

BRAZIL
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Brazil: Economically overestimated and politically underestimated?

Since Brazil became one of the largest economies in the world, with an internal market of about 200,000,000 consumers, the country has gained great significance on the global level. But despite the well-publicized growth of the past few years, the Brazilian economy is faced with serious challenges which are often overlooked. Simultaneously, Brazil's role as political ally in bilateral and multilateral international relations is frequently underestimated. However, the country plays an integral part within international negotiations, being a vocal member of the BRICS, the UNASUR, the G20 and the G77.

Brazil is today referred to as a paragon of development and economic growth because of its visible success in combating extreme poverty and hunger, supported by the strong economic upturn. In particular, the international media has been hyping the country's current economic boom. The German journal *Die Welt*, for example, names Brazil as "The economic power of the future" and ranks the country globally as the second largest iron ore producer, the third largest aircraft manufacturer as well as the fourth largest automotive manufacturer. Furthermore, it includes Brazil in the group of the eight most important steel producers and emphasizes the abundant oil and gas reserves, which are the world's largest offshore deposits.

In reality, however, the lack of efficiency, infrastructure and favourable business climate, is in sharp contrast to such effusive media coverage. According to Brazil's leading business magazine *Exame*, workers productivity in the USA is five times higher

than in Brazil. More than half of the employees in the Brazilian medium-sized companies have not completed primary school education and over 70 percent of the companies face difficulties in filling job vacancies with qualified personnel. In addition, Brazil's emerging market counts with one of the highest cost structures for entrepreneurial activity. Not only in the World Bank's *Doing-Business-Ranking* Brazil is left behind Swaziland, Uganda and Bangladesh. In the global investment ranking the country is unable to keep up with other emerging powers, too. The development of infrastructure in Brazil, equally, raises concerns. The agriculture organization *Famato* estimates that, in the federal state of *Mato Grosso* alone, 51,000 tons of soy worth \$ 19 million fall off the trucks every year during transport due to poor road conditions.

While global media coverage is focussing on Brazil's economic growth, its potential as a diplomatic cooperation partner for Germany and the European Union (EU) on issues such as development, environmental and security policy usually remains omitted and underestimated. This fact can mainly be explained by the South-South-rhetoric pushed ahead by Brazil. Nevertheless, the rhetoric differs sharply from Brazil's self-interest orientated political behaviour and should not hide the existence of shared values with the western hemisphere. Since Brazil lead successfully two UN peacekeeping missions and committed itself to international climate negotiations, the country has proved to be a responsible partner. Moreover, Brazil emerges as a provider of development aid, partly in triangular cooperation with Germany, Latin

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America and Africa, and gains a positive image as a donor.

Economically overestimated?

Many analyses present Brazil as the emerging world economic power at the expense of Europe and North America, who have been losing ground on the international stage against the backdrop of the global financial and economic crisis. Having recorded a GDP growth of 7.5 percent, Brazil achieved the third largest economic growth after China and India in 2010. However, this boom slowed down significantly in December of the same year. The GDP growth halved to 2.7 percent in 2011 and was inferior to Germany's growth rate. According to the daily paper *O Globo*, the figures for 2012 have recently been adjusted downwards from 1.35 percent to 0.9 percent. The real development failed to come up to the expectations of the Brazilian Finance Minister Guido Mantega, who had forecasted a growth rate of up to 5 percent at the beginning of the period.

The low level of economic growth of the last year is attributed, inter alia, to the lack of public investment. The American *Central Intelligence Agency* (CIA) places Brazil as the world's seventh largest economy but the country stands only at rank 112 when it comes to investment with a rate of 18.9 percent of GDP in 2012. This structural obstacle to economic growth becomes even more evident when comparing with other BRICS countries- an association of emerging economies composed by Brazil, Russia, India, China and South Africa-, but also with other Latin American neighbours. Merely Paraguay's investment rate is lower and, most strikingly, countries like Mexico, Chile, Argentina or Ecuador reinvest about 25 percent of their GDP.

This lack of public investment impedes Brazil's international competitiveness. The country experienced a decline of its share of the world trade- from 2.2 percent in 1950 to 1 percent in 2012. In 2001 alone, 65 percent of the Brazilian companies competing directly with Chinese suppliers saw their shares of international markets eroding.

Similarly, the national industrial association CNI (*Confederação Nacional da Indústria*) revealed that 45 percent of the firms had lost shares of the national market in favour of Chinese competitors.

Consequently, the recent developments have negative effects on the Brazilian trade balance. According to the data provided by the Brazilian Central Bank, the surplus on the overall external trade reduced significantly in 2012 against the previous year- from USD 29.8 billion to 19.4 billion. The exports fell back by 15 percent and the imports by 1.4 percent. Most notably, the export of semi-finished goods and of industrial end products recorded falling volumes, whereas the exports of agricultural products such as maize, raw cotton and soybean increased. In absolute terms, the German federal state of North Rhine-Westphalia achieved an export value comparable to the one of Brazil in 2012 (EUR 182 billion for North Rhine Westphalia and around EUR 188 billion for Brazil). The export revenue of Germany reached EUR 1.097 Billion in 2012, exceeding almost six times Brazilian exports.

