# THE BRAZILIAN ECONOMY

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Red light on

# The BRAZILIAN ECONOMY

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The May issue of The Brazilian Economy deals with three issues of great relevance: the risks of the return of inflation, the impressive growth of the insurance industry in Brazil, and the rapprochement between Brazil and India.

Inflation, which in 1994 and 1998 decided presidential elections in Brazil will hardly be at the center of the campaign debate this year, but the natural uncertainties related to changes of command in economic policy may bring it to the fore. For economists of the Brazilian Institute of Economics (FGV-IBRE), there has been evidence for some time that inflation target will be above miss the center of the target range in 2010, although by much less than in 2008, when the rate for the consumer reached 6.4%. Increasing interest rates is one of the instruments the government has been resorting to in order to curb domestic consumption.

The insurance industry in Brazil has been experiencing a remarkable boom. The four largest banks Bradesco, Banco do Brazil, Itau-Unibanco, and Santander — have spent the last two years consolidating their insurance activities, restructuring products and operational processes to win over more of the 80 million Brazilians who have checking accounts. The sector's encouraging performance in 2009 should be repeated this year. For the last decade the insurance industry in Brazil has grown more than twice as fast as Brazilian GDP. The sector earned R$107.2 billion (US$60 billion) last year, 11% more than in 2008, despite the global financial crisis.

The visit of Indian Prime Minister to Brazil in mid-April was another step taken by both countries toward closer trade, political and social ties. Despite substantial differences, there are nevertheless important similarities. For instance, both Brazil and India argue that international institutions like the UN Security Council, the International Monetary Fund, and the World Bank must change their structures to more accurately reflect the changes in the world over the last decades.

# Transparency: The next item on the tax reform agenda

Economic debate in Brazil has been changing — a healthy consequence of what has been achieved in the last 15 years. If discussion about the quantity and the quality of the services provided by the government is coming to the foreground today, it is because themes associated with our longstanding tradition of crises and macroeconomic instability have been relegated to secondary roles. Brazilian society has become used to an environment of stable prices, and any government knows that any blunder in this area would seriously undermine its popularity.

In this sense, a culture of fiscal responsibility has become rooted in Brazil. This does not mean that governments will not commit petty sins in this area; it does mean that the most dangerous adventures had been removed from the policy options any government can offer. Thus, a fiscal policy focused on keeping public debt sustainable has been maintained by administrations dominated by rival political parties. Today it has become widely accepted government policy.

*The Brazilian society has become usedto an environment of stable prices, and any government knows that any blunder in this area would seriously undermine its popularity.*

## Fiscal responsibility culture

Recently Congressional approval of a 7.7 percent raise for pensioners earning more than the minimum wage and of changes making earlier retirement pensions more generous seems to contradict what has just been said about fiscal responsibility being well established. One has to take into account, however, that voting in the Congress commonly veers off course during election years, when the legislative and the executive powers each try to shove onto the other the burden of setting limits to the state's largesse.

The participants in this game know that truly inappropriate measures will ultimately be nullified by the President's veto. Of course, ideally members of Congress would act in ways that ensure sound public finances without this kind of populist maneuvering. Fortunately, despite these everyday political games, fiscal issues have tended ultimately to return to the healthy trajectory initiated in 1999, although they do not always stick to the conservative solutions advocated by specialists.

That Brazil has shown relatively good judgment in managing the public accounts is illustrated by the decline of the net public debt-to-GDP ratio from 56.9% to 41.6% between September 2002 and February 2010. This is the result of a consistent policy of debt reduction and sustainability, which is founded on the sociopolitical consensus that has been built around the issue. Recently, as a consequence of the global crisis, public debt spiked due to the fiscal stimulus policies that had to be adopted, but in this Brazil was simply following the same policies as the

major economies in the world, and in doing so it received incentives and support from the international financial institutions. In fact, this was more a policy unique to a compelling historical moment than a departure from fiscal responsibility. In any case, it is likely that the policy of primary surpluses, once the fiscal stimulus is over, will guarantee that public debt will again fall as it has been doing since 1999.

## Tax burden

One important consideration in Brazilian fiscal stability is that in the last 11 years it has basically been achieved by continuously increasing the tax burden. There is at present little room to maneuver to cut taxes. To do so, expenditures would have to be cut. The lion's share of the recent increase in public spending, however, comes from expansion and improvement of basic services like education and health care and increases in transfers, salaries, and pensions for social groups. These apparently have the approval of Brazilian society, as revealed in free and democratic elections.

That is why the advocates of fiscal rigor turn their attention to "other expenses." However, the idea that there is room to cut other expenses is a myth. It is impossible to make any sizable adjustment of other expenses, which has already been considerably squeezed. Between 1999 and 2009 Federal Government expenses increased by 4.3 percentage points of GNP: of this 1.7 percentage points was social programs, 1.3 social security, and 0.6 health and education expenses. Other expenses excluding health and education actually fell by 0.3 percentage point of GNP.

Thus there is a real deadlock in the fiscal debate. The tax burden may have reached a "political ceiling," or be close to it, but society's demands for public spending do not stop growing. On the other hand, room for cutting expenses is very limited, and there is a consensus that fiscal responsibility is imperative in the medium and long term.

## Tax transparency

The great majority of Brazilians see only the undeniably positive aspects of increased public spending. They do not see its gargantuan costs. If Brazilian society is to have a serious discussion about what kind of government it wants, it is fundamental that the population understand the costs that correspond to the benefits.

Any discussion about the size of government also requires transparency about the taxes paid by every Brazilian. Some simple measures of transparency related to taxes would greatly enhance the debate. One example would be a system — already applied in the United States and other developed countries — that displays the prices of merchandise on the shelves excluding the indirect taxes, which are added on later so the tax cost can be seen. Another interesting possibility is to include in workers' paychecks the taxes their employers pay to have them hired. These very simple measures can be a powerful educational instrument to prepare Brazilians for a comprehensive discussion about the size of the government.

*Room for cutting expenses is very limited, and there is a consensus that fiscal responsibility is imperative in the medium and long term.*

Obviously, a lot more can be done to build social awareness about the costs and benefits of public spending. As it becomes more and more difficult to solve the fiscal equation, this debate is urgently needed so that Brazilians can participate by exercising their citizenship knowledgeably.




# Brazil's insurance industry expands

**Denise Bueno,** São Paulo

The insurance industry in Brazil is experiencing an unprecedented boom period. The four largest banks — Bradesco, Banco do Brasil, Itau-Unibanco, and Santander — have spent the last two years consolidating their insurance operations and restructuring products and processes to win over a good number of the 80 million Brazilians with active checking accounts.

"We have 40 million households in Brazil and only a few are covered. Only now has Bradesco reached 1 million, and we are the second largest home insurance company," says Marco Antonio Rossi, president of Bradesco, which is responsible for 25% of total insurance sales. Rossi estimates that selling only to the bank's clients, Bradesco could reach 8 million residential insurance policies.

Joseph Rudge, vice president of Itau-Unibanco, agrees: "We view with optimism not only the growth of Brazilian companies but above all the infrastructure works required to host the big events to come, the World Cup and the Olympics, which will require coverage of the risks."

**Account holders** — Similarly, Santander bank is not only focused on its clients — the bank is responsible for life insurance, pension plans, home and car insurance, and business risk policies offered by strategic partners — but is reaching out to other companies as partners, primarily Vivo, which writes accident

insurance. "The idea is to have a product that appeals to cell phone customers. If all goes well, new channels will be open to reach customers outside the bank," says Gilberto Abreu, director of insurance for Santander bank.

Government-owned Banco do Brasil is this year finishing up a major restructuring that began in 2009. Paulo Rogério Caffarelli, BB vice president, says one aim is to increase the share of insurance operations in bank profits and generate products customized for every type of customer: "The strategy is to create for our clients a safety net for modern life risks and income accumulation for retirement." The BB has a partnership with Icatu for capitalization, with The Hartford in the US for private pension funds, and with Spain's Mapfre for general and life insurance. BB is also finalizing the purchase of the National Treasury's interest in the Brazilian Institute of Reisurance (IRB).

"There is so much interest we expect that Brazil will soon occupy a prominent place among the largest insurance markets, since it already ranks among the top 10 economies in the world," said Antonio Cassio dos Santos, president of the Mapfre holding company, adding that "Brazil has become fashionable in the world because of the new horizons of the national economy in recent years."

Indeed, the performance of Brazil's insurance industry has been encouraging. Over the last decade it grew at a rate more than twice that of national GDP. The sector earned R$107 billion in 2009, 11% more than in 2008. Of the total, private pension funds accounted for R$38 billion and general insurance for R$33 billion. Brazilians clearly are more aware of the need both to protect their assets and to save part of their income for the future.

Health insurance makes up 12% of total sales (R$12 billion), an increase of 10% over 2008. Although there are 10 groups that work selling health insurance, Bradesco and SulAmérica together account for 79% of sales.

Sales of insurance represented 3.4% of GDP in 2009, up from just over 3.2% in 2008. "If we consider that GDP had a real decline of 0.2% last year, the performance of the insurance market was very significant. Sales of insurance policies grew by 6.1% in real terms," says Flavio Faggion, CEO of Siscorp Consulting.

**Gains** — Along with sales, net income has also risen. Consolidated profit reached R$7 billion in 2009, almost 20% higher than in 2008, mainly from efforts to reduce costs to make up for losses in revenue resulting from the decline in interest rates, according to Siscorp Consulting. In 2009 Bradesco was the most profitable company with more than R$2 billion — nearly 40% of the profit of the bank. Faggion

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says that "market profitability, measured by net return on equity, was 24% in 2009 and 22% in 2008, which underscores the market's ability to remunerate the investment of shareholders.

The performance of the insurance industry has been good even though it has not yet even begun to benefit from planned investments in infrastructure to sustain Brazil's growth. The government's Growth Acceleration Program 2 (PAC 2), with investments of nearly R$1 trillion; the World Cup in 2014; and the Olympic Games in 2016 are all huge investments that will require many insurance contracts.

"There are opportunities everywhere you look," says Jorge Gonzalez Cale, CEO of Group Aon Corporation for Latin America, part of the largest insurance broker in the world. Like Aon, an endless number of foreign investors are attentive to all types of possibilities, from complex insurance for investments in the new technology needed for the Pre-salt oil field to simplified funeral insurance for those with lower incomes.

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"The way Brazil's economy came out of the financial crisis, its economic stability, and international optimism about the country's development allow for a very optimistic view of the growth of the insurance market," says Guillermo Leon, president of Chartis Insurance, a subsidiary of American International Group (AIG) specializing in property risks.

