arid region were in process in 2018:

**Box 2:** Legislative proposals in process in 2018 dealing with the delimitation criteria of the semi-arid region

Proposal (note 1)	Description	Federative unit the congressmen or senators come from
Legislative Proposal (Senate) 146/2014	Establishes that the delimitation of semi-arid region must be reviewed every five years based upon average annual rainfall, aridity index and drought risk criteria.	Sergipe
Legislative Proposal (Senate) 249/2015	Enacts the criteria defined in specific regulations in 2005.	Maranhão
Legislative Proposal 69/2017 (House of Representatives, originated from the Legislative Proposal 2043/2015)	Includes in the semi-arid region the municipalities of the region of Baixo Parnaíba, in the state of Maranhão.	Maranhão

Note 1: the types of legislative proposal were freely translated into English.  
Source: elaborated by the author.

Box 2 shows that two out of three proposals aim at enacting the technical criteria defined in specific regulations. In just one case (Legislative Proposal 69/2017) new municipalities are included

<sup>12</sup> All quotations of laws, regulations and official have been freely translated into English throughout this paper.

<sup>13</sup> *Conselho Deliberativo (CONDEL) da Sudene*.

<sup>14</sup> Retrieved April 27 2020 from <https://cutt.ly/JysfHxV>.

*ex officio* in the semi-arid region. In this case, once again, the potentially benefited municipalities belong to the same state the proposing congressmen or senators come from.

### Special economic zones

Although there might be some dispute about the terminology used to describe the initiatives discussed in this section, we simply assume, in this work, that special economic zones (ZEEs) are a more general category that comprises free trade zones (in Portuguese “*zonas francas*”), free trade areas (FTA, in Portuguese “*áreas de livre comércio*”) and export processing zones (ZPEs). In this work we just follow the Brazilian legal standards to define each of these categories.

Differently from the initiatives discussed in sections 3.1 and 3.2 (which have geographical coverages as big as Brazilian macro-regions), ZEEs are limited to relatively small spaces, usually inside a given municipality and frequently associated to industrial districts. In general, these initiatives involve some kind of fiscal incentive.

Among the formally instituted ZEEs in Brazil, the *ZFM* stands out for its magnitude. The *ZFM* was initially conceived as a free port in 1957. Ten years later, the model was reformed (Decree-Law 288/1967) and fiscal incentives were established in order to create an industrial, commercial and agricultural pole in the Amazon (MIRANDA, 2013, p. 4). The 1988 Federal Constitution maintained the *ZFM* as a “free trade area of exports and imports and of fiscal incentives for 25 years” (*i.e.*, from 1988 onwards). Later on, this deadline was extended for 40 more years and, in 2014, another amendment to the Constitution extended its duration until 2073 (CAVALCANTE, 2018, p. 161). According to official data, in 2018, there were 436 firms in the *ZFM* which generated about 75 thousand direct jobs. The trade balance of the *ZFM* is, however, somehow idiosyncratic (at least when compared with other SEZs of the world), since the focus is the local processing of imported components (and not exports). Still according to official data, in 2018, *ZFM* imports reached USD 8.89 billion, whereas exports reached only USD 0.54 billion.<sup>15</sup>

In the Amazon region, in addition to the incentives directed to the *ZFM*, there are incentives directed to the Western Amazon and to the FTAs, which include the ones specifically designed to the so called “Green Free Trade Area” (*ZFV*).<sup>16</sup> In fact, Decree-Law 356/1968 extended the fiscal incentives created by the Decree-Law 288/1967 to “pioneering areas, boarder areas and other locations in the Western Amazon”.<sup>17</sup> According to the *ZFM* Superintendence (*Suframa*), “the free trade areas were created to foster the development of international border cities located in the Western Amazon as well as in Macapá and Santana aiming at integrate them to the rest of the country by providing fiscal incentives similar to the ones directed to the Manaus Free Trade Zone in its commercial dimension.”<sup>18</sup>

The FTAs currently instituted in the Amazon region and their legal basis are indicated in box 3:

#### Box 3: FTAs in the Amazon region

FTA	Legal basis	Federative unit
Tabatinga Free Trade Area (ALCT)	Law 7965/1989	Amazonas
Guajará-Mirim Free Trade Area (ALCGM)	Law 8210/1991	Rondônia
Boa Vista Free Trade Area (ALCBV) and Bonfim Free Trade Area (ALCB)	Law 8256/1991 (altered by Law 11732/2008)	Rondônia
Macapá and Santana Free Trade Area (ALCMS)	Law 8387/1991. Officially created in 1993	Amapá
Brasília Free Trade Area extended to Epitaciolândia (ALCB) e Cruzeiro do Sul Free Trade Area (ALCCS)	Law 8857/1994 (note 1)	Acre

Sources: Retrieved April 27 2020 from <https://cutt.ly/FysfNYu> and from <https://cutt.ly/3vshdNJ>.

