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José Mariano Beltrame
Secretary of Public Security
of Rio de Janeiro State

IBRE Economic Outlook
2014 may not be much
better than 2013



THE PRICE OF VIOLENCE

To achieve greater social and economic progress, public security and law enforcement have to improve

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The BRAZILIAN ECONOMY

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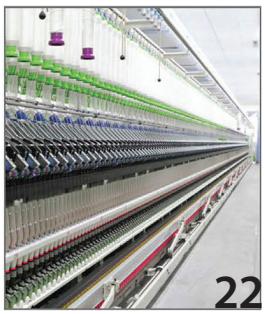
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The policy of pacification is considered a milestone in public safety for the residents of Rio de Janeiro city. Armed clashes between drug dealers, homicides, and crime in general have been significantly reduced. The top priorities now, Thais Thimoteo reports, are improving education; community policing models tailored to each community; and changes to the public security system as a whole.

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José Mariano Beltrame, Rio de Janeiro State Secretary of Public Security, explains to Kalinka Iaquinto why reducing crime is directly linked to making structural changes in slum communities, especially those related to health and education, and how Pacifying Police Units have brought opportunities to carry out major reconstructive surgery. But many public security problems, he adds, could be solved by addressing deep-rooted social problems.

IBRE Economic Outlook

31 The new year does not relieve the precarious situation that marked Brazil in 2013. Growth will continue to be sluggish, inflation high, and financing the external current account a concern. The anticipated recovery of investment may not be sufficient—or may not materialize at all.

ECONOMY

Unemployment drops; monthly wages rise in November

Unemployment fell for a second consecutive month in November as local businesses filled year-end holiday jobs, but is likely to rise in 2014. Unemployment in Brazil's six largest cities was 4.6% in November compared with 5.2% in October, the statistics agency IBGE said. Wages continued to grow in November, rising 2% from October to R$1,965 (US$843). (December 19)

Lowest trade surplus in 13 years

The Brazilian trade surplus declined by 87% in 2013, from US$19.4 billion in 2012 to US$2.6 billion, according to the Ministry of Development, Industry and Commerce, and exports stagnated at US$242 billion. Exports of commodities fell by 1.2% and manufactured exports grew by 1.8%, especially automobiles, petroleum, tractors, and cargo vehicles. Imports grew 6.5% to US$239 billion last year. (January 2)

Drops in stock market and exchange rate

The Bovespa stock index ended 2013 at 51,507 points, down 15.5%, though total trading volume of R$1.82 trillion and average daily financial volume of R$7.41 billion reached record highs. For the year the exchange rate was devalued by 15.3%, ending at R$2.361 per U.S. dollar in 2013. (January 7)

Biggest forex outflow in over a decade

Brazil's net foreign exchange outflow in 2013 was US$12 billion, the first negative result since 2008, according to the central bank. The outflows put more pressure on the weakness of the Brazilian real against the U.S. dollar. (January 8)

POLITICS

Approval of Rousseff administration rises to 43%

The latest CNI/Ibope survey showed that the positive assessment of the government of President Dilma Rousseff has risen from 37% to 43% compared to the September survey, with fewer respondents assessing the administration as bad (22%) or very bad (20%). Personal approval of the President rose from 54% to 56%. (December 13)



Photo: Marcello Casal Jr./Agencia Brasil.

President Rousseff's popularity is up despite Brazil's economic woes.

Campos criticizes Rousseff administration

Brazil is experiencing a "crisis of expectation" in the economic area, Eduardo Campos, governor of Pernambuco and presidential candidate (Brazilian Socialist Party, PSB), has posted on his Facebook page, adding that inflation is back knocking on Brazilians' door. Campos said that "We have, today, economic problems that must be faced. For three years Brazil has grown half of what it had been growing … Latin America has grown 50% more than Brazil. The world is growing faster than Brazil." Reinforcing his criticism that the government has manipulated public accounts data, Campos said that given Brazil's low economic growth, "there is no room for maneuver to try to make magic." He also called for humility to recognize the deficiencies that need to be fixed. (January 2)



Photo: Renato Araujo/Agencia Brasil

Pernambuco Governor Campos is on the attack.

TRADE

EU takes Brazil to WTO over car taxes

In mid-December the European Union launched a case against Brazil at the World Trade Organization (WTO) over Brazil's taxes on imports from cars to computers, but insisted the dispute should have no bearing on current delicate free-trade talks. As its biggest trading partner, the EU accounts for a fifth of Brazil's exports. The EU is currently negotiating a far-reaching agreement with the Mercosur group of Latin American countries, but the two sides have failed to resolve a long-running row over Brazilian import taxes that Europe says are unfair and break global trade rules. Brazil's 30 % tax on imported motor vehicles and its levies on goods ranging from computers to smartphones and semiconductors have also angered Japan, the United States, and other big trading nations, which may join the EU case. Without a trade deal, next year Brazil will lose its favorable access to the EU because it is no longer considered a developing nation. Brazil is already the fifth largest foreign investor in Europe and wants greater access to EU markets for agricultural exports, especially beef. (December 19)

ECONOMIC POLICY

BNDES raises some interest rates

In 2014 the Brazilian Development Bank (BNDES) will raise interest rates on some state-subsidized credit lines, Finance Minister Guido Mantega said, withdrawing part of the stimulus that helped boost investments but also hurt public finances in 2013. Annual rates on loans for purchase of capital goods and trucks will climb from 4% to 6% and on special credit lines for exports from 5.5% to 8%. Subsidized credit lines are part of a BNDES program to lower the cost of capital goods for industries and farms. The program spurred investment and boosted a tentative economic rebound in the first half of 2013 but also alarmed ratings agencies by pushing up Brazil's gross debt. (December 11)

BNDES lending rose in 2013

In the first 10 months of 2013 BNDES disbursed R$147 billion, up 35% from the same period in 2012. BNDES loans for infrastructure rose by 31% (R$47 billion), industry 19% (R$45 billion) and commerce and services 52% (R$40 billion); its loans to agriculture and cattle-raising were 73% higher (R$15 billion). (December 13)



Photo: Elza Fiuza/Agencia Brasil

Finance Minister Mantega announces the fiscal result for 2013.

Primary fiscal target met

Brazil's central government exceeded its 2013 primary fiscal surplus target of R$73 billion (US$30 billion), Finance Minister Mantega has announced, thanks to extraordinary revenues from settlement of corporate tax arrears and bonuses from oil-rights auctions. For the year, the surplus totaled about R$75 billion, just over 1.5 % of gross domestic product, Mantega said. However, the country is expected to miss the consolidated primary fiscal target, which includes state and city governments. (January 3)

LATIN AMERICA

Latin America's economies to grow by 3.2%

The economies of Latin America and the Caribbean will expand by 3.2% in 2014, up from 2.6% in 2013, says the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). Panama will lead with growth of 7%, Brazil is predicted to grow by 2.6%, and Mexico by 3.5%. In 2013 economic performance was depressed by less buoyant external demand, greater international financial volatility, and falling domestic consumption, ECLAC says. In 2014 a moderately more favorable environment will help to boost external demand and in turn Latin American exports. Private consumption will also continue to grow, although more slowly than previously. Meanwhile, attracting investment remains a challenge for the region. (December 11)

Brazil's downgrade unlikely, says Moody's

Moody's said that a change in the country's outlook to negative is more likely than a downgrade in 2014. The rating agency forecast Brazilian GDP growth at 2% and the primary budget surplus at 2.1% of GDP. It also said that if the expectations prove correct, the rating should remain stable throughout the year. (January 8)

New 10-year local bond pays record yield

Treasury is paying the highest yield ever on a new 10-year benchmark fixed-rate domestic bond maturing in January 2025. It has sold 2 million of the bonds, worth R$1.64 billion (US$683 million) at yields as high as 13.4%. (January 9)

FGV Brazil

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Brazil's public security challenge

BRAZIL AND OTHER LATIN AMERICAN countries face a rising tide of violence and crime rooted in long-standing social and economic problems. Addressing the problem is long overdue, given its nefarious effects not only on lives and property but also on society's values.