A recent report issued by Santander analysts also raises optimism. It predicts that the sector should keep growing at about 15% a year through 2014. Growth will be spurred by such factors as automobile sales, a drop in the unemployment rate, and expanded credit for all segments, especially housing. "Brazil has a promising future and all segments of the economy will benefit," says Acacio Queiroz, president of Chubb.

**Optimism** — Accenture studied how 30 major insurance companies in Brazil see prospects for the domestic market through 2015, and found they expect strong growth for insurance products for life, health, and pensions. Besides an increase in consumption by those who already have some insurance, the sector has benefited from the higher purchasing power of the population. "With the reduction of the poverty rate and the increase in the Brazilian middle class, which could reach 100 million people, the insurance market will gain direct consumers for the sector's products," the study said.

A report from Goldman Sachs investment bank highlights the natural potential of the sector by evaluating the low share of insurance in total domestic product. In Brazil the insurance industry has a share of 3.4% in GDP; the world average is 8%. The study found that the gap between Brazil's ranking among the ten largest economies and its ranking only 17th in the world insurance industry will narrow over the medium term as the benefits of the opening of the reinsurance market become more visible.

Indeed reinsurance has changed most in the past two years. To open the reinsurance market, the Superintendence of Private Insurance (Susep) had to adjust regulation of it to international standards. This generated a wave of consolidations and intensified local competition as more foreign investment came in. More than 80 international insurance companies — reinsurers, brokers, and service providers — have since set up business in Brazil.

The elimination of restrictions on buying reinsurance raised Brazil's attraction to the insurance industry. Susep found that in 2009 total foreign investment exceeded R$14 billion invested in more than 50 companies. Among the latest companies to enter the market is the Canadian firm Fairfax. "At the end of March we increased our capital from R$40 million to R$71 million," company president Jacques Bergman says. In April, Chartis too announced a capital increase of R$54 million.

**Changes** — This scenario turned the domestic insurance market into an international one. Virtually everything in the sector was restructured in the last two years, products as well as management. Advertising has also changed. Instead of terrorizing people with the fear that something bad can happen at any time, making insurance a necessary evil, the new campaigns are more creative and friendlier.

Liberty has chosen a social responsibility theme. As a result, "We grew 16.5% last year and hit the mark of R$1.5 billion in [insurance premiums]. Now we have the scale to pursue greater involvement in the country," Luis Maurette, president of the Brazilian subsidiary of American Liberty, said. Liberty arrived in 1996. The campaign aims to enhance the company's presence in retail insurance; it spent the last year investing in the performance of its high-risk group through two new subsidiaries, Liberty International Underwriters (LIU), focused on greater risks and Liberty Syndicates, the reinsurance group.

SulAmérica was already using the slogan "Why worry?" For Patrick Larragoiti, its chairman, the new campaign aims to make the company the preferred choice of both brokers and insured by 2012: "We want the insured and the broker to think of SulAmérica as agile and transparent, prepared to avoid hassles."

**Target** — This February Bradesco launched insurance for accidental death for the lower middle class and

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the poor, aged between 20 and 50, and targeted first residents in the large urban centers of Rio de Janeiro and São Paulo. The insurance covers such events as shootings and costs only R$3.50 per month; policy limits reach R$20,000, Brradesco director Eugenio Velasques says.

Insurance for the general population is likely to see intensified competition between banks and independent insurers. In 2009, this niche saw the highest growth in sales, totaling R$52 billion. It now represents almost 49% of the total insurance market, according to a Siscorp survey. The policies are sold mainly by large retailers or banking networks, and premiums are usually paid automatically through credit cards or direct debit of a bank account. Large corporations also sell insurance on site to employees at a cheaper price.

**Auto insurance** — The biggest concern of Brazilians is their cars. Besides theft, drivers also fear floods. In 2009 the car insurance segment unexpectedly showed significant growth of 13%, tracking the good performance of vehicle sales.

Psiupar, a joint venture between Porto Seguro and Itau-Unibanco, is the leader in the sales of car insurance with 28% market share. Bradesco ranked second with 14% and SulAmérica third with 12%.

Rural and housing insurance grew most in 2009, rural at 30% and housing at 26%. Farming has been gaining prominence mainly because Brazil is a major supplier to China. Housing is expected to continue to be a strong nmarket ow that credit for mortgages has expanded significantly.

According to Siscorp's Faggion, although the industrial sector declined 5.5% in GDP in 2009, insurance of large risks, operational and fire, had very satisfactory growth of 7%. However, other insurance products suffered from the financial crisis: credit insurance was down 15%, transport insurance down 8%, and risk guarantee insurance down 3%.

**Expectations** — The watchwords in the industry for 2010 are competition, reduction of costs, and gains in economies of scale to make insurance more affordable. Although there seems to be little room for further consolidation between large insurance companies, mergers and acquisitions should continue, according to Mapfre's Cassio dos Santos: "There will be a lot of movement among smaller insurers, with the emergence of a large number of new companies specializing in niche markets and regions."

Insurance companies also are betting on increased sales of liability insurance — the more aware and educated population, the higher the sale of such insurance. There is a trend of increased sales of liability insurance for both individuals and corporations, whether in traditional policies such as automobile and home or in corporate programs to protect the assets of executives from lawsuits by third parties alleging mismanagement.

Worldwide, about 75% of car insurance premiums are for liability coverage. In Brazil, this value is minimal. Only 30% of Brazilian car owners have any insurance, and almost all the contracts are to cover damage to the buyer rather than harm to others. "Liability coverage is a matter of education and awareness," explains Paul Umeki, director of Liberty Insurance.



# INFLATION: RED LIGHT ON

**Liliana Lavoratti,** Rio de Janeiro

Inflation, which in 1994 and 1998 decided presidential elections in Brazil, will probably not be at the center of the debate in this year's campaign, but it could be jolted into prominence by natural uncertainties surrounding the change in command of economic policy. After 16 years of successful economic management based on inflation targets, fiscal adjustment, and floating exchange rate — by both tucano (Brazilian Social Democratic Party, PDSB) and workers' party (PT) administrations — the "beast" might continue its undisturbed slumber were it not for the special context of an intensely overheated economy and certain tensions in the air. On the market side, there is the fear that economic policy will change in January 2011, regardless of whether the winning candidate is Dilma Rousseff (PT) or José Serra (PDSB). On the government side, the context includes the adoption of a more intensive short-term adjustment lest the higher central bank policy rate taint the electoral debate.

For alert observers, for some time now there have been clear signs that inflation will miss the center of the 2010 target,

In addition to seasonal pressures, there were adjustments resulting from the overheating of the domestic market.

although by less than in 2008, when consumer inflation rose to 6.4%. The new cycle of interest rate hikes started in late April, when the monetary authority validated market expectations and raised the annual policy rate from 8.75% to 9.5%, continuing the monetary squeeze initiated by the increase in commercial bank reserve requirements at the Central Bank to mop up excess liquidity and the end of tax incentives for certain industrial segments. "All seems to indicate that a number of the meetings of Copom [the Monetary Policy Committee] this year will result in a rise in interest rates; the cumulative increase could total 3 percentage points," says economist Salomão Quadros, coordinator of the General Price Index of the Getúlio Vargas Foundation.

The monetary authority changed course after 18 months of an unchanged policy rate — 8.75% a year, the lowest in history — and increased the rate by 0.75 percentage points because of signs of upward pressure on price indexes early in the year that led the markets to successive revisions of projected inflation. According to the latest estimates by market analysts in a Focus survey, which is a source of information for Copom, the IPCA, the official broad consumer price index calculated by the Brazilian Statistics Institute, is expected to reach 5.5% in 2010. If it does, we would be at least 1 percentage point over the center of the target (4.5%), though still within the two-point tolerance band (6.5%). In the 12-month period through March the IPCA reached 5.17%, which annualized would be 8%. The 2011 forecast incorporates those changes, and the projection is for 4.8% — also above the 4.5% center of the target.

Inflation in the aftermath of a global financial crisis is a problem afflicting other emerging countries as well. Brazil, China, and India, which dealt very well with the scarcity of credit brought about by the Lehman Brothers bankruptcy in 2008, boosted domestic demand using expansionary fiscal policies. Now they are countering inflationary pressure by raising interest rates and introducing other measures to contain consumption.

At this juncture, inflation is generated in two areas: the prices of tradables (commodities, food items, electro-electronic appliances), which are influenced by increases in international markets; and the higher domestic prices of services, pushed up by domestic demand. "Although the CPI has missed the center of the target, by December accumulated inflation should not exceed 6% because the influence of tradables is more subdued

than in 2008. The US, Japan, and Europe, which make up 70% of the global economy, are still dragging," Quadros explains. This is not what happened two years ago, when the world was in expansion, commodity prices soared, and stocks became scarce, which triggered inflation in food prices. Inflation of domestic prices, however, should be comparable to that in 2008 because the domestic market is speeding ahead.

**Overheating**

This has been a different year from the start. In addition to seasonal pressures — some of them expected, such as higher school fees; and others unforeseen, such as higher bus fares in São Paulo and Rio — there were adjustments resulting from the overheating of the domestic market, IBRE economist André Braz points out. "Seasonality coupled with price hikes deriving from increased domestic consumption resulted in a higher price level than in previous years," he adds.

According to the IPCA, the prices of services, which went up during the crisis, continued to do so at the beginning of 2010. Braz comments, "As growth picked up, became clear the strength of service prices became clear. The adjustments were kept at around 7% over 12 months, as in early 2009, a trend that is starting to spill over to durable goods. It is all the effect of an increasing wage bill and of the expansion of demand."

Price pressure in early 2010 was quite obvious in durable goods, especially cars: in the 12-month period through January 2010 their prices had declined by 0.57%, but in the 12-month period through March, they grew by 0.34%, having declined by 1.48% in March of 2009. "Government incentives until the end of March this year, consisting of a reduction in the tax on manufactured goods, helped the recovery," Braz notes. Prices of nondurable goods, another component of the IPCA, rose less than in the first quarter of 2009. In the 12 months through March, they rose by 5.8% compared to 8.7% in 2009.

Prices of raw materials for industry have also shot up. Manufacturing materials, a thermometer for industrial raw materials,

**There is still anxiety about the evolution of the prices of services.**

increased by 2.8% last February compared to January, according to the IPA, the broad producer prices index. "That is quite a lot for a single month," Quadros points out. From January to April this year, the accumulated increases amount to 6.4%. In this case, the pressure on prices originates not in Brazil but elsewhere. For instance, prices of petrochemical products were pushed upward by higher demand in China. The same happened with other raw materials: according to the IPA, in the first four months in 2010 fertilizers soared by 22.4%, aluminum by 28.3%, and polystyrene by 17.5%. "So far, those price hikes are contained within the industrial sector, but they may soon be passed on to the final consumers," Quadros says.

