BRAZIL,
“THE FUTURE AIN’T WHAT IT USED TO BE” *

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ABSTRACT
Brazil is facing an inflexion point, i.e., the economic model implemented since 2003 has shown increasing signs of exhaustion. The Labor Party’s insistence in expanding the role of the state in Brazil’s economy, without paying heed to the quality of public management and in the efficient allocation of public resources, is leading to lower levels of economic competitiveness and efficiency. Brazil’s Spring movement of 2013 shed light on the increasing burden of Brazil’s government on the country’s economy, society, and political system. Brazil’s is facing increasing challenges in its quest for the implementation of a long-term sustainable inclusive and equitable society. This paper will address Brazil’s main challenges permeating its quest towards implementing policies and strategies to construct an inclusive and equitable society.

Key words: Brazil, competitiveness, sustainability, reforms.

I – INTRODUCTION
In less than a decade, Brazil has seen its reputation as one of the most promising BRIC nations fall apart. The emergence of MINT countries and the performance of other BRIC nations have shadowed and pressured Brazil’s economy in the eyes of foreign investors and analysts. A re-assessment of Brazil’s economic, social, and political dimensions is in process, reshaping the perception of foreign analysts and investors about Brazil’s future. The Pre-Salt offshore oil discoveries, for a short while showed the promise to take Brazil to a new cycle of economic growth. However, a succession of poor economic and political decisions has kept the Brazilian economy hostage of an antiquated and inefficient government and political mindset (Beck, 2014; Bremmer, 2014; Lara Resende, 2013; Sharma, 2014).

Since 2005 Brazil has shown low levels of economic growth, when compared to other BRIC countries. The Labor Party (PT) economic model is increasingly showing signs of exhaustion; further compromising Brazil’s ability to grow at faster rates. For a while, the expansion of domestic credit provided a short-lived cycle of growth, helped by high prices of Brazil’s main commodities in global markets. In 2014, Brazil is experiencing an expanding inflationary process coupled to low levels of economic growth, showing signs of a stagflation process. Since 2003, Brazil has seen low levels of investment not only in infrastructure, but also on innovation, and on factors impacting productivity, compromising Brazil’s ability to develop and establish the basis for a long-term sustainable growth (Baer, 2013a,b; Dantas, 2013; Fraga, 2014; Gouvea and Santos, 2003; Khair, 2013).
The Brazilian Spring movement was a clear sign of desperation of Brazil’s populace with the current economic, social and political systems (Fernandes and Roseno, 2013). This was caused in part by the expanding role and interference of Brazilian state on economic affairs, as well as the lack of improvements in public services such as, transportation, education, health care and security (Baer, 2013b; Gouvea, Kapelianis and Montoya, 2014; Farah, 2014; Rolnik, 2013; Vainer, 2013).

In the past two years, low rates of global trade, lower levels of liquidity in global markets, and a less dynamic commodity markets have deeply affected Brazil’s economic growth. For 2014, the World Bank is projecting Brazil to only grow by 2.4%, while the expected global growth rate is 3.2%. Domestically projections are pointing to a 1.9% growth for 2014. These expected rates are well below the projections for other BRIC countries as well as MINT countries (Goldfajn, 2013; Silva Junior, 2014; World Bank, 2014). The 2014 prospects for the Brazilian economy look gloomy, with the perspective of another year of low rates of economic growth, while inflation is rising up and the possibility of a risk agency downgrading Brazil’s investor’s grading. Despite an increasing policy of controlling the prices of key products such as gasoline and diesel, inflation in 2013 reached the highest level in the past eleven years and it is bound to reach high levels in 2014 as well (Lopes, 2014; Werneck, 2014).

In the 1980s and 1990s, Brazil worked on consolidating its young democracy. However, not too much effort and attention went into solidifying institutions to safeguard Brazil’s governance in a way that would provide Brazilians with good quality public services, such as security, health care, education, and urban mobility services. In addition, these institutions would have prevented Brazil’s rampant corruption and would demand more efficiency and accountability (Fukuyama, 2013; Torquato, 2014 a,b).

