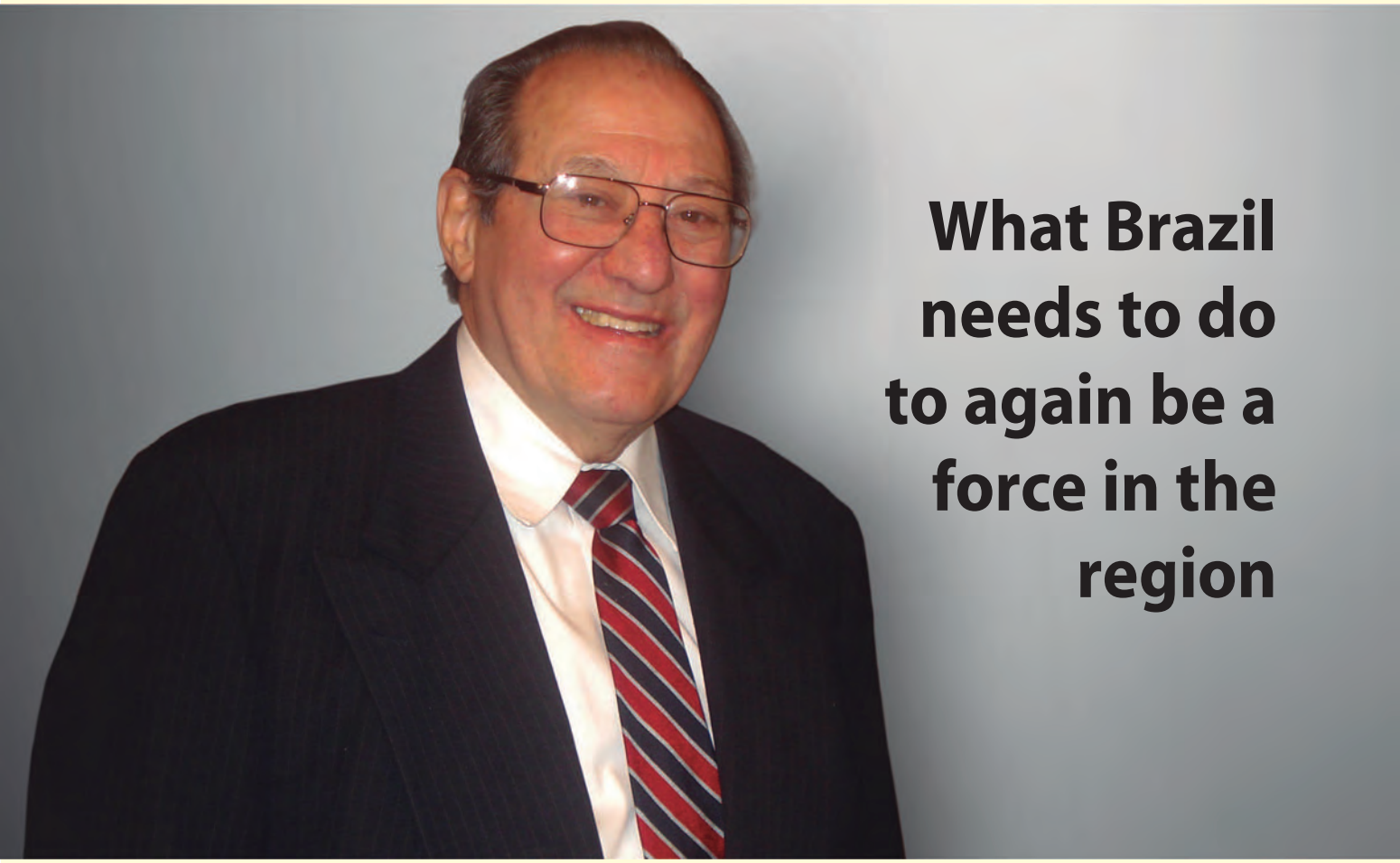
Photo: Mario Ronci



What Brazil needs to do to again be a force in the region

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James Ferrer Jr. is the director and founder of the Center for Latin American Issues (CLAI) at George Washington University. Ferrer earned a PhD in Latin American history from the University of California at Berkeley. Before creating CLAI, he worked for the U.S. Department of State for 30 years, serving as Deputy U.S. Ambassador and Acting Ambassador in Brazil, Alternate US Representative to the United Nations Economic and Social Council, and Director of Economic Affairs at the U.S. Embassy in Lisbon. He believes that Brazil is key to the development and stability of Latin America. He considers Brazilians to be very creative and resourceful, and given the opportunity and the right incentives they would make real progress. He warns, however, that trade protectionism is condemning Brazil to low growth and poverty.