Keeping policy interest rates high will contain the inflationary process, but inflation rates will only begin to decline and return to the center of the inflation target toward the end of the year.

**Balance**

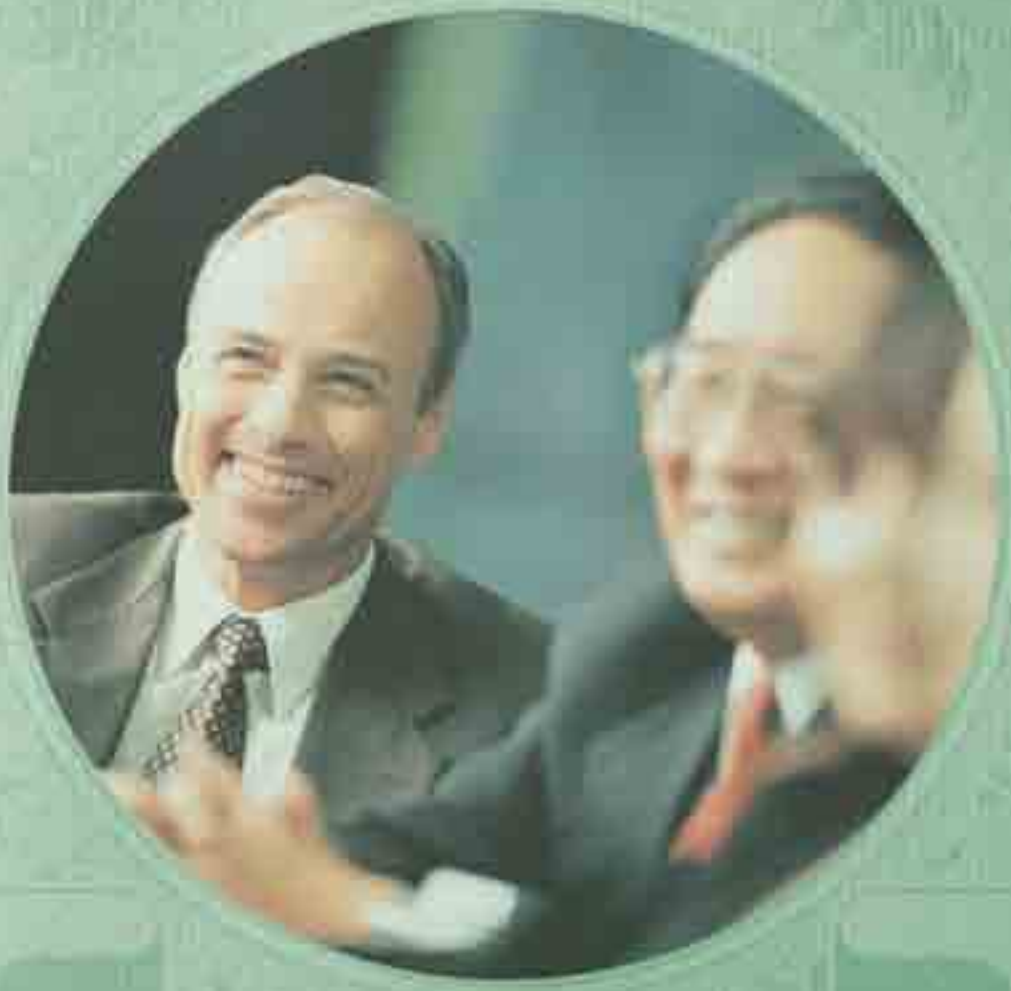
The seasonal pressure exerted by certain products, particularly fresh food items, will subside because demand tends to return to balance as weather conditions normalize.

Because the price indexes used to calculate utility prices were lower in 2009, prices of water, electric power, and telephones are expected to fall in the second quarter. Those services, which increased by 4.8% in the 12 months through January 2010, increased by 4.6% through March, a contraction of 0.2 percentage points in two months, according to the IPCA. Those prices account for about 30% of a household budget. "Reduced pressure from those prices is welcome news," Braz says.

But there is still anxiety about the evolution of the prices of services. By mid-2010, the costs of car repairs, visits to the doctor, entertainment, and vacations during the July recess are bound to increase. Quadros says, "We are experiencing a period of expansion of credit and wages, and positive consumer expectations regarding the future of the economy. This combination will generate heightened anxiety about consumption, and this will feed inflation during 2010."

Quadros believes that keeping policy interest rates high will contain inflation, but inflation rates will only begin to decline and return to the center of the inflation target toward the end of the year and, more clearly, in 2011. There is a time lag between a hike in interest rates that renders credit more expensive for both consumers and businesses and the effects on domestic demand and prices.

What is significant is that the monetary authority has acted firmly and promptly to prevent the first wave of inflation from sparking second-round price hikes caused by salary increases and inflationary expectations. "The market will perceive that this first wave of acceleration of prices is temporary," Quadros concludes. What is essential is not to let this process contaminate the next few years in a snowballing effect. Braz adds that "A certain degree of inflation is quite normal as employment, the wage bill, and consumption are growing. Nevertheless, we should not allow those increases to become entrenched and generalized."



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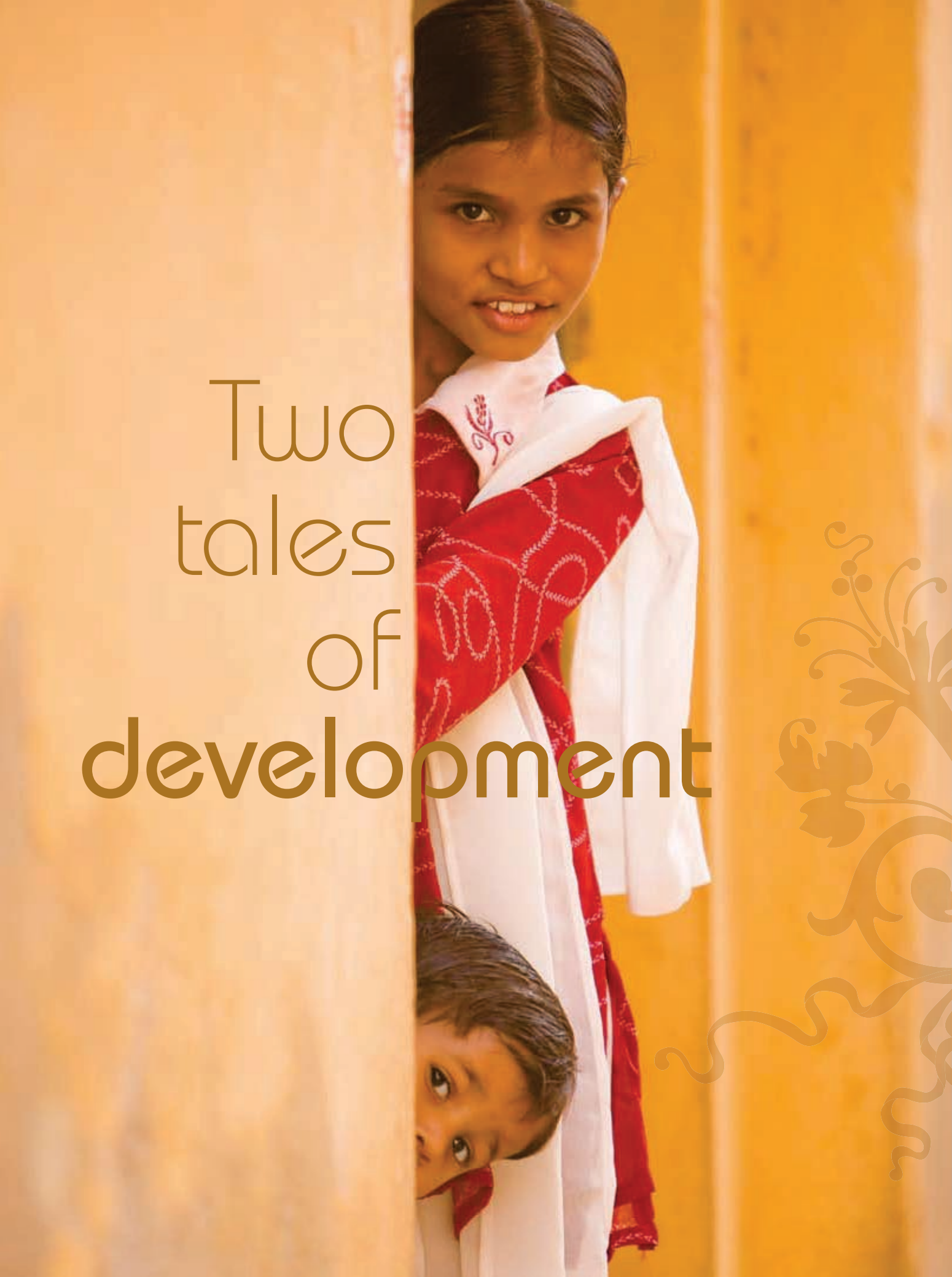


# Two tales of development



**Liliana Lavoratti,** Rio de Janeiro

India is still almost unknown to Brazilians in general. Given the distance not only geographically as well as quite different civilization, the cultural exchange between Brazil and India is still insignificant, similar to what occurs with other emerging nations and the BRIC countries (India, Brazil, Russia, India and China) in particular. Apart from the general interests that unite these countries around their future potential economic growth, here in Brazil we do not know much beyond that the Indian population is divided into castes and that the currency is the rupee.

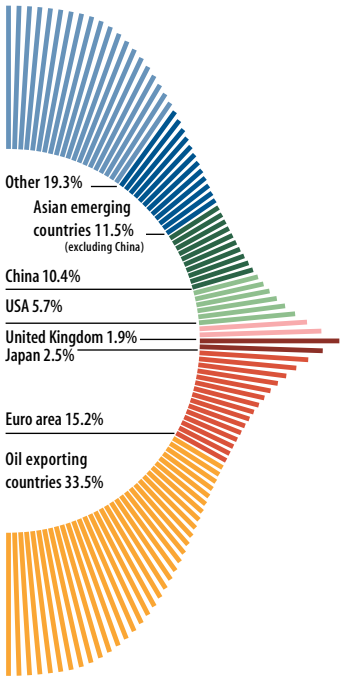
After China, the world's most populous country, with nearly 1.2 billion inhabitants, India is one of the best performing economies coming out the global crisis and to possibly recording the second highest GDP growth this year (8.8%), behind only China (10.0%), according to the International Monetary Fund (IMF), and followed by Brazil (6.5%), according to the Brazilian Institute of Economics, Getulio Vargas Foundation (IBRE-FGV). This strong performance is focused on a strong domestic market and low exposure to the external sector, reinforced by fiscal and monetary stimuli given at the end of 2008. To contain inflationary pressures arising from higher than expected economic heating, these incentives are being removed. The IMF forecasts inflation of 8.1% this year for India.