II – AN UNSUSTAINABLE PATH?
In 2014, Brazil was the 7th largest GDP nation while ranked 5th based on population, 4th largest exporter of agricultural products, 4th largest market for automobiles, 5th largest market for mobile phones, 3rd largest market for cosmetics, and the 4th largest recipient of foreign direct investment (FDI). However a compilation of statistics from a number of international agencies, shed light on some of Brazil’s main barriers towards long-term sustainable economic growth and development. For instance, Brazil scores low marks in: 56th INSEAD’s Competitiveness Index, 126th World Bank’s Ease of Doing Business, 81st GDP per capita, 85th United Nation’s Human development index, 72nd Transparency International’s 2013 Corruption Perception Index, 64th WIPO’s Global Innovation Index, 58th 2012 OECD’s Program for International Student Assessment – PISA. Thus, Brazil is showing a substantial disparity between its ranking as the 7th largest economy in the world and its core economic and social factor. Combined, this is indicating that long-term sustainable economic growth and development is facing increasing uncertainties.

III – FACING AN INCREASINGLY DISSATISFIED HOME CROWD
Brazil was able to stabilize its economy during the 1990s and had improvements in income distribution in the 2000s. However, Brazil needs to address its bottlenecks in order to create new growth momentum (Gouvea, 2012; 2013).

It is becoming clear that Brazil is growing at rates well below what it needs to in order to establish a long term sustainable growth. The expanding size of the Brazilian state at the federal, state and municipal levels and their increasing interference on the way companies do business in Brazil has further compromised Brazil’s business environment and its economy (Mobius, 2014). There is no more room for expansionist policy and the lack of attention to investments is hampering Brazil’s economic prospects. 2014 is Brazil’s fourth year of low rates of economic growth and rising rates of inflation. Dilma Rousseff promised high levels of economic growth, low interest rates and low rates of inflation. However was not able to deliver in
any of these economic dimensions (Leitao, 2014a,b,c). This gloomy domestic economic scenario is putting into question the Labor Party’s legacy and its ability to offer Brazil a new economic momentum. According to 2013 World Economic Forum, Brazil was ranked in 124th position when it comes to the efficiency of its government. Brazil’s state is expensive, and does not address the basic functions, needs, or aspirations of Brazil’s society.

The Dilma Rousseff administration has also resorted to “creative accounting” manipulating several economic indicators. For instance, exports of oil platforms that never took place in order to improve Brazil’s trade balance results. Also the administration is increasing control of products prices, such as gasoline and electricity, in order to keep inflation levels at “reasonable levels.” This “creative accounting” compromises the reputation of her administration in global markets and adds uncertainties in Brazil’s already shaky business environment (Daltro, 2014). In addition to poor accounting practices, governance has been an issue as well.

Another area of poor leadership can be seen in the increasing use of Brazil’s oil company – Petrobras for political purposes such as the excessive hiring of subcontractors and the constant manipulation of prices of oil derivatives. These actions are reflected in a market loss of US$ 110 billion between 2010-2013. The manipulation of inflation targets also comprises the independence of Brazil’s central Bank adding more questions to Brazil’s weak governance guidelines (Franco, 2013).

The removal of easy domestic credit and the lack of a favorable international market for Brazilian commodities has compromised the viability of Brazil’s economic model. The slowing down on the creation of jobs, and the increasing indebtedness of Brazil’s emerging middle class has slowed down domestic consumption. Internationally the slow down of Asian nations, specifically China has deeply affected the price of Brazilian commodities. Between 2012-2014 Brazil faced on average 12% less for the price of its main commodities (Castelar Pinheiro, 2014). Between 2011-2014 Brazil’s economy expanded at 2.2% compared to Latin America’s 3.8% for the same period. One of the reasons for Brazil’s low rates of economic growth is the low levels of investment. In 2014, the share of investments in Brazil’s GDP should reach 19.5% well below what is necessary to get Brazil growing at higher rates. For instance, investments/GDP ratio reached 47.5% in China, 35.6% in India and close to 22.4% in Russia, significantly more then Brazil (Soares, 2014; The Conference Board, 2014).

Brazil’s low rates of economic growth are beginning to be seen in the country’s unemployment rates (IBGE, 2013). Brazil’s Institute of Statistics and Geography (IBGE) PNAD released new unemployment figures for Brazil showing that nationwide the unemployment has reached 7.4%, higher than the previous survey that was only measuring unemployment for six metropolitan regions in Brazil, which was 5.5%. The new survey also shows that unemployment for women stands at 9.3% and for men at 6%, as well as substantial regional differences in the unemployment levels. For instance, Brazil’s Northeast region shows unemployment levels reaching 10% as well as having the highest number of illiterates, compared to 4.3% in the South region of Brazil (Amorim, 2014; Carneiro and Spitz, 2014). For instance, Brazil has had very poor results in the PISA assessment with the latest results out of 65, Brazilian students ranked 58th in math, 59th in science and 55th in reading. Brazil kept sliding on the PISA results when compared to past exams (OECD, 2014; Ioschpe, 2014).