Despite having made some progress, Brazil remains one of the most violent countries in the world. At 24.3 per 100,000 inhabitants, its homicide rate compares very unfavorably to the world average of 6.9. Throwing money at the problem seems to have been counterproductive: In 2012 federal and state governments spent about US$30 billion—16% more than in 2011—yet homicides went up by 7.8% and rapes by 18.7%.

In terms of the size of the police forces, spending on security would seem to be adequate: Brazil has 282 police officers per 100,000 inhabitants, the UN recommends 222, and the world median is 300. However, not only are police unevenly distributed among the states, money spent on public safety is not always managed efficiently. For example, in 2013, 13 Brazilian states failed to qualify for a total of US$67 million in federal funds for prison renovation or building new prisons because they either did not submit proposals to the Ministry of Justice or there were flaws in the proposals they did submit.

To fight organized crime and change the reality of Brazilian prisons, we need to invest more in prevention and treat drug use not as a security but as a public health problem. The 138,198 incarcerated for drug trafficking represent a quarter of all prisoners, and according to the latest survey by the National Penitentiary Department in December 2012, the number sentenced for drug trafficking in two years grew by 30%, from 106,481 in 2010 to 138,198 in 2012. Meanwhile, the number of all prisoners increased by only 10%. Changes in the drug laws are one reason for the disproportion: Brazilian law does not differentiate, as the U.S. does, between users of drugs and dealers.

Organized crime not only threatens society, through murder, corruption, and other means of coercion, it also undermines the ability of a government to perform its legitimate functions. The First Command of the Capital (PCC) crime syndicate is the largest Brazilian criminal organization, with a membership of 13,000 members, 6,000 of whom are in prison. Based largely in São Paulo state, PCC is active in at least 22 of the country's 27 states, as well as in Paraguay and Bolivia. In 2012 violence in São Paulo city killed 100 people, allegedly because an informal PCC truce with the police broke down. In October 2013, PCC issued threats to disrupt the World Cup finals in 2014 by launching terror-style attacks. It also threatened disruption of this year's Brazilian presidential election. Similar groups inspired by the PCC should not be ignored.

Organized crime not only threatens society, through murder, corruption, and other means of coercion, it also undermines the ability of a government to perform its legitimate functions.

To fight organized crime, José Mariano Beltrame, secretary of public security for Rio de Janeiro State, has proposed creation of a ministry of homeland safety to improve intelligence, gather and analyze information, and help to carry out federal and state public security policies. The current National Department of Public Safety of the Ministry of Justice does not seem up to the task.

Brazil's new cycle

João Augusto de Castro Neves, *Washington D.C.*

IN THE PAST FEW YEARS BRAZIL has been able to implement a few market-friendly adjustments in response to deteriorating market sentiment, but the process has been excessively incremental and mired in poor execution and low government credibility. To make matters more complicated, a combination of mixed signals on economic management and President Dilma Rousseff's relatively strong political position reduce the odds that there will be an earnest push to improve investor confidence before the presidential election in October. The road for Brazil's economy in 2014 is definitely looking bumpy.

President Rousseff's comfortable lead in the polls and the success of much of the infrastructure concessions agenda will probably continue to give the government enough confidence to maintain the current policy course. Record-low unemployment numbers should also help in terms of popular support, at least until the election. However, while "muddle through" mode may buy Brasilia some time before international credit agencies decide to downgrade Brazil's rating, it will not dispel the specter of a sovereign downgrade.

Until there is an actual downgrade, though, throughout most of 2014 the government is likely to keep fending off pressure for more spending while at the same time striving to boost revenue. Its measures could include pressure on corporations to settle unpaid taxes, let previously granted tax breaks lapse, and gradually reduce lending to state-owned banks. However, no meaningful fiscal adjustment that would lower or even stabilize the country's debt-to-GDP ratio (a fiscal primary surplus close to 2%, according to most analysts) can be expected this year.

Much of the success of Rousseff's incremental strategy will therefore depend on her own political standing and the pace of economic activity. If economic recovery remains tepid, a gradual shift toward more constructive policies will not be enough to stem growing market pessimism. Combined with domestic pressure from Congress for more spending ahead of the election, a possible court ruling against banks that may generate billions of dollars in new government liabilities, and the ongoing changes in U.S. monetary policy, these events constitute what analysts are now calling a perfect storm.

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Despite these risks, Rousseff is poised to retain much of her political capital and win a second term without having to make any major reforms before the elections. However, regardless of who wins the election, slow growth would make the trade-offs for a post-election fiscal adjustment increasingly difficult. Besides making the government's job of boosting revenue harder—which would add even more pressure on fiscal policy—lower levels of economic activity sooner or later are bound to affect the president's approval ratings, which could well increase the governance challenges she would face in a second term.

What does all this mean? It means that regardless of who wins this year's presidential election, Brazil is entering into a new cycle of politics. If the economic environment becomes less favorable, the government's goal of addressing the rising demands of the burgeoning middle classes will become more difficult. The years of high growth and very high approval ratings that fueled policy complacency have come to an end. While the country is not on the brink of default or near a major 1980s- or 1990s-style economic crisis, the risk that Brazil will be left behind other emerging countries is rising. On energy and trade policies, among others, this is becoming quite clear.

The obvious conclusion is that the opportunity cost of muddling through on important policy decisions is also rising. Definite progress has been made (though slowly) on attracting private investments in transport infrastructure, but the lack of transparency about fiscal policy is still a source of concern. Moreover, a laundry list of other structural reforms—energy reform (last month's column), a more proactive trade policy, and measures to lower and simplify taxes and lower labor costs, among others—is long overdue. If not by conviction, out of necessity the next president will be forced to move forward on a reform agenda.

If not by conviction, out of necessity the next president will be forced to move forward on a reform agenda.

Unfortunately, there is a chance, though still small, that Brasilia's sense of urgency to implement structural reforms will diminish once again if economic activity picks up this year, however slightly. Even a broken clock, it's said, is right twice a day. ■

While "muddle through" mode may buy Brasilia some time before credit agencies decide to lower Brazil's rating, it will not eliminate the specter of a sovereign downgrade in coming months.



THE PRICE OF VIOLENCE

If Brazil is to achieve greater social and economic progress, public security and law enforcement have to improve significantly.

Kalinka Iaquinto

BRAZILIANS SEE themselves as cheerful, hospitable, and peaceful, yet this picture is contradicted by data on violence and crime. Brazil is the 18th most violent nation in the world, according to the Avante Brasil Institute. The 2013 Human Development Report of the United Nations Development Programme (UNDP) pointed out that insecurity is an obstacle to economic and social development in Latin America, and warned that crime control measures alone are not sufficient; what is needed are public policies for more inclusive economic growth and effective security and justice institutions. In particular, Brazil must care for the youth.

The 2012 Human Development Report pointed out that violence undermines confidence in Brazil's future development and reduces the competitiveness of industries and services because it imposes heavy costs for security. The report also pointed out that the excessive spending on combating violence could be directed to other areas, such as health and education. Yet although the United Nations (UN) considers unacceptable more than 10 homicides per 100,000 inhabitants, and the global average is 6.9, according to the 2013 *Brazilian Yearbook of Public Security* Brazil's homicides are an outrageous 24.3.

In Brazil, "Public safety [problems] will strangle business and investment and slow economic growth because we will have to invest more in private and public safety; ultimately the increasing cost of violence will make Brazil much less competitive than

it already is," says Renato Sérgio de Lima, coordinator of the *Yearbook*.

Brazil's overall competitiveness fell from 48th to 56th this year among the 148 countries surveyed in the *Global Competitiveness Report*, published by the World Economic Forum. Although the report does not directly address questions related to violence and crime, it does consider corruption to be a major factor obstructing competitiveness in Brazil.

Leandro Piquet, researcher at the Center for Public Policy Studies, University of São Paulo (USP), agrees. He believes that crime has a direct and immediate economic impact because violent countries lose foreign investment—which he considers the most important economic effect. He also emphasizes that high levels of violence and crime have a heavy impact on the labor market, since they directly affect access to education and the formation of human capital.

Crime especially affects younger people because, Piquet believes, "when crime is very high, young people simply decide to take the easy way out and do not invest in education, savings, and health care. This significantly affects capital formation and work skills."