## Reforms

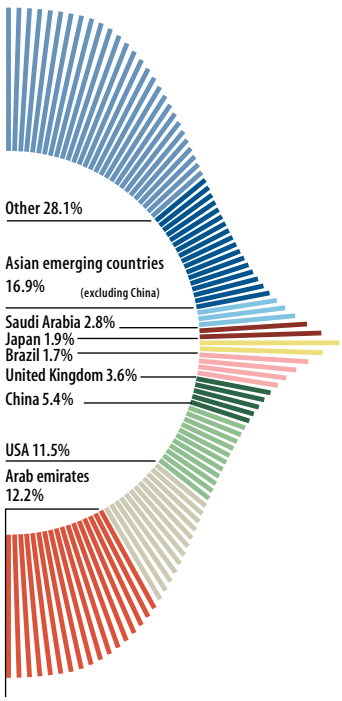
India has a number of successes since 1991, with a broad program of reforms aimed at liberalizing trade, restructuring of the domestic financial system and financial openness. All to promote development with economic stability. "These reforms led to changes in production structure, external insertion, and financial system," explains Silvia Matos, an economist at IBRE-FGV.

# India

Share of imports by origin (2008)




Share of exports by destination (2008)




Source: CEIC Database, Bradesco bank.

India has recorded high rates of economic growth, with significant expansion of exports in the technology-intensive services sector. Between 1992 and 2002 the average growth of Gross Domestic Product (GDP) was 5.3%, while between 2003 and 2008 reached 8.4%, according to data from the IMF. The information technology sector, which relied on extensive research, has stood out in this process. The telecommunication and finance sectors also expanded at a pace faster than GDP.

"The reforms laid the foundation for rapid growth based on the service sector and a strong reduction in the share of agriculture in GDP," says Silvia. According to data from World Bank, the share of services increased from 39.8% of GDP in 1980 to 52.8% in 2007. In contrast, the share of agriculture fell from 35.7% to 17.8% of GDP. The industry went from 24.7% to 29.4% of GDP.

India overtook Brazil in world ranking for industrial production, according to the Industrial Development Organization of the United Nations (UN). The Asian country, who won the ninth position in the ranking of the world's largest industrial sector in 2009, doubled its global market share in ten years, rising from 1.1% in 2000 to nearly 2% last year, leaving Brazil in tenth place.

The increased openness of the economy (sum of exports plus imports over GDP) is another characteristic of India's development. It reached 34.7% in 2007 from 14.6% in 1990. Equally important in India's development were productivity gains in the period. Between 1997 and 2007, the Total Factor Productivity per capita grew by 15.2%, according to a study by Samuel Pessoa, economist of IBRE-FGV.

Another important aspect is that India has high share of investment around 40% of GDP in 2007 compared to 18.5% in the early 1980s. The expansion of the Gross Fixed Capital was 6.7% last year and government spending increased 12.1% in 2009. "During the crisis one wondered whether India could sustain that positive path, but the country has done better than expected," says Professor Frederico Turolla, School of Economics of FGV São Paulo. However, he draws attention to the fiscal indicators, which are still negative. Despite having a low tax rate -— around 18% of GDP, the same level in China, compared with 35% of GDP in Brazil -— the budget deficit problem is similar ours.

The difference is the profile of government spending. "Public spending in Brazil is of poor quality because they consist of primarily consumption. In India, it is the opposite, government spending has a strong investment component," says Turolla. India's federal government investment is 11% of its primary spending

(excluding interest payments), while Brazil, despite increases in taxes, Brazil's federal government investment is only 5% of its primary expenditure, proportionately less than half of what was in the 1970s. According to market forecasts, the budget deficit this year in Brazil will be 8% of GDP.

Gross debt of the public sector in India was 78.2% of GDP in 2008 (China, 17.7%), according to IMF data. In Brazil was 57.9%, according to Central Bank.

## Challenges

Improving public services, particularly in infrastructure sectors, is among the challenges in India. According to The Global Competitiveness Report 2009-2010, World Economic Forum, the infrastructure and excessive government bureaucracy hinder the efficiency of the country, placed 49th in the ranking of competitiveness compared to China's 29th position. But Brazil, which stayed in 56th place, is criticized for the high tax burden and complexity of tax legislation and social contributions.

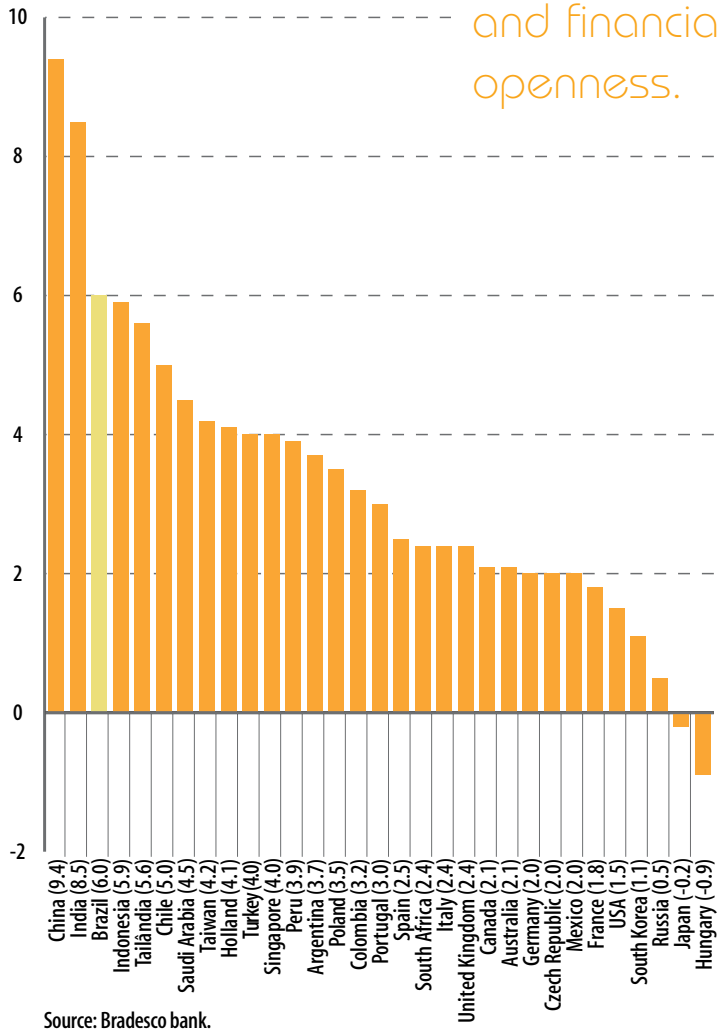
Despite investments in education, India's education indicators are still poor and educational inequality remains high. According to the World Bank, the percentage of literate population aged 15 or over was only 66% in 2005. Literacy rates have already reached 93% in China and 90% in Brazil.

According to the database Barro-Lee Educational Attainment Dataset (2010), in India the population over 15 years had on average 1.1 years of schooling in 1960. Fifty years later, this ratio was 5.1 years for the Indians. In Brazil, this ratio was 2 years and 7.5 years in the same period. The Chinese had an average 2.4 years of schooling in 1960 and reached 8.2 years of school in 1975.

"We must also bear in mind that two thirds of India's population still lives in the countryside, which influences the productivity of the

India has a number of successes since 1991, with a broad program of reforms aimed at liberalizing trade, restructuring of the domestic financial system and financial openness.

## GDP growth projections 2010



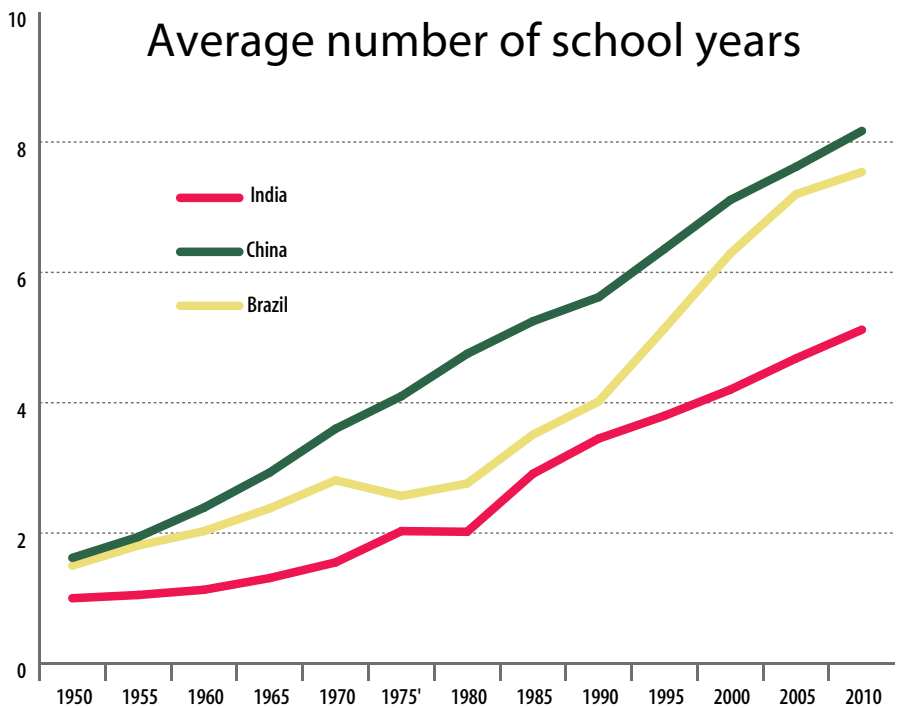

Source: Bradesco bank.

India has high share of investment around 40% of GDP in 2007 compared to 18.5% in the early 1980s.

country and hampers progress in many aspects," notes economist Silvia Matos. In Matos' view, the greater liberalization in financial markets is among the priorities of India today. The state still controls around 70% of banking sector assets (data from Goldman Sachs investment bank) and there are few private financial instruments such as corporate debt. "The development of the industrial sector is also on the list of pending improvements, because of infrastructure constraints as well as limitations of the private financial instruments," She explains. The reduction of regional inequalities completes the list of challenges.

