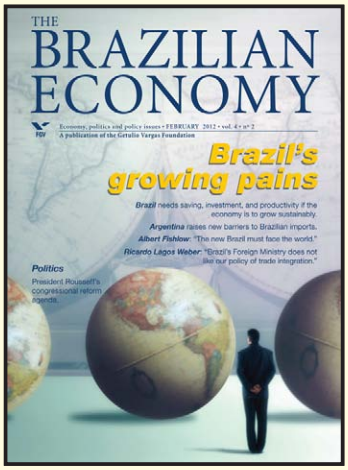
EXTERNAL SECTOR
External ripple effect

Claudio Accioli

WHEN THEN-PRESIDENT LULA declared that the severe financial crisis that swept the world in 2008 would come to Brazil as a "small wave," he reflected the feeling of a country that had expanded its international economic presence over the past 20 years but still was not recognized as an integral part of a world whose transformations are crucial to its future.



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Sebastião do Rego Barros, former Brazilian Ambassador to Argentina and chairman of the IBRE Advisory Board, points out that if the effects of the 2008 crisis were indeed not felt much at home, they also cannot be ignored. "It was a disastrous event for much of the world, which was having a period of unprecedented growth. Brazil was taking advantage of these favorable winds when it faced the crisis . . . . But I think we weathered the crisis fairly well. We are not Switzerland, but we achieved some stability," Barros says.

EXTRA MONEY

Armando Castelar, IBRE coordinator of applied economics, highlights that in the last two decades, the dynamics of the Brazilian economy were influenced by a world that has become particularly "busy," especially with the dramatic increase in the speed and amount of capital flows between countries. In Castelar's opinion, though, at the same time the frequency and the virulence of international crises also increased. "Since at least Japan's crisis in early 1990, speculative asset bubbles have been moving from one country to another, bringing about boom periods followed by disasters that take time to be resolved, because they involve both financial systems and households," Castelar explains.

In the last two decades Brazil has endured a variety of international crises. "We had the Mexican crisis in late 1994; the Asian in 1997; the Russian in 1998; our own currency crisis in 1999, which caused significant capital outflows and a fall in reserves; the Argentinean, in 2001; and finally, the global crisis in 2008, resulting from a credit bubble that started in the United States and then spread over the Euro region."

For the Brazilian economy, the main change observed in this period was the way the external crisis affected the country. Before, says Castelar, because the government was a net borrower in U.S. dollars and its domestic bonds were linked to the U.S. dollar, any international

crisis resulted in a steep exchange rate depreciation, followed by increases in domestic interest rates and rash fiscal adjustments to keep public debt solvent.

That began to change in late 2002 and early 2003 with the increase of prices for export commodities that enabled Brazil to achieve large trade balance surpluses and build up its international reserves—which increased by more than ten times, reaching US$352 billion in 2011. "That's not to say that Brazil is immune to crises forever. The reserves make a difference because they give some security to foreign investors that Brazil will in the short term have cash to pay its debts in dollars," says Castelar.

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SEBASTIÃO DO REGO BARROS

REVAMPED IMAGE

Ambassador Barros notes that the period of economic recovery from the early 2000s until the 2008 crisis coincided with the improvement of Brazil's image among its peers. "Not only has the presence but also the reputation of Brazil in the international arena greatly improved compared to the 1980s and early1990s. At that time, we were ending 20 years of military rule, and then we plunged into a period of great economic instability and rampant inflation. During the Cardoso and Lula administrations (1995–2010), the country became more organized and predictable. I would say that Brazil got on the right path of human rights; political, economic, and legal stability; better income distribution; and concern for the environment."

Besides good economic performance, Barros credits the improvement in Brazil's international status to the diplomatic skills of the two former presidents, Cardoso and Lula. "We are a country that enjoys good relations without facing major problems with neighbors or trading partners," he said.

Despite progress, however, Barros believes that Brazil still has a long road ahead if it is to occupy a prominent position on the world stage: "We must not only maintain domestic stability but also move toward the technological frontier, increasing the added value of our products. For this, we have to address major structural issues that prevent us from joining the modern world, such as education, infrastructure, the so-called Brazil cost, and reducing the inefficiency caused by the bureaucracy."