To turn around this situation, governments have to spend more on public safety. Although Brazil spent about R$61 billion in 2012, 16% more than in 2011, homicides actually increased by 7.8% in 2012, and rapes shot up by 18.7%, to 26.1 incidents per 100,000 inhabitants.

Quality, not quantity

The quality of spending on public security is as important as the amount spent. Of the amount spent on security in the past year an estimated of 40% went to pensions for retired police officers, the rest to salaries of officers on active duty.

Brazil's law enforcement system "is structured to be inefficient and often it

Crime, the housing market, and economic growth



In 2008, the city of Rio de Janeiro began to deploy Police Pacification Units (UPPs) in riotous slums. Despite criticism, the UPPs have brought about many advances in public security and economic growth.

In their study "Crime, Property Prices and Inequality: Effect of UPPs in Rio de Janeiro," Claudio Frischtak, president of Inter B consulting, and U.S. researcher Benjamin Mandel analyze how the pacification policy has affected property prices. They estimated that in the pacified slums, as homicides were reduced by 14% and robberies by 20%, real estate prices rose by 15%. Improved public security was thus associated with higher property prices.

"In an area degraded by violence, people tend to leave, more properties are put on the market, prices fall, and then you have a major loss of property values," says Daniel Cerqueira, director of studies, Institute for Applied Economic Research (IPEA). He points out that violence may also affect consumption and discourage local businesses. "Instead of buying expensive goods, people consume less conspicuous goods to avoid being robbed. Where there is a lot of violence, businesses do not prosper because demand for goods and services is possibly weaker and operating costs are higher."

Violence undermines confidence in Brazil's future development and reduces the competitiveness of industries and services because it imposes heavy costs for security.

spends very, very badly, investing little to modernize the system," says De Lima, pointing out that "We spend nearly ten times more on public security than on investment." He adds that low economic growth and significant increases in public security spending in the last decade significantly reduce the capacity of federal and state governments to finance law enforcement.

The cost of violence also affects other areas. According to the 2013 *Map of Violence*, in 2011 Brazil spent R$211 million on hospital admissions resulting from traffic accidents, and "admissions are only a small fraction of the direct cost. Ambulances, attendance at the accident scene, post-hospitalization, and other costs are not recorded," says Julio Jacobo Waiselfisz, sociologist and coordinator of the *Map*.

"Some costs of crime and violence are explicit, … and some are intangible but are nevertheless economic costs," says Daniel Cerqueira, researcher, Institute for Applied Economic Research (IPEA). In addition to the direct impact on the public health system, the government has to bear such costs as pension benefits for violent deaths and work absenteeism due to physical or psychological trauma. "The government has a huge financial cost that, in a situation without violence, could have been reallocated to other sectors that could benefit society," he says.

Crime migrating inland

In addition to costing more as a share of public funds since the early 2000s, the geography of Brazilian violence as well as the motivation of crimes have been changing.

Regions that previously had high crime rates have adopted new policies and spend more on public security, which has often been effective. The São Paulo state Department of Public Safety reports that homicides fell 72% between 1999 and 2011 as the budget increased five times, reaching R$12 billion in 2012. São Paulo and Rio de Janeiro states have adopted the policy of pacification of slums, and Pernambuco state has introduced the Life Pact Program. These are considered to be success stories. Even Alagoas state, which has the highest homicide rate, reduced homicides by 22% between 2011 and 2012.

USP's Piquet points out the uneven distribution of resources among states: despite the increase in per capita spending on public security, some states use up most of the resources: "Some states have a large share of funds for public security, especially São Paulo state. But other states where violent crime is surging, especially in the Northeast, do not have resources." Smaller and less wealthy states must depend on federal government resources to fund their public security budgets.

Some regions whose economies have developed in the last 13 years have attracted violence and crime. Waiselfisz explains that "The migration of the dynamic pole of violence started in 2000, when investments in less developed regions created a number of economic poles across the country. However, these new economic poles do not have a tradition or structure to cope with

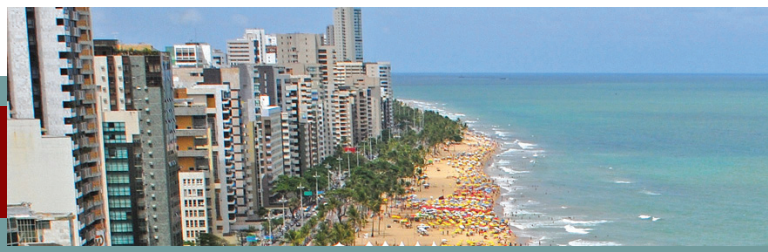
the new violence. An archaic public security system with little infrastructure has been barely adequate to address the new reality of violence in Brazil."

Rodrigo Leandro de Moura, researcher, Brazilian Institute of Economics (IBRE), believes demographic changes in large metropolitan areas have also contributed to the migration of violence to inland towns. He explains that lower population growth in large metropolitan areas is reducing the number of youth in the total population, and consequently reducing crime because youths are more prone to commit offenses. This, combined with more active public security policies, may have pushed crime out of the big cities.

Crime has a direct and immediate economic impact because violent countries lose foreign investment.

Crime and punishment

As crime and violence are slowing in major cities, the federal government last year



A national model for public security

Since 2007 Pernambuco state has plunged from first place in the national ranking of violence to sixth. It cut homicides by over 60% to 39 deaths per 100,000 from 70 deaths per 100,000. This is the result of the Pact for Life program launched in May 2007; it incorporates over 100 measures to be monitored monthly or weekly, along with daily police force protocols. The program emerged after a thorough assessment of the problem. "We tried to find out why Pernambuco was not on the right track. From this, we developed strategic plans to establish what was needed in terms of investments—more police officers , more training, better working conditions , new units—and designed operations precisely to confront violence," says Wilson Damázio, Pernambuco Secretary of Social Defense.

The main problems identified were few arrests, low initiation (much less completion) of police investigations, and too few prosecutions. To solve the problems, the state was divided into three regions: the capital (Recife metropolitan area), the forest, and the hinterland.

"Homicides were our main problem, especially death squads in the Recife region and the forest. Our goal is to confront these groups with support from the Homicide Department and a restructured Narcotics Department. We also invested heavily in intelligence services," Damázio says. To alleviate poor response to violence against women, children, and adolescents, he says, "We created specific police forces aimed at these groups at risk, and also the Neighborhood Patrol and Friendly Police that work together with neighborhood associations and community and religious leaders."

In over six years the Pact for Life program, the police force doubled to 29,000 officers and firefighters and now averages one officer for every 300 inhabitants. Funds for public security also doubled: Investments increased from R$1.3 billion to R$2.4 billion a year: for instance, funding for operations increased from R$20 million to R$100 million and for machine maintenance from R$100 to R$400 million.

The program's success has attracted international attention. The Pact for Life program was recognized as a successful policy by the United Nations and has led Bahia, Acre, and Paraiba states to study Pernambuco's program. Damázio is convinced that the program could benefit other states, and suggests it could be turned into a national policy for public security.

Brazil's law enforcement system "is structured to be inefficient and often it spends very, very badly, investing little to modernize the system."

Renato Sérgio de Lima

launched the Safer Brazil program based on the National Public Security Plan of the Ministry of Justice. The program, directed especially to the poor Northeast states, has three lines of action: better investigation of violent deaths, more extensive patrolling, and gun control. The program was piloted in Alagoas state with R$25 million in funding, and is now also running in Sergipe, Rio Grande do Norte, and Paraíba states.

"Safer Brazil seeks to strengthen police investigation, bringing forensics police to the level of excellence required by judicial police and public prosecutors to secure evidence to support trial of criminals," explains Regina Miki, director, National Department of Public Safety, Ministry of Justice. The program also proposes to identify alternatives to imprisonment for misdemeanor crimes "so that small offenders can be put on probation … we want to incarcerate only those who actually commit felonies."