**India's political system**

India has parliamentary regime and elections every five years. The Parliament consists of two chambers — the Lok Sabha, with members elected by the people, and the Rajya Sabha, where members are nominated and elected. Members of both houses and the State Assemblies elect the president for a period of five years. The president — now the lawyer Pratibha Patil, 72 years — is the head of state and commander of the Armed Forces. The Prime Minister, Manmohan Singh, appointed by the president, must have majority support in the Lok Sabha. Each of the 26 states and six territories have a governor, assisted by a Council of Ministers. The judiciary, independent of the executive, is the guardian and interpreter of the Constitution, being the Supreme Court is its highest authority.




Source: Barro-Lee Educational Attainment Dataset (2010).

# A trade perspective

**Lia Valls Pereira**

In the list of GDPs measured by purchasing power parity of 2008 of the World Bank, three developing countries are among the top ten: China (second place), India (fourth) and Brazil (ninth). The term BRIC (Brazil, Russia, India and China) arose from an article by Jim O'Neill of Goldman Sachs. The constitution of the group occurred in June 2009, through a formal summit between governments. It is difficult, however, to imagine common agendas between these countries, except on issues of reform of multilateral organizations, and especially in the field of finance. The creator of the acronym in an interview with the newspaper O Estado de São Paulo (April 15, 2010) said that political differences between countries are a factor that hinders the joint action.

India and Brazil are together, but in another agreement, the IBSA, which aggregates also South Africa. The IBSA was established in June 2003 as a mechanism for cooperation and coordination of common interests of the three countries. At first, the identity of the IBSA was associated with the role of these countries in the leadership of South-South and North-South. Moreover, they shared common values such as respect for democracy. The IBSA agenda expressed in thematic working groups is vast, including agriculture, culture, defense, education, energy, environment and climate change, human settlements, information society, public administration, tax administration, science and technology, social development, commerce, transportation, and tourism.

Trade is only one item on the agenda of the IBSA. However, after six years and at the 4th Meeting of the Heads of States of the country members of the IBSA, held in Brasilia last April 15, it is worth to evaluate the results obtained so far. Here stands out the commercial relationship between Brazil and India.

## Trade

In 2009 respectively, India and Brazil were 22nd (US$155 billion) and 24th (US$153 billion) world's

In 2009, India was the ninth destination market for Brazilian exports with a share of 2.2%.

largest exporters, according to the World Trade Organization —- the participation of two countries in international exports is close to 1.2%. The percentage is similar, but the exports of the two countries show differences. In India, the major group of exports are manufactured goods (64%), followed by fuels and minerals (24%) and agricultural (12%). In Brazil, the manufactures are in first place (45%), followed by agricultural (32%) and fuels (23%). In world trade, Brazil gained market in agriculture and India gained in manufactures. Between 2000 and 2008, Brazil's share in the world's agricultural exports rose from 2.9% to 4.6%. During that same period, the India's share in the world's trade of manufactures increased from 0.7% to 1.1% and Brazil from 0.7% to 0.8%.

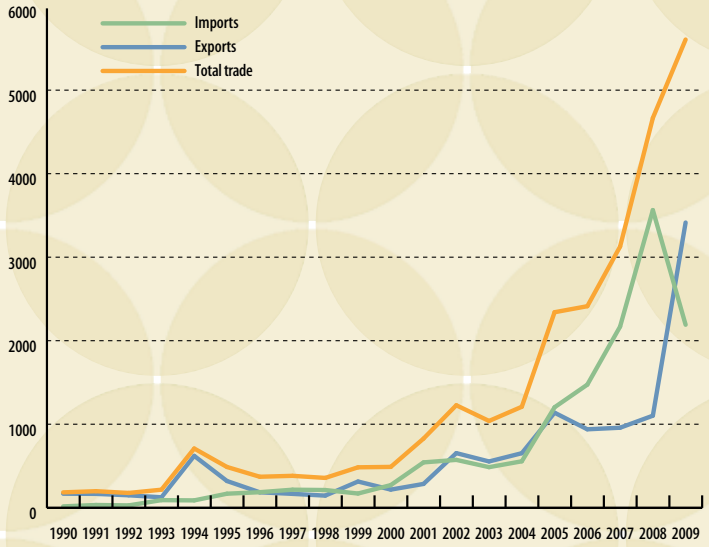
Regarding imports, India is in 15th place (US$244 billion and participation of 1.9%) and Brazil in 26th (US$134 billion and 1.1%). The degree of openness (the share of trade flows in GDP) of Brazil was 24% and India 42%.

Regarding services, India stands out. It is the 12th largest exporter (US$ 86 billion, with participation of 2.6%) and import (US$ 74 billion and 2.4%). Brazil occupies the 31st place on the list of exporters (US$ 26 billion and 0.8%) and 20th place in imports (US$ 44 billion and 1.4%). The openness measured in terms of services is 28% for Brazil and 58% for India.

The structure of tariff protection (implemented in 2008) reflects differences in comparative advantages in the agricultural sector. In India, the average tariff for agricultural products is 32% and in Brazil 10%. Regarding non-agricultural products, the averages are close — 14% in Brazil and 10%, India.

The importance of markets in developing countries increased for both Brazil and India. Brazil's trade share for these countries increased from 40% to 49% between 2000 and 2008, while India's share rose from 32% to 51% in the same period. The share of exports of developing countries grew in Asia, the Middle East, and Latin America and Caribbean.

**Brazil's trade with India**
(Millions of US dollars)




Source: Brazil's Ministry of Development, Industry and Commerce, elaboration IBRE/FGV.

## Brazil and India

In 2009, India was the ninth destination market for Brazilian exports with a share of 2.2%. The result of exports in 2009 was atypical. In 2008, India occupied the 38th place in Brazilian exports. Excluding 1994 and 2009, which show much higher shares of usually registered; the average share was 0.5% in 1990-1999 and 0.7% in 2000-2008. Thus, in terms of participation, the increase was small.

As the market of origin of Brazil's imports, India ranked 14th in 2009 and 11th in 2008. The share of imports was more stable and there is a clear upward trend. The average share rose from 0.7% in 1990-1999 to 1.3% in 2000/09.

Brazil's exports to India grew from US$314 million in 1999 to US$1,102 million in 2008. The growth of 210% between 2008 and 2009 is due to the extraordinary increase in imports of Brazilian sugar (US$43 million to US$1,326 million) due to weather problems in India. In addition, exports of crude oil increased from US$2 million to US$872 million. Between 2003 and 2008, the average annual growth of exports was 15%. From the creation of until 2008, the average annual growth of imports from India was 49%. The decline in imports from India in 2009 resulted from the overall drop in purchases by Brazil.

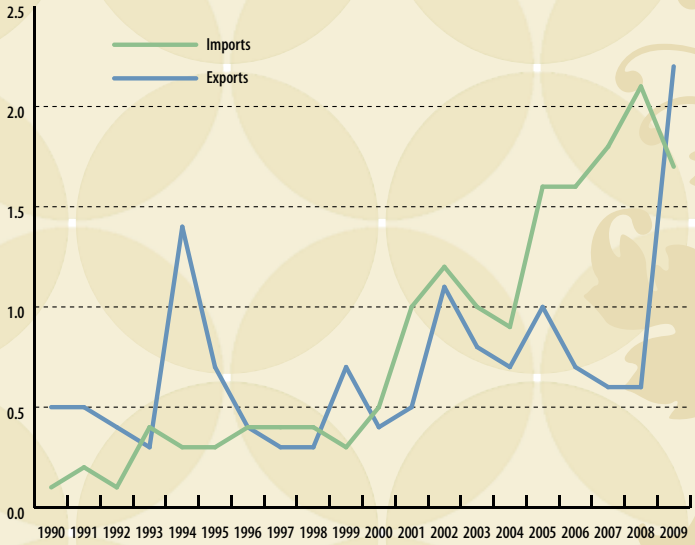
The structure of Brazil's exports to India shows an increase in the share of manufactures from 23% to 40% between 2003 and 2006. Since then, the share of Brazil's manufactures drops a bit to 38% in 2008 and 22% in 2009 partly because of the increase in commodity prices. The main products exported were crude oil, which come back in the form of diesel oil, sulfides of copper ore, other minerals and sugar. In 2005 and 2006, sales of aircraft are among the top five Brazil's export products to India. Five products explain more than half of Brazil's exports to India.

Brazil's exports to India grew from US$314 million in 1999 to US$1,102 million in 2008.

## Mercosur and India

An agreement between Mercosur and India was signed in March 2005 and entered into force in June 2009. The trade flows do not reflect yet the

**India's shares in Brazil's external trade**
(Percent of total Brazil's exports or imports)




Source: Brazil's Ministry of Development, Industry and Commerce, elaboration IBRE/FGV.

The path to a comprehensive free trade agreement between Brazil and India depends on a firm political decision of governments, which for now is still in the phase of intentions.

agreement. Mercosur offered to India 452 products with tariffs reductions ranging from 100% (zero import tariffs) to 10%. India has offered 450 products and 75% of products will benefit from tariff reductions of 20% over the current rates.

In a study by the author for the Latin America Trade Network (Latn, www.latn.org.ar and Center of Studies for Integration and Development (Cinder, www.cindesbrasil.org), we calculated that the share of imports benefiting from the agreement coming from India in the total imports of such products is 1.3% for Brazil, while the share of imports benefiting from the agreement coming from Brazil Is 3.2% for. We can say that the agreement for both countries covers a small number of products, and the trade liberalization modest.

**IBSA**

At the 4th Meeting of the Heads of States of the country members of the IBSA, held in Brasilia on April 15, there were several speculations about the event outcomes. These ranged from negative assessments that the IBSA meetings were "opportunities for meetings producing statements about wishes not accompanied by actions" until very optimistic views about the importance and effectiveness of the IBSA in the international scenario. In the field of trade, negotiations cannot be made between Brazil and India directly as they it must go through Mercosur. Experience shows that this leads to complicated procedures in terms of reconciling interests. This may be one factor to explain the "modesty" of the agreement. In addition, the low density of trade and concentration in few products not just boosted the speed of the negotiations. It may be added that Brazil and India focus on strengthening their industries, both in their domestic and international markets. In this case, proposals for broad liberalization may be present in both countries. The path to a comprehensive free trade agreement between Brazil and India depends on a firm political decision of governments, which for now is still in the phase of intentions.

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Prime Minister of India Manmohan Singh, speaks at 4th Summit of Heads of State and Government of the IBSA and 2nd Summit of Heads of State and Government of the BRIC in Brazil's capital, Brasilia.