In 2013 taxes/GDP ratio reached 36.3% a new high for the Brazilian economy further polarizing the population since the increasing taxes have not been followed by an increase in the quality and availability of public services such as education, health care, security, and infrastructure (Watanabe, 2014). The low levels of investment on security are becoming very apparent by the increasing violence in urban and rural settings. More recently, rebellions in Brazilian prisons against the low quality of infrastructure and internal violence has showcased Brazil’s lack of a long-term plan to rehabilitate its inmate population. The “Complexo de
Pedrinhas” tragedy where more than 60 inmates lost their lives exposed Brazil’s disregard for investments in security (Leitao and Rizzo, 2014).

Health care is another major issue facing Brazilians. Despite the government claims of extending universal health care, the quality of public health is very poor. Brazil has been underfunding its Unified Health System (SUS), unable to attract the best professionals, leading to a constant shortage of professionals and health care infrastructure. Instead of addressing Brazil’s poor health care system, the Dilma administration has resorted to importing 4,000 physicians from Cuba, adding new staff to a system that is in shambles. Brazil’s health care system is ranked 125th out of 190 countries by the World Health Organization, showcasing the failure of the Lula – Dilma governments in providing Brazilians with a health care system that mirrors the country’s status as the world’s 7th largest economy (World Health Organization, 2013).

The cost and poor quality of Brazil’s urban transportation systems was the catalyst for the 2013 Brazil Spring movements). This is from a lack of investments in urban mobility and overall infrastructure, which mobilized Brazilians against the governments’ lack of action, inefficiencies, and lack of planning. In 2013, Brazil’s infrastructure was ranked 107th out of 144 countries by the World Economic Forum, Global Competitiveness Report (World Economic Forum 2013). Improvements promised as a result of Brazil hosting the 2014 World Soccer Cup and the 2016 Olympic games have never materialized. Only soccer stadiums have been built and the cost is astronomical, resulting in the most expensive soccer cup in recent history (Gouvea, Kapelianis and Montoya, 2014). Brazil also needs to reinstate a professional technocracy that values efficiency instead of measures that aim at short-term political gains. In addition, Brazil also needs to reinstate long-term planning, which was replaced by ad hoc short-term policies (Henrique Cardoso, 2014).

The Brazilian “Spring” still waits for concrete actions from Brazil’s Senate and Chamber of Deputies. The lack of action by politicians aggravates Brazilians perception of the country’s political system and provides the incentive for additional demonstrations during the 2014 World Soccer Cup (Fernandes and Roseno, 2013; Fernandes, 2014).

Sustainability has also been deeply compromised by the lack of commitments to improve access to sanitation services. Solid Waste treatment is a major issue since the large majority of landfills in Brazil do not comply with environmental guidelines posing a major threat to groundwater reservoirs (Doca, 2013). Also raw sewage is dumped in rivers or oceans from 43% of Brazilian households further compromising sustainability goals (Gouvea and Montoya, 2014).

In addition, the government’s poor handling of infrastructure projects under the “Growth Acceleration Program – PAChas resulted in innumerous postponements and additional running costs. For instance the railroad “FerroviaTransnordestina” was initially planned to be completed by 2010 and now the new chronogram estimates that by 2016 it should be completed. In addition to the six years delay, its cost increased by US$ 1.5 billion (Borges, 2013). In 2001 Brazil was spending close to 3.31% of its GDP on infrastructure. In 2013 the share had declined to 2.45%. Thus throughout the Dilma and Lula administration, Brazil saw declining investments in infrastructure (Machado and Caetano, 2014, Ribeiro, 2014; Thompson, 2014).

The increasing interference of the state in all matters of Brazil’s private sector is also shaping the privatization process in course as demonstrated by the recent privatization of Brazil’s main airports. After years of uncertainties and delays, the government finally realized that the private sector could bring Brazilian airports from the dark ages to modernization. While this is progress the exposure of Brazil’s BNDES and Infraero heavily subsidizing operations that could be done by private banks and by the private sector raises a number of concerns about Brazil’s new privatization strategy (Frischtak, 2014).
Privatization of infrastructure projects has also been a major issue in the Lula-Dilma administrations. Like other government projects, privatizations or “concessions” as the PT’s lingo for privatization, were seriously plagued by delays, compromising Brazil’s 2014 Soccer Cup needed infrastructure projects. In 2013, the airports of Galeao and Confins and BR-163 were privatized. However, the government still needs to privatize close to 6 thousand kilometers of highways, 11 thousand kilometers of railroads, and close to 159 ports (Rodrigues, 2013).

