



STRATEGIC FILE

No. 11 (47), June 2014 © PISM

Editors: Marcin Zaborowski (Editor-in-Chief) • Maya Rostowska (Managing Editor)
Jarosław Cwiek-Karpowicz • Aleksandra Gawlikowska-Fyk • Artur Gradziuk • Piotr Kościński •
Łukasz Kulesa • Roderick Parkes • Patrycja Sasnal • Marcin Terlikowski

Brazil: A Giant Waking Up on the Inside

Kinga Brudzińska

The Football World Cup may be an event for the global audience to celebrate, but not all Brazilians find it that entertaining. The mass protests demonstrating society's dissatisfaction that began last year under the slogan "The Giant Woke Up" and Brazil's economic slowdown persist. Despite the country's outstanding economic prosperity and social progress in the recent years, Brazil has not yet been able to raise its standing on the international stage. Moreover, Brazilian president Dilma Rousseff's limited interest in foreign policy, and her centralising leadership, especially ahead of the October presidential election, have turned Brazil into a far more hesitant and less global player than was the case under her two predecessors.

The mass demonstrations that brought a million people to the streets in more than 100 cities across Brazil in June 2013 were the biggest since the impeachment of President Fernando Collor in 1992. The protests that swept the whole country exposed a wider crisis of political representation and leadership, but also indicated the emergence of a more vocal and assertive middle class.¹ Even though Brazil's social achievements have been remarkable (the growth of the middle class by more than 40% was the region's fastest), and many good policy choices have supported this progress. The new generation of the middle class is dissatisfied with the way things are going in the country, and is willing to fight hard for better services and improved public governance practices. If the positive developments of the last decade do not become more sustainable, events such as last year's small bus-fare hike will serve as a spark that kindles greater frustration with different government policies.

Although social unrest has halted, demonstrations may resurface ahead of the World Cup, with some already visible, or the presidential elections, depending on Rousseff's ability to deliver on some of her pledges and reactivate growth. Dissatisfaction with the government's handling of macroeconomic issues and demands for better public services is also still mounting. According to an Ibope survey from March, 77% disapprove of the government's policies on healthcare, public security, and tax. Policies on education and unemployment score moderately better, but they still gathered the disapproval of 65% and 57% of those polled, respectively.

Brazil's Socioeconomic Challenges

Despite Brazil's economic prosperity in recent years, which has turned the country into an emerging power, it has not yet been able to solve its all of its socioeconomic challenges. According to a report from January, Brazil is still the country with one of the highest inequality levels in the region and in the world.²

¹ J. Leahy, "Brazil's Dilma Rousseff Boosts Welfare Support ahead of Poll," *The Financial Times*, 1 May 2014.

² J.M. Arnold, J. Jalles, *Dividing the Pie in Brazil: Income Distribution, Social Policies and the New Middle Class*, OECD Economics Department Working Papers, no. 1105, January 2014, p. 6.

Furthermore, in 2012, 15.9% of the population (32 million) still lived below the national poverty line, and a quarter of Brazilians lived in dwellings with no access to a sewage network or septic tank.

It is true that the recent middle class demands cannot be tackled in the short term, but there is a fear that the temporary measures provided by the current government (for example a 10% increase in payments under the cash transfers, the Bolsa Familia programme, and personal income tax cuts) will not reactivate growth. On the contrary, they may stimulate inflation, which in March rose to 6.2%, up from 5.7% in February. Besides inflation, the Brazilian economy is posting below-potential growth for the third consecutive year, which can make it more difficult for the government to expand social programmes further. Despite economic growth remaining at an average rate of 3.3% since 2010, the IMF predicts that the overall GDP growth for 2014 will remain at 1.8%, down from 7.5% in 2010.³ Questions about the sustainability of Brazil's economic progress also arise from its poor export infrastructure, which limits the ability for commodity exporters to meet demand for their products, and from Brazil's low labour productivity, which, between 1990 and 2012, accounted for 40% of its GDP growth, compared with 91% in China and 67% in India.⁴