# Convergence across continents: the Brazil-India relationship

**B. S. Prakash**

Even by the hectic standards of today's fast-paced diplomacy, the Indian Prime Minister's visit to Brazil this April was unusually intensive and eventful. It had at least three components: a substantive meeting with President Lula to discuss the challenges of growing the relationship and progress so far; a summit meeting of IBSA (India, Brazil, and South Africa), a politically symbolic South-South project that has now matured with the completion of one round of summits and the start of the second round in Brasilia; and a summit of BRIC (Brazil, Russia, India and China), a new entrant with an economic focus in the changing international alphabet soup. There were other world leaders in Brasilia April 14–17 and talk of other international groupings, say the G-20 or BASIC (Brazil, South Africa, India and China), but one thing was clear: Brazil and India are constant in all the constellations.

B. S. Prakash is the Indian Ambassador to Brazil, ambassador@indianembassy.org.br.

Foto: José Cruz/ABr.

Why is this? "A natural and a necessary partnership" is the way Brazilian Foreign Minister Celso Amorim characterized the growing linkages between Brazil and India a few years back. A moment's reflection illuminates the aptness of this description. Numerous commonalities between the two countries make it a natural partnership. First are the obvious and objective factors: geographical extent — India is itself a large country but we marvel at the fact that Brazil is two and a half times bigger; substantial demographics — in population India is the second largest and Brazil the fifth in the world; fast-growing trillion-dollar-plus economies, Brazil's expanding at more than 5% annually and India's at 8% annually, earning us the epithet of 'emerging economies' in the global order; and, despite the impressive size of the economy, the fact of economic disparities and deficiencies for large numbers of people in both countries. In short, we are fundamentally comparable in many ways.

More important, however, are our shared values and vision. This can be captured in terms of the three big Ds: democratic values, developmental priorities, and diversity as a reality. The three together make a policy of 'inclusive growth' an imperative. As they have grown, both Brazil and India have no doubt become emerging economic powers (this is what brings them together in BRIC), but both see themselves essentially as still developing, coas untries of the South, which need to grow but must always keep 'equity' a priority. This is what makes us partners in IBSA with South Africa, a nation on the continent of Africa that shares the same values and approaches.

All these factors make for a 'natural' partnership. But what makes us believe that the partnership is also 'necessary'? To answer this, we have to look at the vision of a restructured global order that Brazil and India share. There is a widespread realization today that there are many issues — security, economy, environment, health, terrorism — that require global solutions because they are truly global in nature.

This realization has brought about an awareness, even a grudging acceptance, that the current structures of global governance, the UN Security Council or the IMF or the World Bank or the OECD, do not represent the realities of the 21st century. Many of these structures reflect the politico-strategic realities of 1945, not 2010. Recognizing the imperative to restructure these institutions to make them more democratic, representative, and legitimate, Brazil and India share a vision of what needs to be done. Our joint efforts in this direction, in partnership with like-minded countries, can be a necessary and beneficial activity not only for our own good, but for the global good as well. Some of this is illustrated by such salient new formations as the G-20 or the BASIC at the Copenhagen Conference. In a world that is increasingly seen as multipolar, Brazil and India

work together toward a new style of multilateralism anchored in a coalition of the like-minded.

While all this is positive, for people like me who are working to tighten the links between Brazil and India, the real challenge is in adding greater content to the bilateral engagement, as distinct from the multilateral or the plurilateral, as it is intensifying. Only now are we as individuals and as corporations discovering each other, really only in this decade. The different colonial histories, which took Indians to Canada and the Caribbean but not Brazil, and the distance and lack of connectivity account at least partially for the time this has taken. But someone like me at the cross-section of our bilateral contacts cannot help but notice that among businessmen, bankers, academics, and civil society activists there is now a growing interest in each other. Trade and investments are increasing, though they are still far below potential.

A significant and pertinent trend is the interest of academics and analysts in studying each other's developmental models and social programs, such as 'Bolsa Família.'[1] Since the problems we have related to poverty reduction, public health, and education are so similar, we can learn from each other about best practices and delivery models. It is useful to encourage networking of academic think tanks or research institutions so that we can pool the intellectual capital we are endowed with. The recent meetings in Brasilia saw meaningful initiatives in this direction.



Prime Minister of India Manmohan Singh, President of Brazil, Lula, and President of South Africa, Jacob Zuma, pose for photo at the 4th Summit of Heads of State Government of the IBSA.



President of Russia, Dmitri Medvedev, President of Brazil, Lula, President of China, Hu Jintao, and Prime Minister Manmohan Singh, pose for the official photo during the 2nd Summit of Heads of State and Government of the BRIC.

History, geography, and language used to separate Brazil and India. In the era of global connectivity, we are finding ways to transcend such constraints and discovering areas of convergence.

[1] Government program that grants poor families a monthly allowance to buy food.

# Beyond chicken masala and the Taj Mahal

**Cláudio Costa Pinheiro**

During the 15th and 16th centuries, part of what is today India maintained trade contacts with part of what is today Brazil. In those times of European imperialism, they were inserted into the international system from their peripheral situation as colonies to serve the political and economic priorities of their colonizers.

The world has changed. Brazil and India are now independent nations facing the socioeconomic problems generated by colonialism and by the complexity of their postcolonial societies. Even though bilateral relations were made official immediately after India's independence in 1947, for some time the dialogue was restricted to mutual exoticism. Brazilian public opinion, even in intellectual circles, still ignores most of Indian history, culture, and society, except perhaps for chicken masala or the Taj Mahal.

Yet now Brazil and India are making progress toward a new phase of relations. Both are members of multilateral organizations charged with worldwide economical and political restructuring. From April 12th through the 16th, two of those forums, BRIC (Brazil, Russia, India and China) and IBSA (India, Brazil, and South Africa) met in Brasilia to deal with an extensive agenda (through 16 permanent working groups) of discussion of such issues as trade, financial aid for other countries, academic debates, security, think tanks, and Iran's nuclear program.

What is it that is now bringing these countries together, to the point of creating an environment favorable to the consolidation of agendas of common interests and to cooperation?

## Economy

Common speculation that India and Brazil, along with China and Russia, will be among the planet's driving motors stems basically from the analysis of, among other things, current economic indexes, continued growth expectations, GDPs, production and consumption indicators, monetary reserves, industrial capacity, and the availability of and dependence on energy resources. Also not to be forgotten are the common expectations of, and insistence on, greater representation in the

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organizations in the global political arena, like the Security Council. However, it may also be useful to look at other indicators to measure the stamina of both countries for sustainable development.

One of the elements against which sustainable development and the potential for cooperation may be assessed is intellectual capital. In 2008, India ranked 10th and Brazil 13th in scientific production internationally. An analysis of their performance in science and technology over the last few decades shows intense and constant growth that has brought them closer to the major international centers.

This growth has not come by chance, by any means. In 1980 Brazil had 65 universities, 20 of them private and in 2008 183, 86 of them private. Today Brazil has some 2,300 institutions of higher education. In 1947 India had 20 universities, in 1980 200, and in 2005 357. But the number of colleges, also considered higher education institutions, soared from 500 in 1947 to an incredible 17,625 in 2005 (the United Kingdom has 166 institutions of higher education; Japan has 643).

Of course, the demographics are quite different. Whereas in Brazil there are almost 200 million inhabitants, India, the second most populated country in the world after China, has some 1.2 billion. On the other hand, about 30% of Brazilians of university age actually go to university, compared to 13% in India.[1]

Photos: Stringer, Robert Nickelsberg, Stringer and Prakash Singh (Getty Images / AFP).

One of the elements against which sustainable development and the potential for cooperation may be assessed is intellectual capital.

**Differences**

However, a mechanical comparison of categories that may seem similar is perhaps not the best way to start a valid debate. In both countries, academia has been called on to take part in the debate and to offer alternatives to the intense hierarchization and social exclusion of both societies, which cross borders between different historical and cultural heritages: race, cast, gender, representation of indigenous peoples, and the rights of the political minorities. While it is true that forces that generate exclusion and social, political, and economic inequality are present in both countries, it is also true that those forces operate differently in Brazil and in India. Caste discrimination in India is not tantamount to race issues in Brazil, even though both circumstances may illuminate the debate on creative solutions in terms of macropolicies for social inclusion, technologies for income distribution, or mechanisms of representation of minorities. Thus, the dialogue between India and Brazil must take into account the symmetric inequalities and unequal similarities that affect the two countries.

One highly positive ramification of this type of dialogue is that developing countries may find in Brazil and India models that are different from the US and Europe. From several perspectives Brazil, like many other emerging and developing countries, has evolved its concept of nation, economic success, and the expectation of social development by comparing itself with the US and Europe. They are not only the model for our development, they have historically represented an expectation of success that we constantly strive to achieve, even as they remind us that we are far from being their idea of developed, prosperous, or modern.

Today, though, we have an intense debate on the restructuring of global geopolitics that is leaning toward multipolarity. This effort is already apparent in various initiatives taken by individual countries or in regional forums with regard to the restructuring of the architecture of the global financial system; the promotion of trade in local currencies between countries in, e.g., BRIC, IBAS, Mercosur, and ASEAN; the reform of the Bretton Woods system; and the creation of regional institutions as an alternative to the IMF and the World Bank for financing development.

Opening up a broader dialogue with India and other countries in the South and considering authentic revision of the grammar of international power require efforts that go beyond simply identifying an agenda of common problems. It is necessary to redefine our universes of comparison and restructure our imagination in terms of economics, security, public policy, development, social inclusion, and intellectual capacity. Brazil has yet to complete this.

[1] Sources: Institute for Scientific Information; Scopus database; University Grants Commission, India, Unesco, Capes-MEV; Inep.

# The IBSA and the BRIC summits

**Biswajit Dhar**

The IBSA and the BRIC Summits held almost simultaneously in Brasilia in April gave the leaders of five of the most prominent non-OECD members an opportunity to deliberate on crucial issues confronting the global community. These meetings came at a time when the comity of nations is at a critical juncture, facing challenges on two broad fronts: First, the global economy is making all-out efforts to rebound after the most severe downturn it had faced since the Great Depression of the 1930s. Second, global governance is at a crossroads as developing countries like Brazil and India demand that the United Nations and other international institutions be reformed so that they it effectively reflect the achievements and aspirations of developing countries.

It is by now recognized that recovery of the global economy hinges on, among other things, adopting policies that will help make development more people-centric and more sustainable. The leaders of the IBSA grouping gave special consideration to the former. They argued that in an increasingly globalized world these issues have assumed priority because the economic and financial crisis has directly affected public welfare, particularly the welfare of vulnerable groups. The leaders therefore stressed the need to firm up social policies to fight hunger and poverty, especially while the economic crisis has not been fully overcome.