It is clear that Brazil’s political model is outdated and is currently one of the country’s main challenges and barriers in the quest to move to a modern more efficient and inclusive society (Torquato, 2014). Increasing cases of corruption involving politicians and the privatization of public goods and services as exemplified by the use of Brazil’s Air Force planes to commute politicians and their friends and families around the country for private reasons has enraged Brazil’s population (Estadao, 2013). The lack of good managers running Brazilian municipalities and states is also another dimension of Brazil’s current problems. Only 7.8% of Brazilian municipalities show a budget surplus. The lack of professionalism is affecting the Brazilian state even at the municipal level. The deficit is covered by federal and state transfers to municipalities (Burgarelli, 2014).

IV – GLOBAL COMPLICATIONS

In order to be a global partner and economic superpower Brazil has some drastic changes to their foreign policies that need to be addressed. During the Lula-Dilma’s tenure years, Brazil did not make any efforts to develop closer ties to European and North American countries. The reduced share of Brazilian exports to the U.S. market is a direct reflection of an antiquated foreign trade policy that tried to revive a South-South agenda. The results of Brazil’s foreign policy are dismal, since 2003 Brazil has not been able to develop any significant trade agreements. After 12 years, the Mercosur – EU trade agreement is still lingering and stagnant, even with the addition of Venezuela to the agreement (Gouvea and Montoya, 2014).

The emergence of the Alliance of the Pacific trading bloc further showcases the fossilization of Brazil’s foreign trade policy. For instance, a recent study by Morgan Stanley points out that in 2014 the countries involved in the Alliance of the Pacific are expected to grow by 4.25% while Mercosur countries should not grow beyond 2.5% with Brazil not expected to grow more than 1.9% (Gouvea, 2013, 2012; Luhnow, 2014).

In 2013, Brazil ranked 22nd globally in terms of total volume of exports, while after decades it is still struggling to reach more than 1.3% of global trade’s share (Caldas, 2013). In 2013 Brazil’s trade balance only reached US$ 2.5 billion, Brazil’s worst trade surplus since 2000, 86% lower than 2012 trade surplus. This number is only more serious by the fact that it was “creative” accounting on the exporting side (exports of oil platforms that never left Brazil’s soil), prevented a US$ 5 billion deficit in Brazil’s trade account (Beck, 2014). Moreover, increasing trade deficits with the US and European countries showcases Brazil’s declining competitiveness (Leitao, 2014).

Brazil’s shortsighted foreign policy and foreign trade agendas can be further showcased by the refusal to contemplate a hemispheric wide trade agreement as it was proposed by the Clinton administration. This hemispheric agreement could have resulted in Brazil’s exporting more manufactured products and creating a sustainable growth pattern. However, as a result of trade fears and ideological bias, Brazil’s penetration of the U.S market has declined in relative terms for the last few years.

The “China Cycle” guided Brazil’s exports after 1999, and helped Brazil to show trade surpluses during the 2000s, peaking at US$ 40 billion in 2007. However, the “China Cycle” also resulted in Brazil becoming more dependent on exports of natural-resourced based goods.

The lack of investments in innovative and productivity driven factors is affecting Brazil’s domestic and external economic competitiveness. Brazil is losing ground in international markets for its manufactured
products; this is reflected in the diminishing contribution of manufactured products in Brazil’s export portfolio. Between the 1990s and 2007, manufactured products accounted for more than 50% of Brazil’s total exports, however in 2013 it only reached 38%. The 2013, US$ 105 billion deficit in its manufacturing sector is another indication that Brazil has not been able to address Brazil’s logistic issues, excessive red tape on the exporting side and heavy taxation. All of this sets Brazilian exports of manufactured goods at an economic disadvantage among other world producers of goods. Brazil’s manufacturing lacks global competitiveness, also as a result of Brazil’s inept foreign trade policy there is a significant lack of insertion in global supply chains (Ming, 2014).

In 2013, while Brazil’s manufacturing trade balance reached new levels of trade deficit, Brazil’s agribusiness showed a US$ 85 billion trade surplus (Leitao, 2014a,b,c). Recent developments such as the construction of a new “Tapajos grain exporting route” combining hydro ways and railroads will allow grain farmers to avoid the costly trip from Brazil’s Midwest region to ports in the Southeast region of Brazil. This new route will allow farmers to save 34% of their transportation costs, making Brazil’s grains more competitive in global markets. Brazil’s agribusiness, however, is still struggling with poor logistics, invasion of productive farms by leftists groups such as the MST, and an increasing polarized environmental laws and regulations (Barros, 2014). The success of this infrastructure project does shine a light on the possibilities of what a global presence Brazil can demand if they can continue to improve other areas of the country.