***The Brazilian Economy*—Latin America seems divided between left-wing Chavismo and market-friendly and pro-reform countries like Mexico, Chile, and Colombia. What is your take on the political situation in Latin America and where Brazil fits?**

***James Ferrer Jr.*—**Brazil does not fit nicely in either category. Brazil is really living the extension of its long history of heavy state involvement in the economy and the pro-market reforms since 1995 with President

Fernando Henrique Cardoso and then in many ways reinforced or emphasized in the Lula administration. There is some debate about whether President Rousseff would like to continue the pro-market polices or go back to an earlier phase of state involvement in the economy. I think that is one of the problems that Brazil currently faces in its economic policies. However, Brazil does not fit with either group. Brazil is trying to play its normal diplomatic role, as a mediator that tries to reconcile differences between friends and at the same time to remain friendly with all of them and not alienate any of them.

Brazil reaches out to Venezuela on the left and in a way helps to integrate it into the rest of South America, and of course to Argentina, where Venezuela has its own friendly relationship. But Brazil wants to keep all of them within a spirit of friendship, and that of course limits its ability to influence their policies because to do so Brazil would have to take positions on issues within those countries—which might not strike a friendly chord—and so they resist.

Despite Brazil's efforts to reach out to Venezuela and integrate it into South America, Venezuela seems to be going the wrong way in terms of political freedom and economic policies.

The policies that President Maduro has been implementing, following late President Chavez, will never work in reality. Any effort to make them work will simply bring about stagnation. He is moving more and more toward dictatorial rule against strong domestic opposition and his policies are contributing to the bad economic situation, which reinforces the political deterioration. He has only one future, a dismal future out of office. How that will happen, I don't know. I hope it is peaceful, but I don't give him much time in office.

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Is the winding down of the commodities boom contributing to Chavismo running out of steam?

Yes, low oil prices in particular are undoubtedly taking away resources that Maduro had been wasting in support of ill-advised policies. But more important is that the domestic economy is breaking down. The shortages of eggs, milk, and other products are symptoms of bad economic policies that are causing a deterioration of economic activity and productivity, and that means the livelihoods of people are deteriorating as time goes by. Electric power shortages now happen almost every day in some part of the country. There is a lack of investment, and there is no prospect that investment will increase under this government. These situations always tend to get very bad before they are resolved.

Do you think other left-leaning countries in Latin America like Bolivia and Peru are learning from Venezuela's experience?

Brazil is trying to play its normal diplomatic role, as a mediator that tries to reconcile differences between friends and at the same time to remain friendly with all of them and not alienate any of them.

In Peru President Ollanta Humala when campaigning was very leftist but when he took office, he moved to the center, and Peru has been doing relatively well. Even Bolivia, which I expected was going to be a disaster, is avoiding it because President Evo Morales is being very careful in how he makes contracts for natural resources exports. Bolivians are producing, they are exporting, and they are earning enough to maintain the economy. I give him credit for that and I suspect that he may have learned a bit from Venezuela. I hope Argentina will learn a little more.

In Argentina there is a difficult economic situation aggravated by investigations of alleged involvement of government officials in covering up a foreign terror attack. How do you see this situation?

Cristina Kirchner cannot run for reelection; she is presumably leaving office at the end of this year. I think she is leaving under rather negative circumstances, and this prosecution case will, I suspect, get hold of some people in her administration. There is a strong feeling in the country against what was done, and a strong desire to find out what really happened; some of the blame is going to fall on her.

Do you think that it will be possible to revive US-Brazil relations in this U.S. administration or will we have to wait for another one?

