The demonstrations are a wake-up call for Brazil's political leaders



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In an interview here two years ago, Dr. Roett warned of pitfalls ahead for the Brazilian economy. A former national president of the Latin American Studies Association who is fluent in both Portuguese and Spanish, he is a recognized expert on the region and published *The New Brazil in 2010, two years after he edited China's Expansion into the Western Hemisphere*. Earlier, for his work on Brazil he was awarded the Order of Rio Branco with the rank of Commander. In the wide-ranging interview recorded here, he touches not only on Brazil's current economic difficulties but also on its evolving relationships with other emerging nations—and with its own people. He underlines the need to consolidate democratic governance, and raise competitiveness through investment in education and health to create the human capital required for a global economy.

***The Brazilian Economy*—You're very knowledgeable about the entire region and well beyond. What might Brazil learn from neighbors like Mexico or Chile?**

Roett—Mexico has recently undertaken important reforms in the areas of education and telecommunications. The Congress is about to consider changes in energy policy. Under President Enrique Peña Nieto of the PRI, the Mexican Congress has become a positive force for change. In Chile, careful and prudential fiscal management and the creation of Pension Reserve and Social and Economic Stabilization Funds from copper earnings to deal with downturns in the economy have added stability to the economy. These sorts of initiatives are important and might be useful examples for Brazilian policymakers to consider.

Since Brazil doesn't save much, its economic growth depends desperately on foreign investment. Yet a former finance minister recently told us that "the government has frightened off entrepreneurs." Would you agree?

Investors, who are by nature risk-averse, have moved away from Brazil. Inflation is

a worry. Growth is disappointing. Labor laws are overly rigid. The tax code is incomprehensible. Local content requirements [for companies to hire and buy parts locally] are counter-productive. The education system does not produce the talent a modern economy needs but it is very difficult for foreign talent to enter Brazil because of the bias against granting work visas. All these problems should be of high priority in Brasilia.

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How well and how effectively do you think the BRICs can work together now that each of them has economic troubles of its own?

The BRICS concept is a symbol of the future of the global economy. The developing economies over time will have an increasingly important role but all the BRICS need to carry out significant structural reforms before they can challenge the industrial countries. Brazilian growth is anemic. The Indian economy is in free fall. Russia relies on energy exports alone and is increasingly authoritarian. China remains an enigma. While growth in China is reasonable, the debate, annually, is whether or not the regime can deal with the expectations of a rapidly growing middle class. South Africa, a political addition to the concept, is probably not best suited to join the other four given the relative size of its economy and its internal social divisions. No one would argue that the BRICS will replace the U.S. and the EU in the immediate future. But the natural resource base, large populations and territory, will give them an expanding role in the global economy over time.

What does U.S. exploitation of its shale gas imply for the Brazilian oil industry?

Just a few years ago there was an expectation that Brazilian oil reserves might become important for the U.S. market. President Obama in his visit to Brazil in 2011 commented that the two countries should become energy partners. The scenario has now changed dramatically with the shale gas revolution in the U.S. The dependence of the U.S. on foreign oil supplies is dropping rapidly. Geopolitically, Washington sees this as a very welcome development that over time should allow the U.S. to reduce its dependence on a volatile Venezuela and countries like Saudi Arabia. Mexico may become a major player if the proposed energy reforms are approved by the Mexican Congress. Canada continues

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to be a key supplier to the U.S. market. The slow pace of exploitation of the deep sea oil fields in Brazil probably means that an energy partnership between Brazil and the U.S. is a fairly distant prospect.

When the government allows entrepreneurship in the public sector to flourish, Brazil is as competitive as any developing country.

In *The New Brazil*, you said that Brazil needed, among other things, a restructured tax system, a more flexible labor market, and more—and more effective—education spending, especially in math and science. Do you see any signs of any political will in Brasilia to actually slash the Brazil cost?

Not really. The Brazilian Congress appears immune to any reasonable argument that Brazil will only become truly competitive and productive if it approves major structural reforms. The World Economic Forum's annual *Global Competitiveness Report* ranks Brazil near the bottom in terms of public education, competence in math and science, etc. In the latest report, which ranked 144 countries, Brazil was 132 in the quality of math and science education. The problem in part is that legislators in Brasilia send their children to private primary and secondary schools; that prepare them to pass the entrance examination for public universities—the vestibular. The public universities are very good and they are generally free of charge. Poorer children must attend mediocre public schools and are unable to pass the entrance exams of public universities. If they go to a university, it is an inferior private institution that is expensive.