However, there is no consensus about the program among experts. Piquet argues that through the current policy is better than the old one, the country should not pursue a single public security policy, anchored in the federal government. He claims that "We can benefit from differences in state public security policies." De Lima agrees: "Urban crime in Brazil today is much more heterogeneous and complex. There is no single answer. State governments have to become more efficient, more dynamic, and capable of acting based on results. Either they become like the most modern police forces in the world, or they will be forever trying to catch up with new patterns of crime." De Lima argues for community involvement, intensive use of information, and reinforcement of intelligence services, noting that "Coordination between different government agencies is necessary to gather information that can be used to prevent and contain crime."

Brazil is one of the most violent countries in the world.

Country	People killed during police operations	Police officers in service	Homicides per 100,000	Population
Brazil	1890	89	24.3	193,976,530
Mexico	1652	740	23.7	119,361,233
South Africa	706	-	30.9	51,189,307
Venezuela	704	-	45.1	27,190,882
US	410	95	4.09	311,587,816
Dominican Republic	268	62	25.0	10,016,797
United Kingdom	15	10	1.0	9,205,651
Canada	-	1	1.5	33,726,915



Source: Anuário Brasileiro de Segurança Pública

Police reform is an old and difficult issue — necessary but almost impossible. "It will never happen," says Piquet, criticizing what he calls the cemetery of Proposals for Amending the Constitution (PECs) that have been buried in Congress. "In recent years in several states, the success of many public security policies indicates that it is possible to achieve much without changing the current institutional structures. São Paulo state has reduced its homicide rate by 80%, Pernambuco state more than 50%, Rio de Janeiro state more than 30%, suggesting that even with a difficult institutional structure, it is possible to improve case by case," he says.

How the police force carries out its operations also needs to be rethought. According to the *Yearbook of Public Safety*, every day five people in Brazil die because of police operations —five times higher than the average in the United States. This is surely a factor in Brazilian lack of confidence in the police. According to the Confidence in Justice Survey (Brazil-ICJ) of the Law School of São Paulo of Getulio Vargas Foundation, only 30% of the population trust the police in contrast with 82% in England and 88% in the United States.

Lives at stake

The most difficult social and economic cost to measure, and the most important, is the loss of life. According to the 2013 *Map of Violence*, homicide is the leading cause of death among Brazilians aged 15 to 24. Homicides are also more severe among men, blacks, and residents of the suburbs of metropolitan areas.

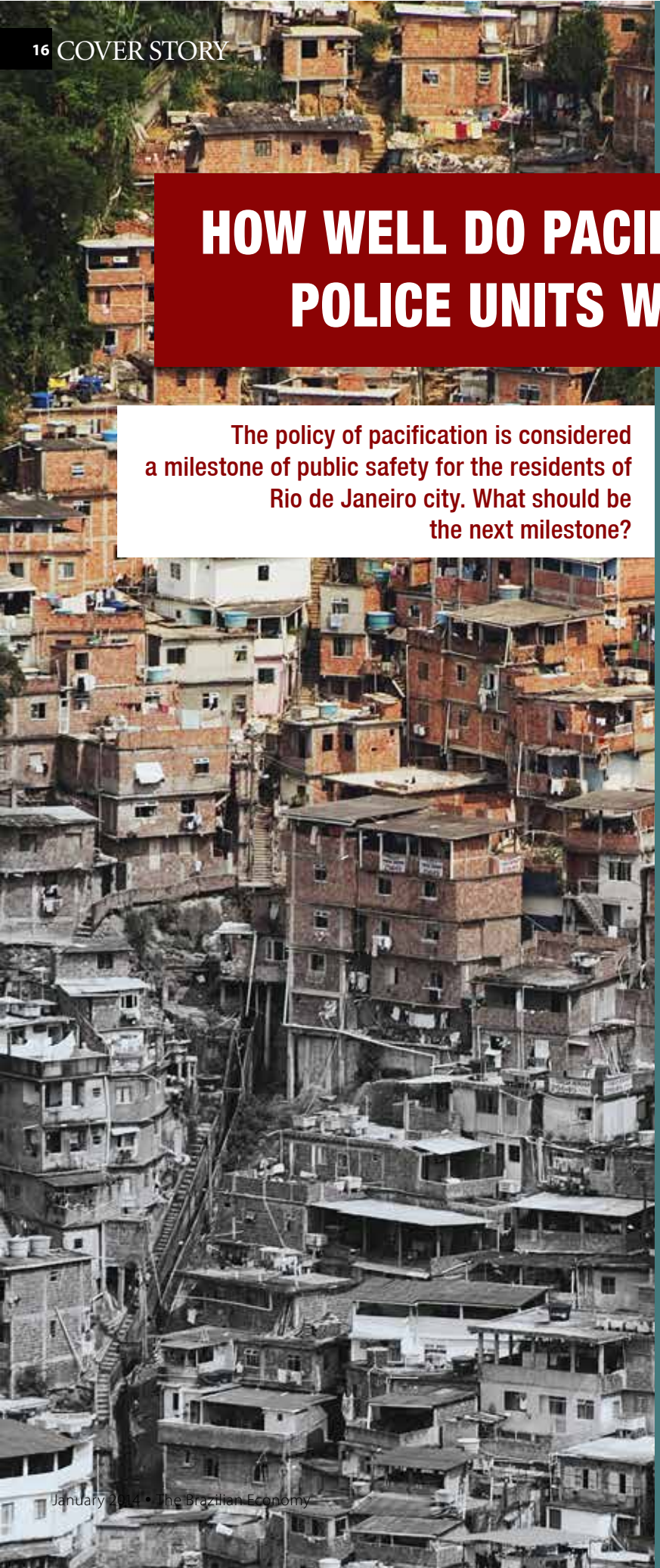
In their study "Cost of Lost Youth in Brazil," Daniel Cerqueira (IPEA) and Leandro Rodrigo de Moura (IBRE) demonstrate that premature deaths of youths represent a significant welfare loss for society because it reduces the life expectancy of Brazilians. By increasing mortality and reducing life expectancy, De Moura says, "Violence affects negatively household decisions about having children, saving, and investing," he says. "There is evidence that a nation's economic development coincides with declines in mortality rates and increases in life expectancy, which encourage households to invest in human capital and education."

"Safer Brazil seeks to strengthen police investigation, bringing forensics police to the level of excellence of judicial police and public prosecutors to secure evidence to support trial of criminals."

Regina Miki

In Brazil homicides of youth went up from 42 per 100,000 in 1996 to 53 in 2011. "Our young people are dying younger and younger," Cerqueira says. Most young people would die by age 25 in 1980; now they die by age 21.

Violence in Alagoas state, the researchers found, accounts for lower male life expectancy at birth of two years and seven months. "In the Northeast region both the loss of life expectancy and homicide rates are much higher than in other regions," De Moura says. He and Cerqueira estimate the loss of social welfare at as much as R$79 billion a year, 1.5% of national GDP. In some states the loss is as high as 6% of GDP.



HOW WELL DO PACIFYING POLICE UNITS WORK?

The policy of pacification is considered a milestone of public safety for the residents of Rio de Janeiro city. What should be the next milestone?

Thais Thimoteo

FIVE YEARS AGO, the Military Police of Rio de Janeiro, after prior notice and without confrontation, took the Santa Marta slum from traffickers in the south of the city. Santa Marta was the pilot for the Pacifying Police Unit (UPP) policy that today is considered a public safety success. With 36 UPPs covering 252 areas of the city and plans to add 40 units in 2014, it seemed appropriate to assess the outcomes of the pacification policy. The UPPs were therefore discussed at a seminar on "Citizenship and Security: Outcomes and Future of Pacification Policy in Rio de Janeiro policy," held by the Brazilian Institute of Economics on December 9, 2013.

In pacified communities the number of armed clashes between drug dealers and of deaths as a result of police raids have been significantly reduced, as has crime in general. Partly as a result, in Rio as a whole homicides have declined from 34 per 100,000 inhabitants in 2008 to 19, according to a survey from the Institute of Public Security (ISP) in the state. More dramatically, homicides in pacified communities dropped from 36.5 per 100,000 in 2008 to 8.7 in 2012.

