

# Caution: Pitfalls ahead for the Brazilian economy



Foto: Blom Maybury-Lewis

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Riordan Roett is a political scientist specializing in Latin America and former national president of the Latin American Studies Association. Fluent in Portuguese and Spanish, he is a recognized specialist on Brazilian, Mercosur, and Mexican issues. In 2001 the president of Brazil named Dr. Roett to the Order of Rio Branco. His most recent book is *The New Brazil* (Brookings Institution: 2010). In this interview Dr. Roett deals briskly with the differences between the Lula and Rouseff administrations, concerns about Brazilian de-industrialization, Brazil's relationships with India, China's relations with other developing regions, the Belo Monte project, and the interplay of politics and economics in Brazil. He points out, for instance, that no matter what the administration decides, "there are so many veto players in Congress" that making either political or economic changes is very difficult.

*The Brazilian Economy* — Earlier this year you wrote that "good luck is as important as good policies." What trends do you see as being lucky for Rouseff? What about unlucky?

Riordan Roett — The situation is very different from what it was under Lula. During the global crisis Lula's stimulus to the economy was appropriate, but then it was continued and used for pre-election spending. Dilma now has to deal with the fiscal consequences. Currency appreciation is severe, and there's a lot of action from the carry trade — speculators borrowing elsewhere at lower rates so they can make a quick buck from higher rates in Brazil. Right now, Dilma is looking unlucky.

**In what ways do you think Rouseff is creating a presidency that is different from Lula's?**

Dilma is not powerful in her own party, the PT [Workers Party]; Lula is the PT. That makes a big difference. She has to learn how to manage Congress, too, which is hungry for jobs. Meanwhile, she is taking a stronger stand in favor of human rights and against corruption.

Fernando Henrique Cardoso recently said that “the old protectionist mindset is not easy to change.” He also said that “the average Brazilian still believes that without state involvement, the economy can’t move ahead.” What do you think of these points?

Keep in mind that there’s considerable animosity between Cardoso’s PSDB [the Brazilian Social Democratic Party] and the PT, so what Cardoso says has to be taken with a grain of salt. Nevertheless, the PT approach is certainly more interventionist than is Cardoso’s party. It seems to be following the China’s model, with a larger state role in the economy.

**There is regular concern in Brazil about de-industrialization. Yet India, whose economic progress is in some ways challenging China’s and is ahead of Brazil’s, seems to be surging because, as an Indian economist puts it, its manufactures are “brain-intensive, not labor-intensive.” Do you agree?**

Brazil definitely has to learn how to add value to its exports. Certainly, it has been slower to promote increases in important skill sets than India. This may have something to do with the differences in colonial history between India and Brazil — differences in British vs. Portuguese domination. Whatever the reason, Brazil’s educational system has major deficiencies. The quality of public education is particularly troublesome. It needs attention desperately.

**Brazil seems to be stuck with coalition governments. Is that a recipe for political instability?**

Commentators and politicians have been talking for decades about what can be done to organize politics differently in Brazil. What model might work best? Should it follow a more German model, for instance?

The big barrier preventing any change is that there are so many veto players in Congress. How likely is it that many of them would sacrifice their own and their party’s interests for the good of the whole? I expect there will continue to be coalition governments for the foreseeable future.

**Why do you think that, in spite of its own and the G-20 proclamations about a larger voice for emerging economies, Brazil voted for a European to run the IMF rather than the Mexican candidate?**

The relationship between Brazil and France has been very close. Take, for instance, the matter of jet fighters. And Sarkozy has made several visits to Brazil.

But, unquestionably, the rivalry of Brazil and Mexico for dominance in the hemisphere was a factor. The rivalry is usually friendly, but it’s still a rivalry — to the point that Brazil emphasizes that

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it's in the southern hemisphere, putting Mexico firmly in the northern. Mexico hasn't been particularly supportive of Brazil getting a seat on the U.N. Security Council, either.

**How do you think the recent U.S. Congress vote doing away with ethanol subsidies will affect Brazil?**

It probably won't have much effect right away, especially with the projections of a poor sugar harvest, but it could have a major effect over the medium term. For one thing, Brazil's sugar-based ethanol is of a much better quality than that of the U.S., which is made from corn.

**With regard to the Bolsa Familia program, one theory is that it was successful because it bypassed states and is managed by municipalities, so it also bypasses corruption, which everybody recognizes to be a major political problem. Do you see any hope that Brazil can clean up corruption?**

Corruption is endemic not only in Brazil but throughout the developing world. However, it seems that Bolsa Familia is indeed relatively corruption-free, and it does seem to be beginning to change federal-municipal relations. The program is relatively cheap, too.

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Brazil has a lot of political and financial capital invested in the Belo Monte hydroelectric project. It's been compared to the Three Gorges dam in China — but Three Gorges right now is having some major problems. Do you think that will have repercussions for Belo Monte?

The situation of Belo Monte is quite different from Three Gorges, but it has raised major concerns,

mainly related to the environment and to indigenous rights. Brazil does not have a good track record for protecting either. The situation is complicated by the fact that the industrial south of Brazil really needs dependable sources of power, and Brazil's economy has a continuing need for growth. Finding the right balance will not be easy.

**The complex relationships of South American countries with China are regularly rehashed. But what about India? In the next few decades both our democracies will benefit from having a much younger population than China, among other things. How do you think this will play out?**

Brazil and India have good relations, as is true to a considerable extent of all the BRICS. But the relationship is not as complex as the relationship with

China. It's true that the complementarities between Brazil and India may be stronger, and there are not as many tensions as in Brazil's relationships with China. But right now there are also not as many opportunities for a more productive relationship.

**Speaking of China, is there anything we can learn — a question you raised in the book you co-edited about China and the Western Hemisphere — from China's relationships with other developing regions like Southeast Asia and Africa?**

In a sense the answer is both yes and no. For instance, Brazil is aware of the asymmetries in China's relationships with African countries. China has found willing partners in African countries, many of which are still run by dictators, but Brazil would certainly not, for instance, sit still and allow tens of thousands of Chinese to "invade" as subcontractors and workers on Chinese investment projects.

Brazil also recognizes the hugely complicated situation China confronts in the South China Sea and the competing claims to various areas, and happily does not have to deal with anything like that. Yet other countries in that area, Vietnam for instance, have trade dependencies

with China that they do not want to jeopardize. In effect, they are dependent but suspicious. In a sense, Brazil may be learning what to avoid as well as what might be useful.

**There's a lot of concern about the Brazilian economy overheating. What's your take?**

There's no question it's overheating. Dilma is clearly worried. But 80% of the budget is earmarked, and it all has to go through Congress, so there's not much room for her to maneuver.

I'm also not sure what weapons Finance Minister Mantega has left to protect the Brazilian economy. It's nice to be popular with investors up to a point, but the new 6% tax has had absolutely no effect on the carry trade. And the administration promised fiscal cuts, but as yet there's no sign of them. The next few months and years are going to be very complicated from the point of view of the economy.

It's a different time and a different crew. The old central bank crew seemed more politically savvy. The Lula administration in general had street smarts. The Rousseff administration seems reluctant to get down and dirty. But Brazil is not run by technicians and the politics have to be dealt with. 