As a result of the above-mentioned factors, Brazilian society is dissatisfied with the way things are going in their country. A new survey by the Pew Research Center shows that 72% of Brazilians are concerned about the situation (a 55% rise from May 2013).⁵ Their frustration was already being reflected by last year's protests, during which people took to the street across the country. The Pew Research Center found in June that the rising prices (83%), crime (83%), health care (83%), and political corruption (78%) are consistently the main concerns.⁶ Another issue is the poor quality of public services (for example, a lack of school infrastructure, the low quality of teaching, and the poor performance of public health and public transport services), which are assessed poorly, particularly in light of Brazil's relatively high tax rate. The Brazilians' concerns about high taxes and low returns are understandable. The OECD shows Brazil takes 36.3% of GDP in taxes (above the OECD average, and the second highest in Latin America, after Argentina), which is a "rich-world" tax burden that inevitably increases expectations that the state will deliver public services of a correspondingly high quality. This figure helps to explain Brazilian public discontent.⁷ Social concern about crime is also justified. Brazil has high levels of violent crime,⁸ and some Brazilian police units engage in abusive practices with impunity.⁹ Moreover, the police service today is among the lowest-rated institutions, for which support has decreased by 20% in the last four years (from 53% in 2010, to 33% in 2014). As for corruption, Brazil also has one of the worst records. The Corruption Perceptions Index of 2013 places Brazil on 72nd position out of 177 countries (with the first-placed being least corrupt). To compare, Poland rates 38, and Spain is number 40.¹⁰ A 2010 study by the FIESP (the Federation of Industries of Sao Paulo State) showed that the average annual cost of corruption in Brazil is between 1.4% and 2.3% of the country's total GDP. As a result, in 2013, between \$32 billion and \$53.1 billion can be said to have been "corruption money."¹¹

The high level of corruption, currently related to the mismanagement of infrastructure projects and high spending on big sports venues, increases public anger. Today, for the first time since 2007, the number of Brazilians who support hosting the World Cup is below 50% (in 2008, approval was at 80%). About six in ten (61%) Brazilians think hosting the event takes money away from schools, health care, and other public services.¹² One of the reasons for the frustration is that former president, Luiz Inácio Lula da Silva, promised back in 2007 that no public funds would be used to prepare for the World Cup, but the Brazilian

³ *Brazil and the IMF*, 25 May 2014, www.imf.org/external/country/BRA/index.htm.

⁴ Brazil invests just 2.2% of its GDP in infrastructure, well below the developing-world average of 5.1%, in: J.M. Arnold, J. Jalles, *op. cit.*, p. 18, and "Brazil's Economy: The 50-year Snooze," *The Economist*, 19 April 2014.

⁵ *Brazilian Discontent Ahead of World Cup*, The Pew Research Center, June 2014, p. 3, www.pewglobal.org/files/2014/06/Pew-Research-Center-Brazil-Report-FINAL-June-3-2014.pdf.

⁶ *Ibidem*, p. 4.

⁷ *Latin America: Tax Revenues Continue to Rise, but Are Low and Varied among Countries*, 20 June 2014, www.oecd.org/tax/latin-america-tax-revenues-continue-to-rise-but-are-low-and-varied-among-countries-according-to-new-oecd-eclac-ciat-report.htm.

⁸ The intentional homicide rate per 100,000 of the population in Brazil is 25.2, and is higher than that in the Mexico, with its "war on drug cartels," which has a rate of 21.5.

⁹ Around 2000 people year on year are killed by police with no reason. See Homicide Counts and Rates, Time Series 2000–2012, UNODC Homicide Statistics, 2013, www.unodc.org/gsh/en/data.html.

¹⁰ Corruption Perceptions Index 2013, <http://cpi.transparency.org/cpi2013/results>.

¹¹ *Corruption Report: Economic Costs and Proposals to Combat*, the Federation of Industries of Sao Paulo State, FIESP, 17 May 2012, www.fiesp.com.br/indices-pesquisas-e-publicacoes/relatorio-corrupcao-custos-economicos-e-propostas-de-combate.

¹² *Brazilian Discontent Ahead of World Cup*, *op. cit.*, p. 17.

Development Bank has since predicted that, by July 2014, the country will have incurred \$3.5 billion in debt related to the event. This year's FIFA World Cup holds the record as the most expensive championship ever, at an estimated \$11.5 billion. The importance of the big sport events (the World Cup and the Olympics) for the government was seen back in 2009, when Rio was awarded the 2016 summer games. Then, the former president said: "Today I have felt prouder of being Brazilian than on any other day." For Brazil, getting to organise the international events was equal to gaining recognition as a major power, more than expecting any economic profits (such as in tourism or FDIs).

Brazil's Place in the World

In 2014 and 2015 Brazil has some difficult decisions to take. It needs to implement a series of the economic reforms in order to address, for example, its overvalued currency, persistent inflation, and slowing economic growth. This will have to be done consistently and relatively quickly, as the middle class will continue to raise its demands. Even though those issues do not preclude Brazil from becoming an important player on the world stage, they have an impact on Brazil's reputation in the world, and how Brazil sees itself.