No silver bullet

The government's seizure of territory under the rule of drug lords, experts say, has made it possible to bring investments in sanitation and access to social programs to residents of those communities, as well as restoring the right of free passage. But more complex measures are now needed if violence is to be reduced sustainably. "I am in favor of the UPPs, but I think society does not understand the magnitude of the problem. It is extremely complex. ... The number of shootings has fallen significantly in pacified slum communities, but we cannot consider [UPPs] to be a silver bullet that will solve all the problems of violence for Rio," says Joana Monteiro, an IBRE researcher.

"The Constitution establishes very generic missions for the military, civilian, and federal police forces, and we end up with a rigid public security system."

Antônio Roberto de Sá

The top priorities now are improving education, which can prevent children and young people from committing illegal activities; integrated actions of police intelligence and investigation, making them more efficient in seizing drugs and guns and arresting outlaws; the creation of community policing models that fit the different characteristics of each community; and necessary changes to the public security system.

"We have to expand the scope of this debate to the criminal justice system. The model of the public security system is broken. The Constitution establishes very generic missions for the military, civilian, and federal police forces, and we end up with a rigid public security system," says Antônio Roberto de Sá, Rio de Janeiro state undersecretary of Planning and Operational Integration of Security Secretary. Today, military police cannot investigate a person who has no criminal record but who may be involved with a crime because that is a function of the civil police.

Children of the slums

Another issue is the training of UPP officers, who have not yet all built a good relationship with local communities. Gleide Guimarães, a 55 year resident of Manguinhos slum, points out that with the UPPs commerce has expanded in the streets, which were once deserted, and shootings have declined, but her biggest concern, even after pacification, persists: the future of the children.

To avoid attracting police attention, she says, drug dealers use 12-or 13-year-olds to transport or sell drugs; these children disrespect the police but are ignored by them. "I've seen children throw stones at police officers ... . This reflects not only organized crime instructions, but it is also a response to the bad attitude of police." Does this attitude reflect how police are trained? she asks. Guimarães confesses that she still does not feel comfortable addressing a UPP police officer. "I'm not stupid, I realize that the UPP project might work, but I see a great estrangement between authorities and residents."

Despite complaints and some uncertainty on the part of residents, there has been some improvement in their confidence in the police force since 2008. According to the ISP, there has been an increase in reporting crimes with no deaths, such as car thefts and fights.

Colonel Paulo Teixeira, CEO of the ISP, believes that "before, residents did not report crimes, because either the police were not in the slums or the residents did not have enough confidence in the police. Today, they are less afraid of reprisals from gang members."

A study by researchers Claudio Ferraz and Bruno Ottoni of the Catholic University of Rio de Janeiro (PUC), using data from crime-reporting hotline and police records for Rio municipality between 2007 and 2012, found a 70% increase in crime reporting, a 100% increase in seizure of drugs, and a 50% reduction in homicides in the 18 pacified communities.

Conflicts

Using information from the crime-reporting hotline from 2003 to 2013, IBRE's Monteiro mapped the risk areas of Rio to study conflicts between rival drug dealer gangs before and after the UPPs began operating. UPPs seems to have had a beneficial effect on the control of armed conflicts between gang members. In 2003-2013, residents reported 4,693 shootings in slums: 3,053 reports before the UPPs and 1,640 after the UPPs. "There is a considerable fall in the number of reported shootings in pacified slums …. The pacification policy broke the logic of confrontation," she says.

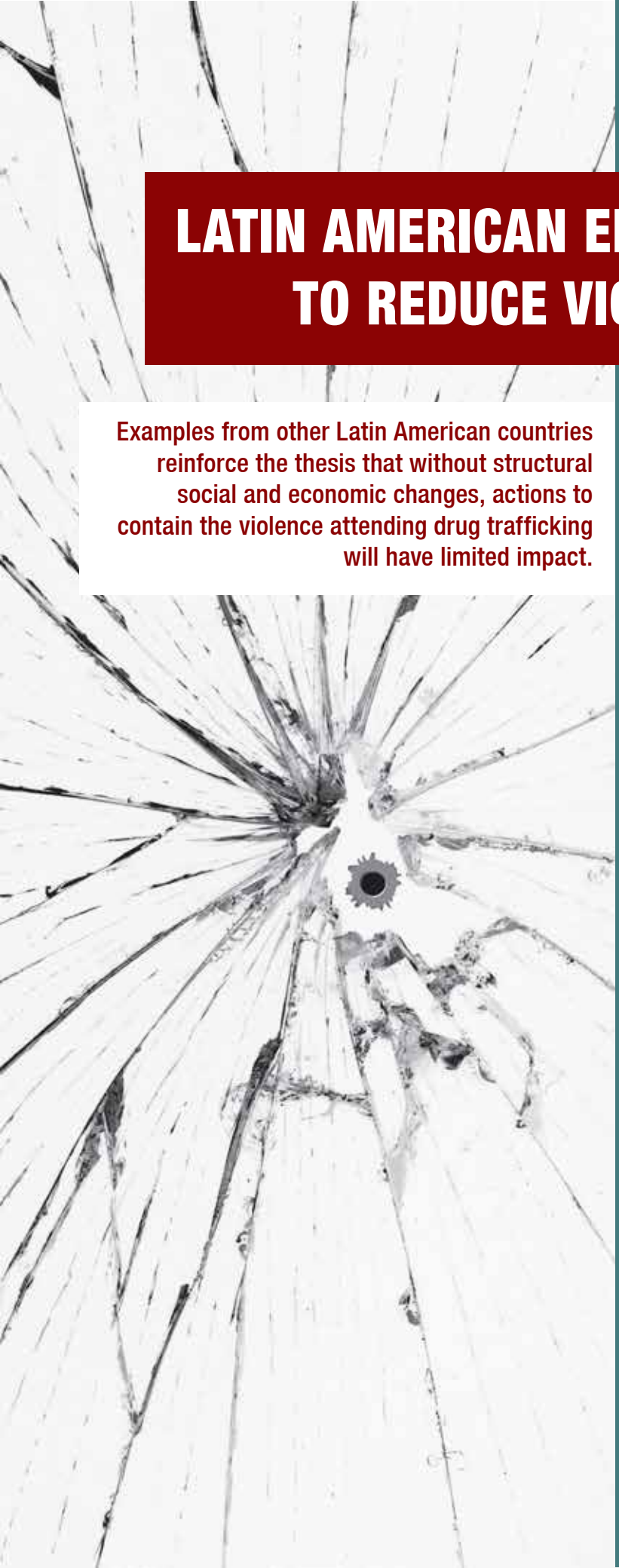
On the negative side, the study found that criminal violence is still widespread in Rio. Although lessened, confrontations among gangs are still frequent: in 65% of the days between 2003 and 2012, there was at least one report of shooting in slums. " The residents of slum communities continue to pay a high cost in terms of lower school performance of children and youths because shootings often disrupt school operations.

"We found that 46% of municipal schools are 250 meters (270 yards) away from a slum and exposed to shootouts . . . . We compared student performance of these schools in years of frequent shootings with years of relative peace [and] concluded that gang confrontations cause a significant decrease on average of three points in the National Assessment of Educational Achievement," says Monteiro.

UPPs are now present in 11 of the 30 most conflict-ridden slums in Rio, but is that sufficient? Monteiro says no. She fears that pacification will not reach slums located in the Northern and Western districts of Rio. "The UPPs have occupied almost all of the most difficult places in Rio's Southern district and around the Alemão slum, but a significant area of the Northern district has no UPPs. No one knows what will happen with the next government and in these troubled slum communities poverty is widespread," she says.

Teixeira agrees that the challenge of reducing violence in Rio is now in the region from Maré to Bangu neighborhoods. "The places where we have recorded high numbers of robberies and murders are in that area. Perhaps the UPPs are not the remedy for all ills. We are counting on other actions, a joint effort between the existing and new homicide police squads,"

Niteroi city and the eastern region of Rio are areas that may have received drug gangs that abandoned pacified slums and hence seen an increase in gang confrontations. Monteiro studied reported shootings in all the counties in Rio de Janeiro state in 2009–13, and found that "Indeed, drug gangs relocated in the same month or within six months after a slum was pacified. But that does not mean that the pacification policy is a failure. The question is the extent of drug gang reallocations."