<sup>15</sup> Retrieved April 27 2020 from <https://cutt.ly/Kysd7Oh>.

<sup>16</sup> Zona Franca Verde (ZFV).

<sup>17</sup> Formed by the states of Amazonas, Acre, Rondônia and Roraima, the Western Amazon represents 42.97% of the territory of the Legal Amazon and 57% of the forests of the region. Retrieved April 27 2020 from <https://cutt.ly/wysfVge>.

<sup>18</sup> Retrieved April 27 2020 from <https://cutt.ly/FysfNYu>.

Law 11898/2009 created an additional incentive for products manufactured in the FTAs using a significant quantity of local raw materials. In practice, this benefit was labeled as “Green Free Trade Zone” (ZFV), which, according to *Suframa*, aims at “fostering, in a responsible way, the industrialization of the Amazon region in order to protect the environment and, at the same time, to promote the use of the local biodiversity and create jobs”. Finally, Law 13023/2014 extended to 2050 the benefits directed to the FTAs already created.

As described above, the legislation about the FTAs in Brazil is vast and interlocked. However, to put it simple, it can be said that those areas, in Brazil, are just small free trade zones (considering the ZFM as a reference), as they provide similar fiscal incentives for industrial and commercial activities in regions with are far from the economic center of the country.

The third kind of SEZ in Brazil is formed by the export processing zones (EPZs), which are regulated by Law 11508/2007. These initiatives explicitly focus on exports and the fiscal incentives are limited to the companies that obtain at least 80% of total gross revenues originated from exports. According to the Ministry of Economy, Brazil had, in 2020, 16 “authorized” and [...] in effective implementation process” EPZs.<sup>19</sup> However, although created more than ten years ago, most EPZs in Brazil are not fully operational. Just one of them seems to have significant and operational investments. The exports (and consequently competitiveness) requirements probably explain why most EPZs in Brazil, though formally created, are not operational.

Box 4 shows that there are several legislative proposals aiming at creating new free trade zones inspired in the ZFM or dealing with the creation or the expansion of the FTAs of the northern region of Brazil. The proposals in process indicated in box 4 refer to 2018.

**Box 4: Legislative proposals in process in 2018 aiming at creating free trade zones or FTAs**

Proposal (note 1)	Description	Federative unit the congressmen or senators come from
Proposal to amend the Constitution 19/2011	Creates a free trade zone around the municipality of Cajazeiras, in the state of Paraíba.	Paraíba
Legislative Proposal (Senate) 319/2015	Creates a free trade zone in São Luís, in the state of Maranhão.	Maranhão
Legislative Proposal (Senate) 90/2017	Creates a free trade zone in the state of Espírito Santo.	Espírito Santo
Legislative Proposal (Senate) 184/2017	Creates FTAs in Assis Brasil, Capixaba, Plácido de Castro e Santa Rosa do Purus, all in the state of Acre.	Acre
Legislative Proposal (Senate) 143/2010	Creates a FTA under special fiscal regime in Santarém, in the state of Pará.	Pará
Legislative Proposal (Senate) 25/2016	Includes in Macapa and Santana FTA the borderline municipalities of the state of Amapá.	Amapá
Legislative Proposal (Senate) 351/2017	Creates FTAs in Pimenteiras do Oeste, Costa Marques and Cabixi, all in the state of Rondônia.	Rondônia

Source: elaborated by the author.

As shown, in all cases, the potentially benefited municipalities belong to the same state the proposing congressmen or senators come from

The case of the EPZs highlights the relationship between the executive and the legislative power in defining the geographical coverage of the regional development policies in Brazil. According to Law 11508/2007, the National EPZs Council is entitled to analyze the proposals of creation of new initiatives. As a result, EPZ are created by a decree of the executive power, and not by law. Even though, there are several legislative proposals aiming at “authorizing the executive power” to create new EPZs. Legislative Proposal 3978/2015, for example, authorizes the executive power to create an EPZ in São João da Barra, in the state of Rio de Janeiro. Legislative Proposal 5883/2016 amends Law 11508/2007 in order to allow the creation of new EPZs by law (and not only

<sup>19</sup> Retrieved April 27 2020 from <https://cutt.ly/fyshmKB>.

by decree) and creates a new one in Passo Fundo, in the state of Rio Grande do Sul. In virtually all cases congressmen or senators focus their own regions.