Unlike in the view in the West, most of the Brazilians do not think that their country is ready to play a more active role on the global stage.¹³ What's more, there is a common perception within Brazilian elites that, with the exception of trade policy (for example towards the Mercosur countries, China, Venezuela, and Cuba), Brazil is an inward looking country. In their mind, Brazil still needs to define what kind of role it wants to play in the international arena, because it didn't think enough about its relations with the world in the past. In fact, through past and current abstentions in the UN (for example, on Libya, Syria, and Crimea) Brazil has continuously demonstrated that it does not want to take greater responsibility, either regionally or internationally. Moreover, repeated criticism of the U.S.-led liberal international order, and its reliance on the coalition with the BRICS nations, has led the West to label Brazil as "difficult to work with."¹⁴ Brazil's foreign policy emphasis on equity, inclusion, and universal institutions are more appealing to the small and middle powers than they are to big players in the international order. As a result, Brazil more frequently gets a seat at the table as a "rule-taker" than a "rule-maker," and is often excluded from big deals. This happened, for example in recent global trade agreements, such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), which are taking place without Brazil's participation. It is worth mentioning that, as regards TTIP, Brazil was never meant to be included but shows that in general Brazil has been slow in negotiating FTAs. While Chile has FTAs with 60 countries, and Mexico with 44, Brazil has them with only 15, mostly with countries in its own region.¹⁵ Brazil's small number of free trade agreements, and its poor prospects for multilateral trade liberalisation, increases the importance of negotiating an FTA between the EU and the Mercosur countries, about which talks have been stuck for the past 15 year.¹⁶ The creation of the new "Pacific Alliance" grouping in 2011, by Chile, Colombia, Mexico and Peru, also presents a challenge to Brazil's leadership, since it promotes free market policies based on global trade, rather than more protectionist market policies based on regional integration led by Brazil.

Brazil's criticism of the selectivity with which the West applies international law bounces back when Brazil becomes selective itself. This happened with UN resolution on 27 March 2014, which declared the Crimea referendum that led to its annexation by Russia invalid. In general, Brazil has always put the right of territorial integrity over the principle of self-determination (for example, it has supported the government of Venezuela in the recent crisis in the country), but in case of its fellow BRICS member, Russia, President Rousseff believes that Brazil should not meddle in the affairs of such distant countries. Such tolerance of Russia's interference in Crimea runs counter to Brazil's previous statements about what it saw as meddling

¹³ Currently, nearly 37% say Brazil will never be one of the world's leading powers, up from 20% in 2010. See *Brazilian Discontent Ahead of World Cup*, *op. cit.*, p. 16.

¹⁴ H. Trinkunas, *Brazil's Rise Seeking Influence on Global Governance*, Latin America Initiative Foreign Policy at Brookings, April 2014, p. 27.

¹⁵ Additional FTAs with India, South Africa, Egypt, and the Palestinian National Authority are not yet in force, in: International trade, Free Trade Agreements with Third Countries, Portal Brasil, www.desenvolvimento.gov.br/sitio/interna/interna.php?area=5&menu=405.

¹⁶ *Latin America, the Caribbean and Central and Eastern Europe: Potential for Economic Exchange*, the EU LAC Foundation, May 2014, pp. 40, <http://eulacfoundation.org/news/eu-lac-foundations-initiatives-central-and-eastern-europe-warsaw>.

in the internal affairs of other countries, for example, in Iran or Libya). Brazil has also spoken out at the United Nations in favour of respecting the rule of law when coups have threatened democratically elected civilian governments in Paraguay and Honduras. But in case of Crimea or Cuba (for the latter, on a vote to condemn human rights violations), Brazil preferred to abstain.

To sum up, by being silent or not taking sides, Brazil shows itself as selective in the eyes of the West, and as a partner on which one cannot rely. By its behaviour on the international stage, its lack of a charismatic president who would be active in the field of foreign policy (as was President Lula), and its difficulties in sustaining its economic and social progress, it has not been able to gain recognition by global players as part of their “club.”¹⁷

Even Brazil’s regional leadership has been recently questioned, as Latin American countries say that they do not feel represented by the South American giant. Brazil’s claim to uncontested regional leadership nowadays is challenged by, for example, Mexico, which has started its re-engagement with the South American countries in the Pacific Alliance grouping. Mexico is also working to oppose Brazil’s bid for a permanent seat at the United Nations Security Council (UNSC). While Brazil, India, Germany, and South Africa form a “G4” group on UNSC reform, which calls for the enlargement of both permanent and non-permanent membership (they openly talk about their aspirations to become permanent members), Mexico sides with Italy and Pakistan in the “Uniting for Consensus” group. This group formally aims for the enlargement of UNSC non-permanent membership, but in reality the main goal is to enable the G4 to gain permanent seats. Finally, Brazil’s unwillingness to intervene on Venezuela’s current political crisis also undermines its credentials as a regional leader in the eyes of the West.