LATIN AMERICAN EFFORTS TO REDUCE VIOLENCE

Examples from other Latin American countries reinforce the thesis that without structural social and economic changes, actions to contain the violence attending drug trafficking will have limited impact.

Solange Monteiro

IN THE LAST DECADE, Latin America has significantly improved its socioeconomic indicators. Average growth was above that of the U.S. and European countries, and there was a significant reduction in inequality. These achievements, however, were not sufficient to contain a nefarious mark of the continent: violence.

The latest Human Development Report from the United Nations Development Programme (UNDP) reports an average of 100,000 homicides a year in Latin America and in 2009 the excess of deaths resulting from violence represented a loss of 331 million life-years.

Without the excessive deaths from homicides, which reduce the workforce and divert investments from productive sectors to security spending, the report estimates that GDP could have been a full half a percentage point higher in 2009, amounting to US$24 billion. "In Colombia, GDP could have been 2 percentage points higher," says Jorge Restrepo of the Resource Center for Conflict Analysis (Cerac) in Bogota. Most violent deaths are related to organized crime and drug trafficking. The Colombia Plan and the Police Pacification Units (UPPs) in Rio de Janeiro, both completing 10 years, are efforts to suppress trafficking-related activities that have achieved significant results.

Experts point out, however, that the effectiveness of such efforts is limited by government failures in the countries most affected by violence. The *Global Competitiveness Report*, published by the World Economic Forum, shows that even acknowledging improved business environment and macroeconomic conditions in countries like Colombia and Peru, for example, the main concern of businesspeople is the high level of corruption.

"Ten of the 20 countries with the highest homicide rates are Latin American and 5 of the 10 most unequal countries in the world are in the region. We still have much work to do."

Marta Lagos

Old-lasting corruption

"This is also true of Mexico, where the culture of corruption was not born with drug trafficking. It is much older," says Raúl Benitez Manaut, researcher at the Autonomous University of Mexico (UNAM). According to the United Nations Office on Drugs and Crime (UNODC), Mexico is the largest opium producer in the region and accounts for half of global seizures of marijuana, besides being on the route for cocaine from countries like Colombia. Manaut indicates that, in Mexico, several institutional flaws feed the corruption that maintains the power of the drug cartels.

"Today, we have about 2,000 police corporations. Thus, we lose the strength to face criminal groups and coordinate intelligence, and that opens loopholes for corruption," says Jorge Chabat, international relations analyst, Center for Economic Research and Teaching (CIDE). "What is needed is to improve security institutions and provide better working conditions for the police force as well as to ensure that laws are enforced."

Since the military offensive against drug trafficking was initiated in 2006 by President Felipe Calderón, the number of homicides in Mexico has more than doubled. "When there is a direct confrontation, many narcotics cells lose connection with their leaders and begin to extort, kidnap, and even kill people in a more direct confrontation," Manaut says.

Since 2011, however, the violence has stabilized. "Now we have successful outcomes in northern cities of Tijuana, Ciudad Juarez and Monterey," he says. The intervention in these regions, however, caused the drug trade to move. At present, the most critical situation is in the southwestern state of Michoacán, a center for the production of drugs that has attracted the interest and competition of several drug cartels. "President Enrique Peña Nieto has not changed the strategy for fighting the cartels of former President Calderón. He has concentrated efforts in Michoacán, but he is also seeking to develop new social policies for the most violent places, similar to Rio's UPPs," says Manaut.

Chabat believes it is unwise to expect immediate results from social policies: "It will take time for all young people who are now criminals to seek other opportunities, which will also depend on improving the economy, on reducing inequality, and on well-functioning institutions. Historically, the population has had a tolerant view of corruption, but this is also changing."

Culture of violence

In the case of Colombia, the Colombia Plan does not always address the country's culture

of violence. Even before the 1980s, when a flood of dollars arrived in the country from the activity of the drug cartels, regional and political differences between liberals and conservatives caused a distortion that encouraged use of violence to settle disputes. In this context there emerged leftist guerrilla groups like the Revolutionary Armed Forces of Colombia (FARC), and rightist paramilitary organizations that under a weak government facilitated the action of drug cartels.

"It will take time for all young people who are now criminals to seek other opportunities, which will also depend on improving the economy, on reducing inequality, and on well-functioning institutions."

Jorge Chabat

"Undoubtedly, we see a stronger government and a more integrated national economy. But structural obstacles to development persist," Restrepo says. "First is the continuing armed conflict, second is the absence of regional integrating infrastructure, and third is the low quality and the ineffectiveness of public services, in particular justice, safety, and education."

One of the most important results of the Colombia Plan was a 50% reduction in the area where cocaine is cultivated. Restrepo thinks, however, that technological improvements in planting cocaine, ensuring more productive acreage, as well as migration of part of the cultivation to Bolivia and Ecuador, have possibly reduced the effectiveness of the reduction in cultivation area: "This policy have been effective mainly in making the business less profitable for the drug dealers and the guerrillas, who benefitted from 'taxes' on drug cartels. To end drug trafficking, however, [the Colombia Plan] is insufficient."

Restrepo says that as in Mexico, the change of government from Álvaro Uribe to Juan Manuel Santos did not alter the security strategy. "Since 2004 we have registered gradual improvements that remain. President Santos has also promoted dialogue with the FARC, in search of a peace agreement, that has been well-accepted by the private sector," he says. Proof of this is the continuous flow of foreign direct investment into the country, which has diversified to other sectors beyond oil and mining. "We maintain a positive and optimistic view of the country," he says.

Perceptions

Regarding the lack of security for the population of countries affected by drug-trade-related violence, Marta Lagos, director of research institute Latinobarômetro, says that perceptions have changed significantly depending on how much violence people in each country were used to.

"Traditionally in the more violent countries population fear was not necessarily proportional to the degree of violence," she says. "In Colombia, which has one of the highest homicide rates in the region, the main problem residents identified in our study was job creation." Nevertheless, Latinobarômetro's 2012 Citizen Security survey shows that safety and crime were the problems most often mentioned in 11 of the 18 countries in the region.

Lagos notes that "Ten of the 20 countries with the highest homicide rates are Latin American and 5 of the 10 most unequal countries in the world are in the region. We still have much work to do."



Markets for Brazilian manufactured exports and trade agreements

Lia Valls Pereira
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THE SHARE OF MANUFACTURES in Brazilian exports began to decline in 2005. The rise in Chinese demand for Brazilian commodities in the midst of the 2008 international crisis accentuated the trend, and by 2010 the share of manufactures was less than that of commodities. Surging commodity prices were the main cause for this change in the composition of Brazilian exports, but the fall in commodity prices reversed the uptrend in the terms of trade, which fell by 7% between 2011 and 2013.

The dynamism of Brazilian exports more and more depends on the performance of manufacturing. Another boom in commodity prices is not expected in coming years, although prices should not return to the levels of the early 2000s.

Expectations

Would a world economic recovery and a depreciated Brazilian exchange rate guarantee the expansion of manufactured exports?

During the international crisis (2007–09), the volume of manufactured exports fell sharply by 27% and then recovered by 9.4% from 2009 to 2012 and 4% between 2012 and 2013. Despite the steep appreciation of the exchange rate in 2011 and part of 2012, manufacturing exports grew. However, we are still far from recovering the share of manufactures in total exports. In November 2013, that share was 38% compared to the commodities share of 48%.

The improvement of competitiveness and productivity of Brazilian products is a key factor for the recovery of exports of manufactures. Addressing the "Brazil cost" caused by poor infrastructure, high taxation, little technological innovation, poor education, and cumbersome administrative procedures is critical to improving productivity. But what is happening in the main markets for Brazilian manufactures?