We will have to wait. This administration has so many problems, and so many policies have had difficulties, that I don't think they are really looking very seriously at Latin America and Brazil. Secretary of State John Kerry himself is so involved, in the Middle East especially and in the terrorism question, I don't think he has time to look deeply at Brazil. Now, the new initiative with Cuba will require much of their attention. Moreover, the NSA phone tapping was a real concern in Brazil, and understandably there is some resistance in Brazil to closer relations with the U.S. I think it would be more productive to wait for a new administration to come in before you can expect to rebuild the relationship between the two countries.

It seems that Brazilian foreign policy in recent years has been more guided by ideology than by national interest. What do you think?

I have a different view. I think national interest is defined within the terms of your ideology, so I don't think you can really say, because ideology and national interest really are a blend: you don't know what your national interest is until you apply your ideology to your criteria. And of course former President Lula had a different ideology from Fernando

Henrique Cardoso. So Lula had a different interpretation of what were Brazil's role and objectives in international relations. Lula's main objective was to try to improve income distribution throughout the world. He thought the poor nations would come to follow him, and want him to be their leader; however, in effect they ignored his recommendations. They saw his scheme as unworkable and unrealistic, so he lost his opportunity to become an international leader. That affected his role.

Do you think recent administrations have neglected trade agreements? Mexico and Chile have been more active in pursuing bilateral agreements.

Brazil's view has always been protectionist, no open borders, no big trade agreements, and that policy continues. Mexico, Chile, and Colombia have changed; they opened up trade. Brazil in contrast has protected domestic industry and that is one of President Rousseff's main problems now. That is still her belief, and that is something that she has to change. I am hoping that Finance Minister Levy is an indication that she is going to change the direction of economic policy. But if she doesn't, she will have the same problems she has had for the last four years.

It seems that Lula in his second term, and Rousseff in her first have intensified state intervention in the economy.

Look at the Rousseff administration's treatment of the automobile industry: The industry was afraid of competition, the Mexicans outcompeted them, they called for protection, and the government raised import duties

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to protect the sector. That was the wrong step to take. The government has to put the automobile sector under pressure so it will innovate, invest, and become more creative, productive, and efficient. You build a solid industry by making it live up to competition, not by protecting it.

Protectionism is condemning Brazil to low growth. If you don't have to compete, you won't. The businessmen's objective may be to create a monopoly, but the government's objective has to be to ensure competition, and then you will get investment. People ask why there hasn't been more investment in Brazil, both domestic and foreign. Why would you invest if you think the government is artificially protecting companies? And when you have a problem, you go to the government and get protection and your input costs go up. When you invest it takes a lot of planning and effort; you have to get financing and take risks. Why should you do all that if it is easier to simply get government protection?

Bolivians are producing, they are exporting, and they are earning enough to maintain the economy.

Many businesspeople argue for some protection to offset other costs, such as poor infrastructure. Why is Brazil's infrastructure still inadequate?

The concessions [to build and operate infrastructure], especially at first, were set up so badly that corporations were being asked to accept risky obligations without the promise of adequate compensation. They didn't want to invest their money, so Brazil's infrastructure has not been improved: the railroad network is still very limited, ports are too small, and the electricity sector is deficient. The government has to get a lot of money into infrastructure to repair the bridges, roads, ports, airports, etc. Millions of dollars are lost every year because trucks take agricultural products from the far west to the east coast ports and then they wait at the port for sometimes a month, before they can load their cargo onto ships. That's a tremendous waste of money.

The government should really have been pressing the private sector, giving them concessions and getting them involved. Brazilians are very creative and if you give them the opportunity they would take advantage of it, they will go out and find the money, and put it into these projects if they are financially viable. Current infrastructure is so ineffective that new infrastructure projects would immediately become competitive and profitable.

What about Brazil's participation in the BRICS?

The BRICS is an artificial association. Brazil has little in common with China or Russia. How can Brazil associate itself with the more aggressive stand that China is now taking in the Pacific or the stand that Russia is taking in Eastern Europe? Brazilians have no empathy or sympathy for those positions. China grew rapidly for a number of years, but it began from a very low base. With stability, it was expected to grow. The good policy [for Brazil] would have been simply to take part in that growth process but not become overcommitted to China as a partner. Brazil should take advantage as much as it can, and use its exports to become more competitive. I think China's fast-growth period is over; China is going to settle down to a more normal growth. Otherwise its urban-rural conflict will get worse, and its inflation will rise.