Conclusions

Unique demonstrations last year have overshadowed Brazil’s attempts to raise its standing on the global stage, at least in the short and medium term. To become a major power, Brazil has to become more confident about the role it wants to play on the international stage. Neither is there any doubt that the country’s strength is domestically based, and Brazil will have to keep dealing with inequalities, and come up with a new policy directed towards the middle class. The cash transfers that played the biggest role in reducing poverty and inequality in the past will not solve today’s problems. The new and relatively well-educated middle classes will voice their increasing demands and expectations of services from the taxes they pay. The government will have no choice but deliver, and to focus at least in the short term on domestic issues.

If Brazil wishes to play a bigger role on the international stage, its foreign policy agenda will also need some changes. President Rousseff’s limited interest in foreign policy, and her centralising leadership, especially as she is preparing for the upcoming presidential election, have turned Brazil into a far more hesitant and less visible international player than was the case under her two predecessors. Critics of the president’s foreign policy agenda (today, 71% of society disapproves) claim that, in addition to failing to develop Brazil’s regional vision further, Rousseff’s foreign policy is characterised by a lack of participation and overall diplomatic retreat.¹⁸ This criticism explains in part Brazil’s abstention from the UN vote on the annexation of Crimea. Russian President Vladimir Putin’s decision to decline the invitation and the resulting failure to organise the sixth BRICS summit, to be held in Fortaleza (Brazil) in July, could cost Rousseff additional votes, which she cannot risk losing. Following a November 2013 poll by IBOPE, she was favoured by 43% Brazilians, yet today this has declined to 36%. In the upcoming election, she will most probably win (if not in the first round, then in the second) but the power struggle after the election will have negative implications for her ability to push through the ambitious structural reforms needed to address Brazil’s competitiveness flaws, not to mention more ambitious and global foreign policy.

Despite the ongoing social frustration over the organisation of the upcoming FIFA World Cup and the Olympic Games, the events may also have a positive impact on the way Brazil is seen abroad. There are at least three reasons for this. Firstly, the government will make all efforts to prevent the events from being disrupted by demonstrations. Secondly, the demonstrations that have gathered this year in at least 16 cities

¹⁷ H. Trinkunas, *op. cit.*, p. 26.

¹⁸ O. Stuenkel, *Can Brazil Defend Democracy in Venezuela?*, Carnegie Endowment for International Peace, 9 April 2014, <http://carnegieendowment.org/2014/04/09/can-brazil-defend-democracy-in-venezuela/h7m0>.

did not have as many supporters as last year. Brazilians are divided on whether the massive protests from last year had a positive or a negative effect.¹⁹ Thirdly, despite delays in building the sport infrastructure or in reconstructing the airports, Brazil will deliver the tournament, and the football fans will come back to their countries satisfied. Apart from the high quality of the football games and atmosphere Brazilians create around it, the country has an amazing tourist offer that will for sure send many people home with happy memories. The devil, however, lies in the details. Brazil thought that by the time it had organised the events it would showcase the country as a world power and would amaze visitors with its professionalism and progress, rather than with its beaches, carnival and caipirinha cocktails. It seems however, that this plan has to wait a while.

As for the European Union, Brazil is one of the two Latin American countries with which the EU has signed a Strategic Partnership, and is a like-minded partner with which it shares many common interests. As a result, the EU should engage more actively in a constructive political dialogue with Brazil, so the anti-American sentiment that Brazil is now experiencing (reflected, for example, by siding with Russia during the UN vote on the annexation of Crimea) does not threaten the European Union's interests.²⁰ EU and the U.S. policy towards Russia (explicitly, regarding sanctions) will not be as effective when Brazil and other BRICS nations side with Russia. The total trade volume between Russia and Brazil is still much lower (in 2013, \$5.7 billion) than Brazil's trade with EU member Germany (\$22 billion in 2013) but both countries seek to increase this to \$10 billion in the near future. In fact, there is great potential for Russian–Brazilian cooperation (not only in trade, but especially in the military sphere), and the results of these ties could be disappointing for the West. Despite being busy with negotiating the TTIP, the EU should make an effort to make progress on the EU–Mercosur FTA negotiations, and strengthen its economic ties with Brazil. If the Mercosur countries continue to be divided on the issue (Argentina is somewhat reticent, and Venezuela does not want to participate in the negotiations at all), the EU could try to launch exclusive talks with Brazil.

¹⁹ 48% say they were a bad thing because they damaged the country's image abroad, and 47% say they were a good thing because they brought attention to important issues. See *Brazilian Discontent Ahead of World Cup*, *op. cit.*, p. 9.

²⁰ The recent tensions in U.S.–Brazil relations started when Edward Snowden, the former U.S. National Security Agency contractor, revealed that Washington had been spying on Rousseff and her staff. She was the first president in living memory to cancel a state visit to Washington DC.