The BRIC countries focused on the need to ensure sustainable development, emphasizing the need to achieve the Millennium Development Goals (MDGs), attainment of which has been jeopardized by the global economic downturn. In urging sustained efforts to achieve the MDGs by 2015, particularly through technical cooperation and financial support to poor countries, the BRIC leaders underlined the fact that the sustainable development models and paths of developing countries should be fully respected and the necessary policy space for them should be guaranteed.

Central to ensuring more inclusive development in a globalized world is the multilateral trade regime governed by the World Trade Organization (WTO). In 2001, most of the major economies agreed to launch the Doha Round of multilateral trade negotiations, the outcome of which was intended to address the aspirations of developing countries by providing an open, stable, equitable, and nondiscriminatory environment for international trade. The IBSA and BRIC leaders have stressed the need for a comprehensive and balanced outcome of the Doha Round of multilateral trade negotiations, because in their view that would not only strengthen the multilateral trading regime, it would also enable it to overcome the protectionist tendencies that have emerged in the wake of the economic downturn.

Realizing that the goal of sustainable development faces an imminent danger in global warming, the IBSA members, along with China, have become extremely proactive in defining a global regime that can help arrest the rapidly increasing temperatures that confront our planet. The coalition of these countries, the BASIC grouping, argues that the principle of "common but differentiated responsibility" must be adhered to in the post-Kyoto regime on climate change. Importantly, the IBSA and the BRIC leaders have expressed confidence in the multilateral United Nations Framework Convention on Climate Change (UNFCCC). In their Summit Declarations, the leaders argued for the realization of a comprehensive, balanced, and binding result to strengthen implementation of the UNFCCC and the Kyoto Protocol.

The leaders of IBSA and BRIC gave critical consideration to other important issues, such as energy security and terrorism. The global community will be observing with interest how these countries apply their collective will to ensuring a new context to the global processes. They must begin by defining an agenda for an international order that is based on fairness and equity.

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Biswajit Dhar is Director General of Research and Information System for Developing Countries, New Delhi, India.

# India and Brazil:
## Deep roots and growing power

**Vera Lúcia Machado**

To discuss India in a few lines is an inconceivable task. The country is the sum of political, anthropological, sociological, and religious contrasts and is a continuum of theses and antitheses that render any synthesis impossible. That is why it is so fascinating to seek to understand what one sees, although the reality perceived immediately raises new complexities. The task becomes less impracticable if we restrict ourselves to the analysis of diplomatic activity that may have advanced or hindered progress over the years.

India and Brazil established diplomatic relations in 1948, only a few months after India's independence on August 15, 1947, although the first real contact was not made until 1968, when Prime Minister Indira Gandhi visited Brazil during the Costa e Silva administration. The visit did not have concrete results, but it was an opportunity for the Indian leadership to get acquainted with Brazil, which was reminiscent of the visitors' home country in terms of geographical dimension but distant and different in all other aspects. Under military governments, Brazil had reverted on its "independent foreign policy" stance and developed misgivings about the nonaligned movement, of which Gandhi's father, Nehru, had been a leader. Yet, it should not be forgotten that UNCTAD, the UN Conference on Trade and Development, created in early 1964, and the Group of 77 are both the results of the coordinated efforts of the Brazilian and Indian delegations in Geneva.

### Presence

My first contact with the country was in 1970, early in my career, when I was in charge of Brazilian foreign affairs in the field of nuclear energy. I took part in the first Brazilian nuclear mission, led by Professor Hervásio de Carvalho, then Chairman of the National Committee for Nuclear Energy, which was commissioned with identifying projects on which to cooperate with its Indian counterpart. Brazil and India held similar positions,

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which made us natural partners at the International Atomic Energy Agency and in the negotiations for the Non-Proliferation Treaty. On that first trip we visited various Indian cities, then still deeply traditional and characterized by a heavy nationalism that rejected, among other things, the presence of international companies, and demonstrating substantial contrasts between the extreme poverty of a large portion of the population and the unbelievable riches of the maharajas. Modernity could only be perceived when we entered the already at that time extremely advanced nuclear and space research installations. The 1971 Indo-Pakistani conflict paralyzed those attempts at cooperation, and the 1974 nuclear explosion discouraged renewal of the agreement. Since then, visits of Indian officials to Brazil have been dedicated to agricultural as much as scientific areas.

In 1984 I welcomed the invitation extended by Ambassador Sérgio Paulo Rouanet to head the new Foreign Affairs division dedicated to relations with continental Asia, a project that lasted two years. This unit directed its main efforts to relations with China, a country taking its first steps into modernization under the guidance of Deng Xiaoping and seeking to find in Brazil a model for public policies they intended to create. India was going through turbulent times, including a Sikh uprising in the Punjab, the repression of which was at the root of the murder of Prime Minister Indira Gandhi. Brazilian Foreign Minister Olavo Setúbal's attempt to come closer to India did not succeed because at the time Indian economic policy was characterized by aspirations of autonomous development.

In 1996 I reestablished my professional contact with New Delhi when I was assigned to the Foreign Ministry Asia and Pacific Department. India was being transformed by the forces of globalization, despite its resistance to the process. Indian citizens had been emigrating in significant numbers, particularly to the US. The Gulf War (1991), in addition to lessening foreign demand for its products, caused a crisis in India's balance of payments when emigrant remittances were interrupted. As a result the economic model based on autarchic development underwent a careful review under the leadership of the then-Economy Minister, and current Prime Minister, Dr. Manmohan Singh.

Relations between Brazil and India had already been consolidated in international forums, particularly in the partnership created to defend similar interests in the WTO's Uruguay Round (1986–1994). Professor Ignacy Sachs argued that Brazil and India were both "whale countries:" both possessed extremely large territories, were slow in reacting to crises and opportunities, but were still capable of provoking large waves and moving assertively in the waters of foreign affairs. President Fernando Henrique Cardoso paid a visit to India as a guest of honor on Indias's Independence Day.

Diplomatic relations between the two countries were established in 1948, although the very first contact was only made by Prime Minister Indira Gandhi in 1968.

Brazil and India, both emerging countries, have leading roles in all fora where global governance and international institutional reforms are debated.

**Nuclear tests**

Contact between the two countries had good results in many areas, particularly the scientific. Trade in agricultural products was already significant when, in 1997, India refused to adhere to the Comprehensive Nuclear Test Ban and a year later carried out two nuclear tests. In a speech to the Indian Parliament, Foreign Minister Jaswant Singh justified the tests, arguing that India, a responsible power, considered its nuclear capability as an element of dissuasion indispensable to the country's security. He added that the country had not violated international commitments since India was not a signatory to the Treaty on the Non-proliferation of Nuclear Weapons (NPT); furthermore, he pledged not to be the first to use a nuclear weapon in case of conflict. Indian President Harayanan, who on the day of the first test started his journey back from São Paulo to Delhi at the end of a state visit to Brazil, insisted that he ignored the project. A few days later, Pakistan also detonated a bomb. The international community, Brazil included, condemned both the tests in all the pertinent international forums. Among the many sanctions applied, foreign investment, high-level visits, and technological projects were frozen.

Just over a year later, I was assigned the Brazilian Embassy in New Delhi. India was still in relative isolation, although some sanctions imposed by the developed countries had been lifted. Negotiations were on course between the alternate US Foreign Secretary, Strobe Talbott, and his Indian counterpart, J. Singh, on the rationale for the tests and on commitments and guarantees to be offered by New Delhi for allow for full reintegration of India into the community of nations. That happened during President Bill Clinton's visit in March 2000.

**Academia**

In such a complex scenario, I started to work on cultural and academic areas, with the support of professors dedicated to Brazilian issues, such as Sumit Ganguly, Om Gupta, Narayanan, Abdul Nafey, and the Brazilian Professor José Leal Ferreira, a motivating force in the consolidation of this group of "Brazilianists" at Jawaharlal Nehru University. I always had the support of the Director-General of the Indian Council for Cultural Relations, Ambassador Himachal Sorn, who had worked as Secretary to the Indian Embassy in Brazil. Later this group gained force and was broadened with the appointment, at the University of Goa, of Professor Dilip Loundó, who published an anthology of modern Brazilian literature and "Poems Written in India" by the Brazilian writer Cecilia Mairelles. On the Brazilian side, Professor Cândido Mendes de Almeida lent priceless support by traveling to India to take part in the Calcutta Book Fair in 2000, in which Brazil was featured.

The success of Brazil's economic stabilization (Real Plan, 1994), the opening of Brazil to foreign trade, the demand for cheaper drugs to supply

the needs of the National Health Program, Proalcohol's success, the endeavors of Embraer (the Brazilian Aeronautical Corporation) to conquer new markets, the need for India to expand foreign sales of its information technology and to expand exports and acquire technology to overcome electricity shortages — all these were factors that promoted the intensification of bilateral relations. Each party made high-level visits to the other.

**Association**

At his inauguration President Luiz Inágio Lula da Silva launched the idea of creating a forum of the Southern democracies that are thriving economies around a commitment to international peace and development of their peoples. Both the South African President, Tabo M'becki, and the director of the Latin American Division of India's Foreign Affairs Ministry were present. That was the beginning of IBSA (India, Brazil, and South Africa), which held its first ministerial-level meeting in June 2003. Today, the forum has grown in importance in coordinating its members' positions on major issues on the international agenda; it has also taken a wide variety of projects, not only within IBSA but also in cooperation with poorer countries in Africa, Asia, and Latin America.

Bilaterally, a few months into the Lula administration Foreign Minister Celso Amorim headed the Brazilian delegation to the first ministerial-level meeting of the Brazil-India Joint Commission, which has lent momentum to the understandings and negotiations of the two countries. A timely opportunity considering the deepening of India's trade and finance reforms, President Lula's visit as an honored guest at India's National Day on January 26, 2004, consolidated a solid partnership.

I left New Delhi in September 2004. Since then I have seen, with great satisfaction, the deepening of this extremely beneficial alliance between Brazil and India. I have a profound admiration for India, for a number of reasons, notably its achievement of national unity, which required negotiations with over 200 principalities to join the new State; maintenance of this unity despite the diversity of ethnic groups, cultures, and religions of over one billion inhabitants; their pride in their heritage; the adamant defense of their national interest; the quality of India's diplomacy; and the ability to nurture friendships, of which I am one of the beneficiaries.