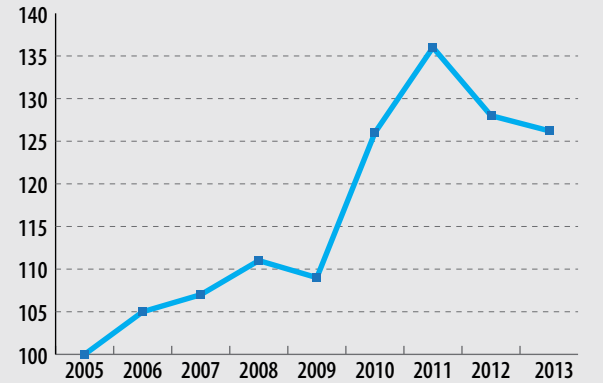
Markets

Between 2005 and 2013 the US share in Brazilian exports of manufactures declined from 27% to 19%. After reaching 23% in 2009, the EU share fell as the financial crisis in Europe spread.

US and EU tariffs on imports of nonagricultural products are relatively low. The average in 2012 was 3.2% for the US and 4.2% for the EU. In contrast, Brazil's tariffs on imports of nonagricultural products were 14%, according to the World Trade Organization (WTO). Nontariff

Brazil's export prices have declined relatively to its import prices.

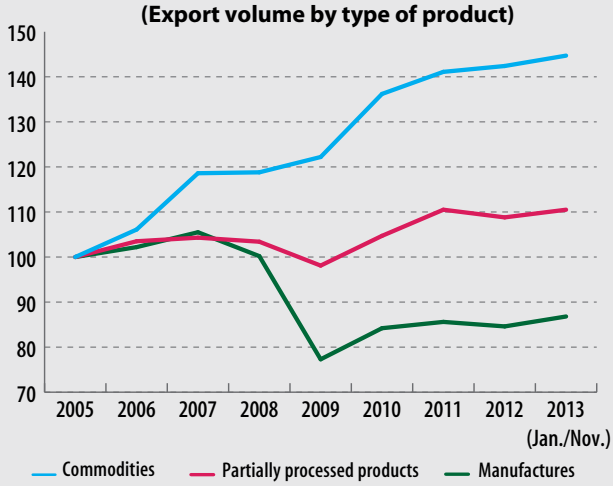
(Terms of trade, 2005=100)



Source: www.funcex.com.br.

Brazilian manufactured exports have stagnated since 2009.

(Export volume by type of product)



Source: www.funcex.com.br.

Brazil should negotiate trade agreements with the US, the EU, and Asian countries because it is missing out on the new wave of regional arrangements such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership TTIP).

barriers such as technical standards may hinder exports, but the loss of competitiveness of Brazilian products and competition from China are the main factors accounting for the decline in Brazilian exports of manufactures to the US.

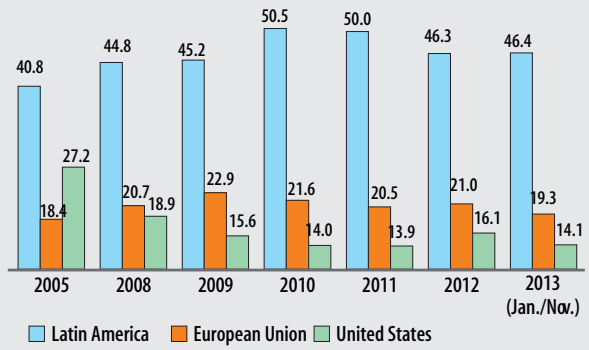
Africa's share in Brazilian exports of manufactures reached 8.4% in 2009 and then fell. Asia's share reached 9.7% in 2012 and then also fell. In Asia and Africa country protectionist barriers vary greatly. In major economies, tariffs on nonagricultural products are relatively high: India (10.4%), South Africa (7.4 %), and China (8.7%).

Latin America accounts for almost 50% of Brazilian exports of manufactures. The three Latin American markets are the Alliance for the Pacific (Chile, Colombia, Peru, and Mexico); Mercosur (Argentina, Paraguay, Uruguay, and Venezuela): and the rest of the countries in the region.

The share of the Alliance for the Pacific in Brazilian manufacturing exports fell from 35% in 2005 to 25% in 2013 because Brazil's preferential access to those markets eroded as Chile, Peru, and Colombia signed trade agreements with the US, the EU, and China, and because Brazilian products could not compete.

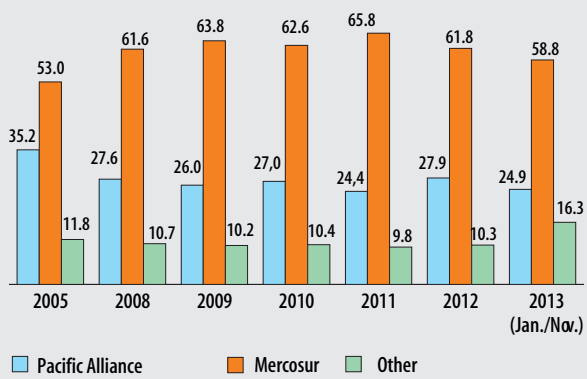
Mercosur's share of Brazilian exports of manufactures was 33.5% in 2011, 25% of which went to the Argentine market.

Share of markets in Brazilian manufacturing exports



Source: Ministry of Development, Industry and Commerce.

Exporters' share of Latin American market.



Source: Ministry of Development, Industry and Commerce.

Trade agreements

Brazil should negotiate trade agreements with the US, the EU, and Asian countries because it is missing out on the new wave of regional arrangements such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). Brazil should get behind its trade policy on Mercosur and South-South trade.

Brazil's participation in agreements with major economies depends on changes in its trade policies. Trade liberalization and commitments in areas such as services, investment, and intellectual property rights will be part of the negotiations and may contribute to improving the competitiveness of Brazilian products. Such agreements are important to consolidate commitments to a possible change in direction of Brazil's protectionist trade policies, though they will not necessarily guarantee increased exports of manufactures.

The expansion of Brazilian exports of manufactures in the region has to turn gains in access to protected markets into gains in competitiveness.

Mercosur and South American trade integration are fragile. Brazil should pursue the goal of the Treaty of Asuncion that created Mercosur: trade integration to raise the international competitiveness of member countries should guide trade negotiations in coming years. The expansion of Brazilian exports of manufactures in the region has to turn gains in access to protected markets into gains in competitiveness. The South American market is too important to Brazilian manufactures to be relegated to the background.



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The WTO and regional agreements

Patricia Campos Mello

THE WORLD TRADE ORGANIZATION (WTO) has not died. That was the feeling of relief that swept international trade experts after the Ninth Ministerial WTO Conference, held in Bali, Indonesia, December 3–7, 2013, when the WTO announced the first global trade deal in its 18-year history.

But that does not mean that the Doha Round now will take off. The deal signed in Bali was reached only after the bulk of the Doha trade agenda was dropped from the negotiations.

At a roundtable at the Institute Fernando Henrique Cardoso, trade experts agreed that the Bali deal saved the WTO from irrelevance. They also recommended that Brazil put more effort into new trade agreements before the emergence of giant regional treaties like the Trans-Pacific Partnership (TPP), which will bring together Australia, Brunei, Chile, Canada, Japan, Mexico, New Zealand, Peru, Singapore, the US, and Vietnam, and the Transatlantic Trade and Investment Partnership (TTIP) being negotiated between the US and the European Union.

Although it may take over 10 years to be implemented, the Bali trade facilitation agreement favors exporting companies, creating fast tracks in customs and greater transparency. It sets minimum standards for customs administration, aiming to reduce the amount of bureaucracy involved in clearing customs and limit delays at borders, in ports, and in transit. There is plenty of evidence that this is a big cost of doing trade in many of the world's poorest countries. The benefits of reducing these trade barriers could, in principle, be large.

But 2014 will be the real test of the viability of the WTO as a global entity. First, reform of the WTO will be discussed. The 10 years or more it took to reach a severely limited trade agreement shows the inefficiency of WTO decision making by consensus, which requires all 159 countries to agree. This time, India and Cuba almost derailed the deal. And the Bali trade agreement does not mean that now

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the Doha round will be completed, with reduction of industrial tariffs, elimination of subsidies, and all that pot of gold at the end of the rainbow.

Brazil more than ever cannot stay out of regional agreements. Brazil must join at least one regional agreement. Mercosur is useless given that its members cannot agree on a common external tariff without zillions of exceptions.

