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Is Brazil Actually Ready to be a World Economic Power?

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Brazil, a large and populous country, is blessed with an abundance of natural resources and long-standing ties and traditions to Europe; it is seen as a leader among the nations of the South American continent. Brazil's ascendancy into the world's diplomatic and economic leadership circles has been fueled by an amazing ten-year span of economic growth, backed by sound government budgeting and responsible social programs to improve its citizens' quality of life. It is worth examining though, to ensure that this success has laid a foundation for continued, sustained growth or will it represent a brief moment of glory; with Brazil destined to lapse back into the mediocrity of a developing nation, saddled by crushing poverty, unequal income distribution, crime, and corruption? The question remains, is Brazil actually ready to be a world economic leader? In order to answer the question, this paper will review Brazil's growth over the past ten years, examine relevant economic indicators, and analyze problem areas that may inhibit or derail future, sustainable progress.

Ten Years of Growth and Rising Influence

Brazil's economic progress since 2000 has been nothing less than spectacular. In 2001, Goldman Sachs analyst Jim O'Neill grouped the four emerging markets with the most potential for future impact on the world economy, coined the BRICs (Brazil, Russia, India, and China). This designation was a prescient forecast, as these countries have been an influence in all the world markets.[1]

Brazil deserves credit for achieving a vast and diverse industry base across economic sectors. Its 2009 $2 trillion GDP was balanced between farming and ranching, manufacturing, and service sectors. First, the country's geography provides proven and numerous mineral deposits, ample oil and natural gas field, rivers for hydroelectric power, as well as enormous forests capable of a sustainable timber industry. It is noteworthy that by 2006, Brazil had achieved oil self-sufficiency. Farming and cattle ranching across its fertile fields and pastures provide 27% of GDP. Brazil's manufacturing ranges from automobiles, steel and petrochemicals to computers, aircraft, and consumer durables, yielding 27% of GDP. Finally, a sophisticated services industry accounts for the remaining 45% of GDP.[2]

Brazil's balance of trade is spread globally, reaching markets on every continent and therefore insulated from regional market fluctuations. Of Brazil's exports, totaling $153 billion in 2009, the top five recipients were: China (10.2%), USA (10.2%), Argentina (8.4%), Holland (5.3%), and Germany (4%). Imports, valued at $127 billion, are equitably balanced between the USA (15.7%), China (12.5%), Argentina (8.8%), Germany (7.7%) and Japan (4.2%).[3]

By one noteworthy and tangible measure, Brazil's fiscal standing has completed a 180 degree turnaround – from an International Monetary Fund (IMF) debtor to creditor. In 2002, Brazil took out the then-largest IMF loan of $15.5

1. Beth Kowitt, "For Mr. BRIC, nations meeting a milestone," Fortune, http://money.cnn.com/2009/06/17/news/economy/goldman_sachs_jim_oneill_interview.fortune/index.htm (accessed April 15, 2011).
2. Government of Brazil, Porto Brasil: Economic Sectors, http://www.brasil.gov.br/sobre/economy/economy-sectors/agriculture-and-cattle-raising-agropecuaria (accessed April 16, 2011); Wikipedia, Industry in Brazil, http://en.wikipedia.org/wiki/Industry_in_Brazil#Brazilian_industrial_sector (accessed April 16, 2011).
3. Pansy Sheridan Wilson, "Brazil's Trade Results and Top Trading Partners in 2009," Ezine Articles, http://EzineArticles.com/3887870 (accessed April 16, 2011).