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Brazil does not have a comprehensive technical and vocational education program. Those who graduate from the public universities are highly competent but there are too few for the size of the economy—and public university graduates are not going to run machines or perform the manual jobs the economy needs day to day. A year or so ago the *Financial Times* reported on a frustrated engineer on one of the oil rigs in the southeast who could not find welders. He turned one day to the woman serving coffee and asked her if she would like to become a welder. She asked if it paid more than her current job. It did indeed. She is now a welder. Companies are desperate for the trained technical staff that the education system is incapable of providing for industry.

The Brazil Cost is well known. The cost of doing business in Brazil is very high. In the World Economic Forum's latest report the most problematic factors for doing business in Brazil were listed as tax regulations; inadequate infrastructure (only 16 percent of Brazilian roads are paved); tax rates; inefficient government bureaucracy;

corruption; an inadequately educated work force; and restrictive labor regulations. All these issues have been on the agenda for decades but politicians in Brasilia seem unable to find the political will to address the country's vital developmental challenges.

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Despite much talk, nothing substantive has yet changed as a result of the street demonstrations in June. How effective do you think they'll be?

The protests and demonstrations are a wake-up call for Brazil's political leaders. The average citizen is frustrated with miserable public health care, impossible public transportation bottlenecks, high taxes that bring them little in return. The situation is more complicated because the new lower middle class is now beginning to demand the kind of services that the traditional middle class has not received. Both groups are tired of corruption in Brasilia. When individuals are tried and convicted, why do they not go to jail? The high cost of the infrastructure for the soccer finals in 2014 and the Olympics in 2016 is being questioned—if there is money for those projects, why are hospitals and schools inferior? Civil society has been energized by social media. Information spreads quickly. Brazil has an impressive record of investigative journalism. It will be impossible for the political elite to play politics as usual in the future.

What Brazilian government programs do you think have been effective? Which ones have not?

Clearly *Bolsa Familia* (the Family Grant program) has been very successful in reducing poverty and bringing tens of millions of Brazilian into the national economy. What the politicians did not consider was the heightened expectations for social services of newly empowered Brazilians. There now needs to be a balancing of the positive consequences of the program and the need to address those expectations. EMBRAPA (The Brazilian Agricultural Research Corporation) has been extraordinarily important to Brazil's agricultural revolution that has allowed the country to be a very efficient producer of a wide variety of commodities for export. EMBRAPA has a network of 37 research centers, 3 service centers, and 11 central divisions across the country. Over the years, it has generated and recommended more than 9,000 technologies for Brazilian agriculture. EMBRAER, the Brazilian aerospace conglomerate, is a world-class producer of commercial, military and executive aircraft—a global player in the industry. When the government allows entrepreneurship in the public sector to flourish, Brazil is as competitive as any developing country. When it interferes through overregulation, high taxes, and poor public services, it is difficult to be competitive. These exam-

ples demonstrate that the talent and the will to change are alive and well in Brazil as long as the public sector supports, rather than hinders, innovation.

How do you view the political situation in Brazil?

It's very uncertain. Clearly the average Brazilian rejects the current political class. Polls now demonstrate that the public is very frustrated with the inability of the politicians in Brasilia to govern effectively in the public interests. Constant corruption scandals magnify the problem. Impunity reigns among the politicians. They confuse their public duties with their private interests. It is well known that the political party system, one of the most confusing in the world, needs to be changed. But, of course, that means the Congress would need to do something. There is little possibility of meaningful reform since the interests of the legislature will be compromised. It is widely recognized that the judicial system is unwieldy, inefficient, and incoherent, but there is little political will for reform.

If the economic issues are seen as serious problems in 2014, it is not impossible to imagine the various "oppositions" being able to challenge President Rousseff, particularly if the election goes to a second round.

The president's popularity sank during the demonstrations. Do you see any possible challengers emerging for the elections next year?

The conventional wisdom, in spite of the recent demonstrations, is that President Rousseff will win a second term, probably in a second round run-off in 2014. But there are other scenarios. Former President Lula may sense that President Rousseff is not electable and choose to stand as the PT candidate. Senator Marina Silva is organizing a new political party and current polls indicate she is in second place and closing in on President Rousseff. Other contenders so far seem to be far behind the two women. If the economic issues—unemployment, low growth and inflation in particular—are seen as serious problems in 2014, it is not impossible to imagine the various "oppositions" being able to challenge President Rousseff, particularly if the election goes to a second round.