Since leaving India, I have followed from a distance its advances, and I am curious to see how the dialectics between modernity and the thousand-year tradition will develop concretely. I can see that Brazil and India, both emerging countries, have leading roles in all forums where global governance and international institutional reforms are debated, in a changing world where we already have, without any doubt, secured increased power.

# Brazil and India:
## A Deepening Relationship

**Riordan Roett**

Two events in April 2010 confirm the growing diplomatic and geopolitical ties between Brazil and India. Following the Nuclear Summit in Washington, D.C., in which both President Lula and Prime Minister Singh participated, there were two summit meetings in Brasilia: the second meeting of the four BRIC (Brazil, Russia, India, and China) countries; and one of a series of meetings of IBSA (India, Brazil, and South Africa). Both demonstrate that New Delhi and Brasilia are compatible on a range of policy issues. Given the track record to date, it is reasonable to assume that the ties will deepen as India and Brazil increase trade and investment relations in the years ahead.

The BRIC summit brings together four of the "new" economic and political players in world politics. Coined in 2001 by economists at Goldman Sachs, the New York investment bank, the acronym came into its own as the four states quickly surpassed Goldman's forecasts to become increasingly important in investment flows and global trade. Moreover, the four states, but especially Brazil, India, and China, have forged a flexible partnership on major international policy questions.

Brazil and India are both leading members of the two G-20s that have been formed in the last decade. The first, which is mainly concerned with trade, came into existence after developing market economies were unable to come to an agreement on a new trade regime with the United States and the European Union (EU). The debate over trade rules took place as part of the World Trade Organization (WTO) "Doha" round. The round ended in the

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summer of 2008 in Geneva, when it became impossible to reach a compromise on agricultural subsidies in the industrial countries. Given their increasing importance globally, there will be no new round unless the BRIC countries are there when the agenda is formulated; if there is, Brazil and India will be lead players.

The second G-20 deals with the search for new financial architecture after the financial crisis erupted in 2008–09 in the United States and the EU. Realizing that the "old" G-7 of industrial countries could no longer control the international financial agenda, it was decided to assemble the largest 20 economies in Washington, DC, at the end of the administration of George W. Bush. In preparation for that meeting, the Brazilian Finance Minister convened a meeting in São Paulo to draft a set of principles to guide the search for greater market regulation and coordinated government action. The finance ministers also called for a restructuring of the World Bank and the International Monetary Fund (IMF) to give emerging economies a greater voice in decision-making in both institutions. Again, Brazil and India were outspoken advocates for an expanded role for themselves and their peers.

In follow-up summits of the G-20 in London in April 2009 and in Pittsburgh in September 2009, the four BRIC countries pressured the industrial countries to seriously review their banking procedures to prevent another crisis that would again have negative effects on emerging market economies. The next G-20 financial summit is expected to take place in Brazil later this year.

IBSA was founded in 2003 after the failure of a trade round held in Cancun, Mexico. The three nations decided to create a forum for discussing the policy challenges of developing countries. The IBSA summit in Brasilia will be the fourth meeting of the three countries — previous summits were held in Brasilia, New Delhi, and Johannesburg. IBSA seeks to galvanize South-South diplomacy and cooperation in such areas as agriculture, trade, culture, and defense. It has established the IBSA Facility for Poverty and Hunger Reduction to support achievement of the United Nations Millennium Development Goals. IBSA is increasingly concerned with helping poorer developing countries build their competitiveness and address critical issues such as health and education.

Economically, there has been increasing interaction between India and Brazil, which have become major trade partners. Indian companies have invested approximately US$9 billion in

South America in the past several years. India and Mercosur, of which Brazil is the leading member, have had a preferential trade agreement in place since 2003. In 2007, Brasilia proposed a free trade agreement between India, South Africa, and Mercosur; and in 2010 Mercosur and India notified the WTO that they will move to formalize a free trade accord. While the trade figures are as yet relatively low, officials in Brasilia expect trade between the two countries to reach US$10 billion in the next three to four years. The exports of the two countries are complementary: Brazil sends India sugar, vegetable oils and fats, aircraft parts, alcohol and ethanol, and heavy machinery. India sends Brazil organic chemicals, diesel fuel, drugs, and industrial machinery. Future collaboration between New Delhi and Brasilia will focus on ethanol production, climate change, and space exploration.

As the two countries have cooperated in BRIC and IBSA activities, diplomatic exchanges have increased. President Lula visited India for the first time in 2004. The Prime Minister and President of India travelled to Brasilia in 2006 and 2008. And in May 2009 President Lula went to New Delhi to sign a market access treaty between Mercosur and India and to discuss expanded collaboration in space research, cultural exchanges, and tourism.

The two countries share similar values. Both are consolidated democracies. Both are committed to multilateralism in resolving global issues. Both are contenders for a seat on the Security Council of the United Nations, and each has endorsed the other for the position. Given the emergence of Brazil and India as significant players in world affairs, Security Council membership for them seems logical to many developing world countries. As political and diplomatic ties deepen, and trade and investment increase in the years ahead, the relationship will take on greater importance as the role of India and Brazil in the new international order expands. ■

### Jittery stock markets

The problems faced by Greece and other European countries have affected stock markets worldwide, not excepting Brazilian stocks. The São Paulo Stock Exchange index, which reached 39.512 points in March, lost 11% (in US dollars) through May 14. In this period of turbulence, the Real per US dollar exchange rate appreciated in March and April and depreciated in May.

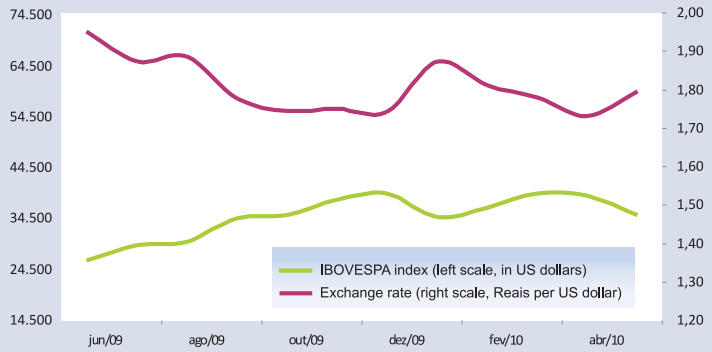
### Manufacturing production and confidence on the rise

As in other countries, Brazilian industry was the sector that suffered most from the global crisis in 2008. Recovery accelerated as tax incentives helped to reduce inventories and boost domestic demand for durable consumer goods. In March 2010 manufacturing production for the first time exceeded the pre-crisis level. The confidence of industry continued to advance in April, despite the prospect of increases in interest rates in coming months as inflation accelerates.

### Enhanced fiscal and monetary policy mix

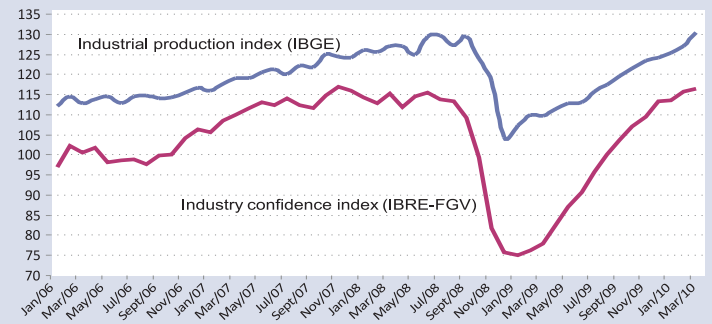
The public sector primary surplus (nominal deficit less interest payments) declined to 2.1% of GDP in the first quarter of 2010, its lowest level since 2004. The primary surplus is expected to increase as economic activity continues recovering and most tax exemptions to stimulate the economy are phased out. The federal government announced two rounds of cuts in spending, the first of R$21.8 billion in March, and the second R$10 billion in May, amounting to 1% of GDP. These cuts improve the policy mix between fiscal and monetary policies with the intent of cooling demand and curbing inflation.

Greece's problems affected Brazil's stock and exhange markets.



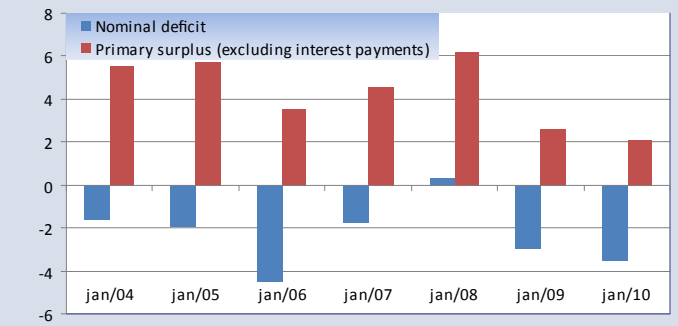

Sources: São Paulo Stock Exchange (BOVESPA) and central Bank of Brazil.

Brazilian industry recovers remarkably.



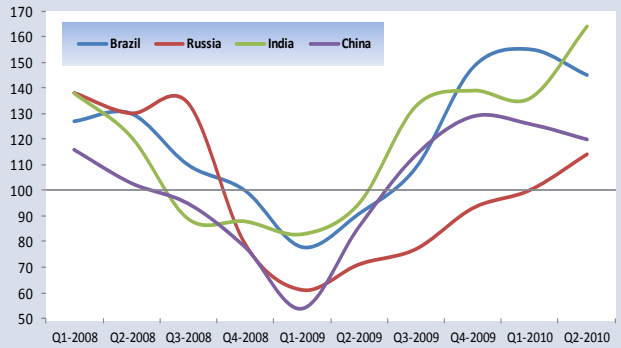

Sources: Institute of Geography and Statistics (IBGE) and IBRE (FGV).

Fiscal primary surplus is expected to increase in 2010 as economic activity recovers.




Source: Central Bank of Brazil.

Index of economic climate




Souces: Ifo and IBRE-FGV.

## Good winds for the BRICs

According to the index compiled by the German Ifo institute at the University of Munich based on assessments and expectations of macroeconomic specialists in over 90 countries, the economic climate has been buoyant for the BRIC countries. The line at 100 points marks the dividing line between pessimism and optimism. In recent quarters, especially in India there has been a recovery of optimism. Brazil and China recorded some loss of confidence in the second quarter of 2010. Russia has recovered more slowly than other BRICs, but its economic climate index improved markedly in the second quarter of 2010.

For additional series and methodology contact: Industry and consumer surveys: (55-21) 3799-6764 or sondagem@fgv.br; Price indexes and data bank services: (55-21) 3799-6729 or fgvdados@fgv.br. IBRE website: http://portalibre.fgv.br/