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billion, reaffirming its status as merely a developing nation. However, it repaid the loan early in 2005, followed by becoming an IMF creditor, buying $10 billion of IMF Special Drawing Rights, the basket of world currencies used as a reserve hedge against currency fluctuation in October 2009.[4] In 2008, two ratings agencies awarded investment grade status to Brazil's debt, cementing its status as a steady and balanced economy.[5]

Buoyed by this economic growth and stability, Brazil has capitalized its newfound status by expanding its diplomatic influence both regionally and globally. With Brazil traditionally acknowledged as the leading South American power, during his Presidency, Luiz Inaco Lula da Silva became the driving force behind the creation of several South American diplomatic and economic groups: the South American Defense Council, South American Summits, and the Union of South American Nations (UNASUR).[6] On the global scene, Brazil, a founding member of the United Nations, is currently serving its tenth, non-consecutive temporary appointment to the UN Security Council and is actively building support for a permanent seat under UNSC reform.[7]

The world community has recognized Brazil's accomplishments by awarding it both the 2014 World Cup and 2016 Olympic Games. These acknowledgments, as designated previously to Japan 1964, Korea 1988, China 2008, and South Africa in 2010, reflect world recognition of Brazil as an up and coming state and provides a source of great national pride to the Brazilian people for their collective efforts.

Economic Indicators & Government Policy

Brazil has developed into an economic force, fueled by diversified growth across all sectors. According to the CIA World Factbook estimates for 2010, Brazil's GDP is just over $2 trillion, growing at 7.5%, the 18th largest in the world. It's GDP per capita is only $10,900, ranking 104th; however, this figure is repressed by a 200+ million population, segregated into urban and rural components. Unemployment steadily decreased throughout the 2000s to 8.1% in 2009.[8] Inflation, always a chief concern, is also under control. In the late 1980s and into the 1990s, Brazil suffered through a period of hyperinflation. Since 2000, it has seen periods of 7% inflation, followed by a post-9/11 spike into the 14-16% range. Before the global recession in 2008, inflation had steadied around 5% and is currently just under 6.5%.[9] The macroeconomic benchmarks all point to Brazil operating in a sustainable growth environment.

Heartened by this economic success, the quality of life for Brazilian citizens has significantly improved. Marcel Fortuna Biato, a distinguished Brazilian diplomat, attributes this to two initiatives: "[T]he first was the continuous improvement in the public sector's fiscal health, thanks to the taming of double-digit inflation and macroeconomic prudence. The other was a willingness to allocate a growing proportion of the state's 35% stake of GDP to raising the minimum wage, the institution of universal health care and other income transference policies, such as the now well-known Family Allowance Program (Bolsa Família)."[10] These improvements are backed up by analysis done by the World Bank. Using 2009 data: literacy is at 90%, an increase from 86% in 2000 and 75% in 1980; life expectancy is 73 years, up from 70.2 in 2000 and 62.5 in 1980; and poverty, measured as the percentage of the population living below the national poverty line, is 21%, down from 35% in 2000.[11] By almost every measure, Brazil has succeeded in the transition from a developing state to emerging market by investing in its people through education, health and other social programs. It is a formula other third-world nations should pursue.

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4. United Press International, "Brazil campaigning for permanent U.N. Security Council seat," http://www.upi.com/Top_News/Special/2009/10/16/Brazil-campaigning-for-permanent-UN-Security-Council-seat/UPI-71131255711794/ (accessed April 15, 2011); BBC News, "Brazil to pay off IMF debts early," http://news.bbc.co.uk/2/hi/business/4527438.stm (accessed April 15, 2011).
5. Central Intelligence Agency, *The World Factbook*, https://www.cia.gov/library/publications/the-world-factbook/geos/br.html (accessed April 16, 2011).
6. Andres Oppenheimer, "Commentary: Brazil take place as Latin America leader," *The Miami Herald*, http://www.mcclatchydc.com/2009/03/13/63848/commentary-brazil-take-place-as.html#ixzz1Jh7IGcdS (accessed April 16, 2011).
7. United Press International, "Brazil campaigning for permanent U.N. Security Council seat," http://www.upi.com/Top_News/Special/2009/10/16/Brazil-campaigning-for-permanent-UN-Security-Council-seat/UPI-71131255711794/ (accessed April 15, 2011).
8. Central Intelligence Agency, *The World Factbook*.
9. Trading Economics, Brazil Inflation Rate, http://www.tradingeconomics.com/Economics/Inflation-CPI.aspx?Symbol=BRL (accessed April 16, 2011).
10. Marcel Fortuna Biato, "Brazil as a Role Model for Latin America (Part IV)," *The Globalist*, http://www.theglobalist.com/storyid.aspx?StoryId=8030 (accessed April 15, 2011).
11. The World Bank, Data, http://data.worldbank.org/country/brazil (accessed April 15, 2011).