In spite of the large number of legislative proposals aiming at creating new SEZs (free trade zones, FTAs or EPZs), these proposals are hardly enacted. Some of the obstacles are:

Possible restrictions imposed by the Southern Cone Common Market (Mercosur) to the creation of new free trade zones. Those restrictions can be easily extended to the FTAs.

Tax expenditures associated to SEZs can be significant and can affect the budget, especially in contexts of fiscal crises. For example, in the case of the ZFM and of the FTAs, tax expenditures are estimated in BRL 24.25 billion in 2018.

According to the Federal Constitution, new tax expenditures require some sort of compensation measure (increases in tax collection or reduction of other expenditures). A similar command is given by the so called "Fiscal Responsibility Law". However, most proposals aiming at creating new SEZs lack cost estimations or measures of compensation.

The creation of new SEZs tends to increase the competition among these zones for investments. Besides, as SEZs are limited to relatively small spaces, usually inside a given municipality, surrounding municipalities tend to become less attractive to investments. This kind of competition increases the political resistance to the creation of new zones.

In the case of the EPZs, the proposals that just authorize the executive power to create them have been considered unconstitutional.

### Concluding remarks

In this paper, we analyzed the geographical coverage of the regional development policies adopted in Brazil. In particular, we evaluated to what extent the current legal landmark and the legislative proposals still in process focus on the regions that present aggregate indicators below the national average. After a brief discussion about the concept of regional development policy, we circumscribed the analysis to the exogenous policies implemented by the federal government in subnational jurisdictions.

The empirical analysis focused on the superintendences for regional development, the constitutional financing funds and the special economic zones such as the Manaus Free Trade Zone. Although the Brazilian Regional Development Policy establishes criteria based upon income and GPD growth to guide the distribution of resources directed to the initiatives aimed at reducing regional inequalities, it has been shown that the geographical coverage of the instruments is established on an *ad hoc* basis, since there is no constitutional or legal criterion to establish the priority regions. Even though, the regional development policies currently adopted in Brazil usually focus on regions marked by lower levels of per capita income. The exception is the Central-Western region, which presents indicators above the national level and yet counts on a superintendence for regional development, a constitutional financing fund and a development fund.

The analysis of the legislative proposals concerning regional development policies showed that there is a strong correlation between the region intended to be benefited and the federative unit the congressmen or senators come from. This conclusion applies to all instruments discussed in this paper, and the analysis of the legislative proposals concerning regional development policies in Brazil indicates that the new initiatives focus on: *i*) the expansion of the geographical coverage of the superintendence for regional development of the Northeast (*Sudene*) towards the Southeastern region of Brazil; and *ii*) the creation of new special economic zones inspired in the Manaus Free Trade Zone. These results show that, in the absence of a constitutional or legal criterion to establish the priority regions, congressmen and senators have an incentive to try to benefit their voter bases, even if the potentially benefited regions present indicators above the national average. On the other hand, the limited coverage of the legislative proposals reduces their capacity of mobilizing other congressmen or senators and, as a result, reduces their chances of being approved and enacted. This perception is in line with the results obtained by Bouvet and Dall'Erba (2010), even considering that in the case of the European Union the presence of objective criteria tends to inhibit the allocation of resources in regions that should not, in principle, be the target of the regional development policies.

In Brazil, the lower levels of coordination of the actions may be credited to a kind of "unbalance" already highlighted in a previous analysis of the PNDR published back in 2011 (Brasil, 2011). In fact, specific instruments (as the constitutional financing funds or the Manaus Free Trade Zone) are mentioned in the constitution, whereas the superintendences for regional development (which, at least theoretically, would play a more structuring role) are mentioned only in the laws

concerning them. The coordination of all instruments would be performed by the *PNDR*, which is not even a law, but a decree. As a result, in the absence of a coordination instrument hierarchal placed above the specific instruments, the regional development policies tend to move away from the economic criteria that would originally justify them. On the edge, it might turn the regional development policies in a “zero sum game”, if all regions – and therefore no region – are to be benefited.

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