Brazil’s main trading partner in Latin America, Argentina, has been a major source of headaches for Brazilian companies, tired of Argentina’s discretionary and protectionist measures. Even so, Argentina has become an important market for Brazilian companies, accounting for 50% of Brazil’s exports of automobiles (Leitao, 2014; Gouvea and Montoya, 2014).

Brazil is still ranked very low in terms of its exports volume, in order for Brazil to become more of a global player it will have to increase its export volume, and integrate its economy into global supply chains. Brazil’s protectionist policies will need to be adjusted or they will keep Brazil from becoming a major player in global markets (Bacha, 2014).

V - FINAL REMARKS

Economic stagnation has been the major characteristic of DilmaRousseff’s tenure in government (Loyola, 2014; Gutierrez, 2014). DilmaRousseff promised to expand Brazil’s economy by 5% annually at the beginning of her tenure in government. However the 2011-2014 years are seeing an average of only 2% economic growth, even lower than the Fernando Henrique Cardoso years (Gouvea and Santos, 2003). Between early 2003 and early 2014 Brazil’s GDP growth forecast for 2014 has been reduced from 3.7% to 1.9%, showcasing the increasing disappointment with the current economic policy (Leitao, 2014,c). Brazil’s Central Bank also raised interest rates to 10%, higher than the single digits promised by Dilma’s inaugural speech (The Economist, 2013).

At the same time that Brazil grows at very low levels, taxes as a percentage of GDP are expected to reach 36.1% in 2014, keeping an average of 36% during Dilma’s tenure in power. The gross public debt has increased during the same period in 2011 from 54.2% of Brazil’s GDP to close to an expected 61.9% in 2014, compromising Brazil’s international ratings. The Dilma government has not been able to lower the cost of its government, despite the increasing burden on Brazil’s taxpayers. This can be seen by the failure to run primary fiscal surpluses to address Brazil’s growing public debt. In 2013 Brazil’s primary fiscal surplus was much smaller than in other years resulting in the government not being able to reduce the public debt by running surpluses results in the past two years (Pastore, 2014)
The effects are beginning to be felt in 2013 when Brazil saw the largest remittance of dollars since 2002, with a negative balance of US$ 12.26 billion (Cuocolo and Froufe, 2014). The fear of a downgrade in Brazil’s ratings by agencies such as S&P may become a reality in 2014. Brazil’s debt as a percentage of its GDP close to 65.6% is also very high when compared to other BRIC countries, such as China and Russia and South Africa (Austin Rating, 2014; Beck, 2014). Brazil’s rates of savings and investment have been consistently very low. To bring its infrastructure on par with Brazil’s economic growth needs it would need to invest close to 25-30% of its GDP, which currently is around 19%.

Brazil’s also does not have a clear and defined trade policy or strategy. Brazil’s option for a South-South agenda did not bear the fruits announced by the Lula administration as exemplified by Brazil’s trade problems with Argentina (Caldas, 2013; Monteiro, 2013). The Lula and Dilma administrations have failed to design a better global insertion strategy for Brazil in global markets. The country is still a marginal player in global supply chains. Brazil’s reliance on foreign investments to cover its current account deficits may face additional constraints. It is becoming more evident that a percentage foreign direct investment that was flowing to emerging economies such as Brazil from now one will be directed towards developed economies that are showing signs of economic recovery such as the U.S.

The failure of Brazil’s economic policy to jump-start the economy is very apparent. In 2014 the global conjuncture will not be as benevolent, adding additional pressure on the quality of economic policymaking in Brazil. Brazil’s expanding and more literate middle class demands a new class of politicians, one that does not pursue “self- interest” agendas as it has been happening in Brazil for many decades. In 2014, surveys show that 66% of Brazilians want changes in the way Brazil has been managed (Barros, 2013). The next election will be a referendum on Brazilians decision about which economic policy they would like to see implemented in the next four years. There are necessary adjustments in public tariffs, high interest rates and high inflation, possibly in the two digits, that need to be addressed. But it is quite possible that in 2014 the results of electoral motivations will postpone these adjustments to 2015. This will further weaken Brazil’s economic standing in the short run, but it could be a glimpse of hope in that the government will make strong well defined decisions to set Brazil on the path towards long-term sustainable growth and development.

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