Sound decisions by Brazil's legislative and executive branches of government have enabled the federal government to maintain a budget surplus between 1 and 2% since 2000, due to strict adherence to three complementary laws: the: Pluriannual Plan (PPA), the Budget Guidelines Law (LDO), and the Annual Budget Law (LOA). These three laws must also comply with a fourth document, The Tax Liability Law (TTL). Created in 2000, the TTL:

> *"…established new responsibilities for the mayors, governors and also for the President. These responsibilities include limiting the payroll expenditures, prohibiting the creation of a new continuous expense without the existence of a new source of income, making impossible the increase of personnel wages 180 days prior to a new election and prohibiting the generation of expenses that do not comply with the budget."* [12]

This admirable structure and oversight should be emulated by other countries.

Problem Areas

Despite disciplined government policy and a booming economy, Brazil has not yet solved all its problems and still faces considerable social ills. The government and the people continue to struggle with dismal poverty, soaring crime, limited infrastructure to facilitate future growth, and a novice capability in handling trade disputes. First, despite reducing the percentage of the population subsisting below the poverty line, a significant portion of the population lives in isolated rural villages or urban 'favelas.'[13] Estimates of more than 36 million live in these vast urban slums or shanty towns, on the outskirts of Brazil's metropolises, without access to clean water, electricity or sustainable housing.[14] Second, an analysis conducted by the Library of Congress states, "the skewed distribution of income in Brazil, one of the most unequal in the world, may be partially responsible for an endemic and increasing problem of nonpolitical crime."[15] Roberto Ramos, CEO of The Vio Collective, attributes the high crime rate to "violence wrought by drugs."[16] The U.S. State Department issues caution to Americans visiting Brazil, noting: "…crime throughout Brazil has reached very high levels. Brazil's murder rate is more than four times higher than that of the U.S."[17] Next, Mr. Biato summarizes the current status of Brazilian infrastructure:

> *"The dearth of transport, communications and energy links goes a long way to explaining the region's long history of economic fragmentation and meager trade. Even today, Latin America has nowhere as dense an infrastructure grid as that enjoyed by the United States or Western Europe in the mid-19th century."*[18]

While the award of both the World Cup and the Olympic Games provided the impetus for massive infrastructure improvements, many of which will have use after the competitions, these plans may prove too ambitious for the Brazilian government. Legal, business and labor entities still need to be overcome in order to ensure construction is completed on time. Instead, these events may yet end up providing a 'black eye' for the government and the people collectively. According to a Reuters investigation, the more than $1 trillion in construction projects:

> *"…now seem likely to fall well short of President Dilma Rousseff's ambitions. Numerous high-profile projects are falling victim to a long list of problems including endemic corruption, red tape, insufficient funds and – above all – a glaring lack of leadership and know-how."* [19]