Should Brazil do more to develop the partnership with India?

India has a democratic process, and it is reforming its economy, and so it is likely to grow more quickly now and in the future. India will be a good market for Brazilian exports. Many opportunities are likely to arise.

Where should Brazil's focus be?

Brazil's major interest, I think, is Europe and the US. They are dynamic markets with money and technology. Brazil should be getting resources to grow, and those are mostly in the U.S., Europe, Japan, and Canada.

Do you think the Brazilian government has shied away from free trade?

That's a typical attitude in Brazil: "We are a relatively closed economy, we are big, we don't need the world, we have a big domestic market here, we don't have to export or import, and we should produce everything here." This attitude would condemn Brazil to poverty. Trade not only gives a country products, it also brings the competition that helps a country to become efficient, competitive, and productive. Look at our major industries in the U.S.: They produce products that combine both imported and domestic goods. If we did not import aircraft parts, our aircraft companies would hardly be able to sell any planes abroad; they would be too expensive. Often the majority of the parts of a plane produced by Boeing today are imported, including the engines. The company that has the technology and puts together the product is the one that makes the largest profit, and that is what Boeing does.

What can Brazil learn from Mexico and Chile?

Both of them are putting much more emphasis on the private sector and diminishing the role of government. Chile is showing tremendous innovation in the private sector. It has turned the wine industry, which when I lived in Chile was relatively small, into a first-class industry because of competition. The wine we used to buy in the 1970s is today one of the best known, and they are able to make it so efficiently that they can keep virtually the same price as it was 20 years ago, which enables them to stay competitive.

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Turning to domestic issues, many on the left are criticizing the president for turning away from her policies in her first term. However, there seems no alternative to a substantial fiscal adjustment to recover credibility.

The failure last year to achieve a substantial fiscal surplus was a very bad step. So you got rising inflation that now is higher than 8%, which scares investors, and that also means prices that are too high. Brazil today is an expensive country, so how many manufacturing companies want to invest here? You don't have an industrial complex that is competitive. The Brazil market is big but there are limits to it. So the government has got to change that. It has to work for fiscal surpluses to pay down the public debt and have a monetary policy that will avoid causing inflation and make Brazil more competitive.

Many observers say that it may take two years of recession or very low growth before the economy recovers. What is your view?

Brazil will have a recession this year for sure, and probably going into the next year. The

Current infrastructure is so ineffective that new infrastructure projects would immediately become competitive and profitable.

measures the government has put into place may begin to have an effect by the second half of next year, and the economy could begin turning around. Then there is the problem of the state-oil company Petrobras. That's a big disaster.

Investigations of allegations of corruption involving Petrobras have stimulated the idea that Brazil is thoroughly corrupt. If you were an investor, do you want go to a country that is so corrupt? The amount of money that was stolen is horrendous. I would never have imagined that the thievery could be so large.

How do you see the current political situation in Brazil?

President Rousseff is going to have a tough time in her second term. She has to show great leadership and great innovation to make it a success. Brazil has the resources it needs to be a success, but it needs a political revolution to achieve it. As I said before, it has to open its economy; it has to become more efficient and distribute the benefits of growth. Yes, the government should continue trying to make income distribution more equal, but it must encourage production before it can distribute. Don't follow the Venezuela model of just trying to redistribute existing wealth.

So the key is to increase productivity?

Right. Get workers really producing more—and that takes more capital as well. President Rousseff should move to stimulate both domestic and foreign investment in the private sector. If she wants Brazil to be part of the world economy, she needs to attract financing and technology from around the world and gain access to their markets. Brazil needs high levels of investment, as we talked about before for upgrading infrastructure, and the government should take advantage of the international capital markets to get the money for it. The president won't get a higher level of income until she has a good strong economy; she won't get that until Brazil has the capital and the technology; and that won't happen until Brazil has the image of an efficient, competitive producer and potential major exporter—and fighting corruption is a big part of it. That won't be easy; she has to project that new image throughout the country and abroad. The president needs to show that Brazil wants to be part of the world economy. The image she creates for Brazil has to be one of an honest, transparent country, where you can invest with security that judicial decisions will be fair. Without that, many big international investors will stay away, or they will require such high rates of return that their investments won't have the desired stimulus effect on the economy.