By no means will it be easy to negotiate the giant regional agreements like the TPP and TTIP. In Singapore, shortly after the Bali ministerial, Japan showed that it will not easily abandon its traditional protectionist stance on products like meat and rice. And the TTIP has frictions related to phytosanitary regulations (is there any chance of Europeans accepting American beef with hormones?).

Nevertheless, it is best that Brazil get smarter, and reach a deal with the EU soon, even if it is minimal.

The Bali deal saved the WTO from irrelevance, but Brazil needs to invest more in new trade agreements before the emergence of the giant regional treaties.

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Making the slum communities part of the cities

José Mariano Beltrame

Secretary of Public Security of Rio de Janeiro State

Kalinka Iaquinto

AFTER SEVEN YEARS OF the security policy that installed Pacifying Police Units (UPPs) in Rio's slums, José Mariano Beltrame opens a new debate: He proposes that government and society discuss without partisan political ideology urbanizing the slums. Beltrame argues forcefully that reducing crime is directly linked to making structural changes in slum communities, which as they stand are a hideout for criminals, guns, and drugs. He disagrees with the idea that slums are always police cases and argues the importance of providing other public services there, such as health and education. The UPPs, he says, have created opportunities to carry out major surgery to heal the slums.

***The Brazilian Economy*—Last month was the fifth anniversary of the launch of the UPP. How is the initiative doing and what challenges lie ahead?**

José Mariano Beltrame—I see several positive aspects. Ensuring public safety has created an opportunity to effectively transform the slums through social services, health care, and all the factors involved in reducing poverty ... The UPP creates opportunities to proceed with major surgery to heal the slums.

What would this major surgery consist of?

This would be a true transformation that would integrate slums with the rest of the city. This surgery should even touch the urbanization of the slums. This has been a taboo here in Rio. People argue about it ideologically, but I think society must discuss it and recognize that the government will not be able to do everything.

And how do we achieve this?

I believe it will take a great deal, involving not only the judicial, legislative, and executive branches but also society as a whole in order to create a new structure for the slums. And we must hurry to solve this. What will be a slum 20 years from now? People think that the executive branch can solve everything. Hudson Braga, Secretary of Public Works of the State of Rio de Janeiro, has 211 actions in court against him for carrying out public works! ... Instead of opening an avenue, which costs much less, the government builds a cable car line, which has much higher construction and maintenance costs. It's time we looked at the situation differently in order to integrate the slums into the city.

Ensuring public safety has created an opportunity to effectively transform the slums through social services, health care, and all the factors involved in reducing poverty.

What kind of differential treatment is needed?

A person who is pleading [not to be disturbed by construction of public works] has the right to do so in court, but courts should also take into account the hundreds of thousands of people who would benefit from the construction. Therefore, the issue [of making the slums part of the city] cannot be seen as taboo ... These changes are absolutely necessary. Currently, we always end up using more police; everything falls back into a punitive approach. Leaving the slums as they are means they will always serve as hideouts for outlaws, weapons, drugs, ammunition—always demanding more and more police.

The way the drug lords were acting in slum communities was the most contentious issue in Rio. After the UPPs, did trafficking decrease?

Yes, because drug-dealing activities were disrupted, but obviously crime has reorganized itself. But the UPPs had considerable impact because they destroyed the bunkers of traffickers in major slums.

Have criminals migrated to other communities or cities?

Very few criminals have migrated because they have little income and often have no way to be received elsewhere. We arrested many drug lords, and others migrated. Fabiano da Silva, who headed the drug trade in the slums of Penha and Alemão, moved to São Paulo city, where we arrested him. Criminals that remained in Rio can try anything but they will always be confronted by the police. The UPPs are responsible for most arrests—more than the military or civil police—but these are now for more minor offenses.

Many regard the security policy adopted in Rio as a success. Do you believe the model could be adopted in other cities?

I believe other cities could learn some lessons from the UPP, but they were developed for Rio's unique reality. The problems of Rio I have never seen elsewhere. I think many of the problems of public secu-

rity in the country—and Latin America—would be solved more effectively by addressing deep-rooted social problems.

Here in Rio you adopted a new model for the police that emphasized the training of new officers.

We changed the entire curriculum of the police, focusing the police force on the needs of citizens. We had a very serious problem of violence in Rio: The police force and society had turned away from each other. The police would enter slums only to make war on criminals. The UPPs ended the war, and the consequence is that the presence of a new police force is gradually changing the situation. People see that the police are there to help and know the community better. We are not going to change 40 years of history and police ills in 10 years—I have no such illusions. When will we really see results? Maybe in four or five more years we will see how the behavior of these new police officers has changed things.

Leaving the slums as they are means they will always serve as hideouts for outlaws, weapons, drugs, ammunition—always demanding more and more police.

Has the government made efforts to check and punish corrupt cops?

Yes, we have now a very active regional internal affairs department. Nearly 1,600 corrupt police officers have been expelled. We shattered the paradigm that no police officer would be arrested. I believe that we have acted well in this area, but no doubt it is a vice, something that came with the drug lords' empire. We still have corrupt cops.

There was a significant reduction in homicides in the areas pacified by the UPPs. How was that accomplished?

There is greater confidence in the police, but the reduction in homicides also occurred because the drug empires ended. If something was stolen from a grocery store in a slum, the drug lord would solve the problem. Today drug lords do not rule anymore, and people feel at ease in going to the police station. Before the UPPs, very few crimes were reported at the 15th Police Station of Rocinha. With the UPP, many more crimes are reported.

This year, are you planning more UPPs?

We are planning to establish 40 new UPPs. Our focus now is to invest more in training and preparing police officers to deal with the people because it is fundamental to end the estrangement between citizens and police.

And what are your plans for the rest of Rio de Janeiro state?

We are operating with a strategic plan. Police academies are forming new police officers every month, which will allow us to increase the policy force and establish the remaining UPPs. We do not yet have the ideal numbers of troopers in any part of Rio de Janeiro state. We also intend to subdivide the areas to which trooper companies are assigned so they can better serve the population.

The new year does not relieve the precarious situation that marked Brazil in 2013. Growth will continue to be sluggish, inflation high, and financing the external current account a concern. The much-anticipated recovery of investment may not be sufficient—or may not materialize at all.

NEW YEAR, NEW LIFE, they say. It is this sense of hope for a better future that is the main emotion at the beginning of each year. Unfortunately, the simple change of year between December 31 and January 1 does not have the power to alter the economic fundamentals. Expectations for 2014 are no exception. In fact, quite the contrary.

Following at best tepid economic performance for Brazil in 2013, the new year began with some major concerns, among them a possible downgrade of Brazil's sovereign risk by international credit rating agencies, domestic repercussions from the normalization of U.S. monetary policy, and how willing the authorities are to take the measures necessary to build up the economic fundamentals and accelerate growth. Though it is true that there is good news, unfortunately the negative portents predominate.

One positive factor is the success in the second half of 2013 of the auctions for privatizing highways and airports, which seems assured to continue in 2014. There are justifiable expectations that the new operators will spend substantially on the rehabilitation and expansion of infrastructure, not only reducing bottlenecks but also helping to raise investment in the economy, often in association with public agencies and banks.

Whether these investments will have a significant economic impact in 2014 is still a question. The program of road concessions provides R$52 billion investment over 30 years, but only a small part of that has as yet been spent. Assuming 10% of this amount is realized in 2014, investment would still increase by only 0.1% of GDP. That is negligible at best in terms of Brazil's huge infrastructure needs, which have recently been exacerbated by population demand for improvements in precarious urban public transport systems. Inevitably, a question hangs in the air: Will we be able to privatize and invest in the magnitude and timing necessary to substantially increase productivity? The answer: Not in 2014, for sure.

Moreover, Brazil is not well-prepared for the transition of developed economies to a more normal level of international liquidity and growth. Concerns about fiscal policy, public debt dynamics, and the risk of sovereign debt downgrade are likely to further depress the value of Brazilian assets, cause further devaluation of the exchange rate, and raise long-term interest rates.

Higher inflation of administered prices; a more moderate expansion of agriculture and hence the production of trucks, which already suffers from high inventories, and fears regarding a likely major adjustment of the economy in 2015 after the presidential elections in November 2014 are likely to further discourage investment.