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12. Trading Economics, Brazil Government Budget, http://www.tradingeconomics.com/Economics/Government-Budget.aspx?Symbol=BRL (accessed April 15, 2011); Federal Government of Brazil, "Porto Brasil: Federal Government Budget," http://www.brasil.gov.br/sobre/brazil/government/federal-government-budget-1/br_model1?set_language=en (accessed April 15, 2011).
13. Wikipedia, "Favela," http://en.wikipedia.org/wiki/Favela (accessed April 15, 2011).
14. Gary Duffy, "Lula promises change for Brazil's slums," BBC News, http://news.bbc.co.uk/2/hi/americas/7122250.stm (accessed April 15, 2011).
15. Library of Congress, Federal Research Division Country Study Series, http://www.country-data.com/cgi-bin/query/r-1810.html (accessed April 16, 2011).
16. Roberto Ramos, "Brazil Gets Tough on Crime and Wins Another Round," http://www.huffingtonpost.com/roberto-ramos/brazil-gets-tough-on-crim_b_789534.html (accessed April 16, 2011).
17. U.S. Department of State, Brazil - Country Specific Information, http://travel.state.gov/travel/cis_pa_tw/cis/cis_1072.html#crime (accessed April 16, 2011).
18. Biato, "Brazil as a Role Model"
19. Brian Winters, "Special Report: Brazil's Olympic push isn't winning any medals," Reuters, http://us.mobile.reuters.com/article/businessNews/idUSTRE72Q18820110327 (accessed April 15, 2011).

The investigators also note that these shortfalls are not limited to President Rousseff's critics.

> *"Paulo Resende, one of the country's top independent infrastructure experts, pleads with world investors to stop treating Brazil like an inevitable success story. He says the government's current projections are 'totally unrealistic' and estimates that fewer than half of the planned works will be completed on time."* [20]

While poverty, crime, corruption and inefficient government institutions are not exclusive to Brazil, in order to be considered among the top-tier of developed nations, it must redouble its efforts to combat these social ills and strengthen the effectiveness of its governmental bodies.

Finally, the government of Brazil has recently shown its limited skills in dealing with international trade disputes. Upset by what they perceive as continued Chinese currency manipulation, "prompted Brazil's finance minister, Guido Mantega, to complain in October 2010, that his country was a potential casualty of a 'currency war.'"[21] Apparently unable to counter the effect on Brazilian goods of what the Brazilian's identify as an undervalued Chinese Renminbi, on the eve of the April 2011 BRIC session in China, President Rousseff announced the application of "import tariffs on specific goods from China and the United States, the latest measures to help stem a flood of cheap imports that is eroding the country's trade balance."[22] Applying new tariffs is not a lasting solution, merely a knee-jerk reaction that stifles trade between nations and further globalization. Critics also lash back at President Rousseff, claiming, "…a rising tax burden and low productivity at home are equally to blame for the falling competitiveness of Latin America's largest economy"[23] If Brazil desires to be among the world's economic leaders, it should work to create lasting solutions, not resort to retaliatory measures.

Summary

Is Brazil ready to be a world economic leader? The answer is an unequivocal yes. The economic growth has been assisted by responsible balanced government budgets, targeted social programs, heavily weighted towards education and health care. With an educated populace, diversified industries and using its natural resources in appropriate and self-sustaining manners will only accelerate continued growth. Brazil is providing vital leadership and example to the entire Latin America sphere of influence, as well as the other BRICs and aspiring developing nations.

Problems remain to be solved and control maintained to ensure they do not dilute the positive economic growth. Crime, transnational drug trafficking, and corruption can divert resources into illegal activities and disturb the operation and purity of government institutions, affecting all other aspects of Brazilian society. Extreme poverty still plagues a significant portion of the population. As the economy grows, additional tax revenue should be added to the proven education and health care programs to continue chipping away at this marginalized group.

Notwithstanding, Jurandir Fernandes, the Brazilian Transportation Secretary, puts his country's growth and development in perspective. Speaking about the vast infrastructure projects, he remarked: "Brazil is a democracy…. we may not move as fast as China. Yet we're growing in ways that we never have before. In the end, isn't that what matters?"[24] The future looks promising for the country and citizens of Brazil.

20. Ibid.
21. *The Economist*, "The Big Mac Index: An indigestible problem," http://www.economist.com/node/17257797?story_id=17257797 (accessed April 16, 2011).
22. Reuters, "Brazil Adopts China Import Tariff on eve of Visit," http://www.reuters.com/assets/print?aid=USN0516532720110405 (accessed April 16, 2011).
23. Ibid.

24 Brian Winters, "Special Report."