These figures illustrate a general regressive trend in Brazil's industrial sector. According to the national Central Bank, in 2012 the industrial production plunged to levels achieved in 2007. As a result, today barely 61 percent of the total exports of Brazil are industrial products, which represent a significantly lower proportion than a few years ago. Moreover, the Brazilian institute for applied economic research (*Instituto de Pesquisa Econômica Aplicada*, IPEA) noticed a parallel decrease in production efficiency. Over the past 30 years, the labour productivity in the manufacturing industry deteriorated by 15 percent, whereas China enhanced efficiency by 808 percent. The same can be said about the performance of neighbouring countries such as Chile or Argentina, who achieved gains in labour efficiency by 82.11 and 16.98 percent respectively. Despite working longer hours than in most of the highly developed countries, Brazilian employees produce, for example, a quarter of the outcome of their German

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counterparts, according to a study undertaken by the magazine *Exame*.

This backlog in terms of labour efficiency is strongly tied to the deficient quality of the national education system. Referring to an analyses launched by the recruitment agency *Manpower*, 71 percent of the surveyed employers in Brazil claimed that there was an increasing number of vacancies which could not be adequately filled due to the low level of skills in the workforce. The official data provided by the Brazilian Secretariat for Strategic Affairs (*Secretaria de Assuntos Estratégicos, SAE*) confirms this negative assessment by stating that 68 percent of Brazil's lower class and 51 percent of the middle class have not completed primary school education. The United Nations found out that in Brazil a large number of pupils who had graduated from the fourth grade were lacking essential reading and writing skills. In the same way, the magazine *Exame* substantiated that solely 35 percent of the pupils going through secondary education were actually capable to read and write, which includes the competence to fully understand the content of operation instructions. This backwardness is by a large part due to the deficiencies of the public education.

By contrast, Brazil's huge internal market represents an important trump card, because it boosts the national economy as well as functions as an attractive asset for international companies. The domestic demand, indeed, has gradually lost its strength, which may be associated with the growing debt burden on private households. Following a study of the national association CNC (*Confederação Nacional do Comércio de Bens, Serviços e Turismo*), 61.5 percent of private households were indebted in February 2013. During the course of the year the number of families who were not able to settle outstanding bills or loans has been rising further. According to the Brazilian Central Bank, in October 2012, the private debt has reached its peak since the beginning of measuring in 2005.

Besides this downturn in terms of domestic demand, there are additional factors that

render Brazil less attractive as a location for international business enterprises. In the World Bank's *Doing-Business-Ranking* of 2012 Brazil dropped down six ranks against the previous year, to place 126, while other countries of South-America like Argentina (place 113) and Chile (place 39) moved up. According to the consulting firm KPMG, Brazil constitutes the emerging economy with the most unfavourable cost structure to entrepreneurial activism. Whereas entrepreneurs save 7 percent of their costs in Brazil when compared to the USA, they suffer a higher burden of taxes and charges (plus 43 percent).

The lack of infrastructure is a further limiting factor for the country's international competitiveness. Due to this, the national costs of transport are exceeding those of Argentina by 425 percent and those of the USA by 370 percent. A striking example of Brazil's logistic problems is the road BR-163 that connects Cuiabá in the federal state of Mato Grosso in central Brazil and the city of Santarém in the northern littoral state of Pará. Although the road was opened for traffic 30 years ago, nearly 600 km of the lane have remained unpaved. This leads to congestion of the central and southern ports, because the ports in the North cannot be reached during the rainy season on dirt roads. Recently, excessive waiting times have led Chinese purchasers to recall their ships and to cancel the planned purchase of 600,000 tons of soy. As estimated by the CNI, the completion of the road may save costs up to BRL 1.4 billion (around EUR 537.5 million) in the transport sector.

Politically underestimated?

In contrast to Brazil's hyped economic development, its growing political importance on the global stage is largely disregarded. However, over the past decade, Brazil has taken up the role of an important global player on the political level. On the one hand, its external actions gained comprehensiveness and complexity: issues diversified, the actions' geographical scope expanded, new institutions were created and new instruments were adopted. There is no denying that Brazil extended strategically its

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area of influence within the institutions of the international community and positioned itself as a major critic of the G8 as well as a main supporter of the G20 and the G77. The country was able to strengthen its negotiation stance in the long-term by transforming from a former debtor to a donor country of the IMF. Given the fact that in 2011 Brazil had international foreign reserve assets almost amounting to USD 300 billion at its disposal, it has recently supported the financial rescue of Greece.

Brazil, however, did not only increase its presence on the international stage. It continues to occupy a pre-eminent role within South America by participating actively in numerous regional integration projects. In this context, on one hand the Brazilian government insists on emancipating from the USA and on establishing regional structures without the Americans. On the other hand, the country favours fostering cooperation in specific areas with Washington. Therefore, Brazil was a major driving force behind the setting up of the Union of South American Nations (UNASUR). This association recognizes itself as an alternative to the Organization of American States (OAS) established in 1948 and is striving to break up existing dependency lines between South American countries and the USA. The aim is to enhance security on the regional level as well as confidence-building. Since its foundation the UNASUR successfully mediated two conflicts, and in this process Brazil took an important mediating role. The Brazilian government is prudent in emphasizing its regional entity, in order to avoid resentments caused by the fear of an upcoming hegemony of the South American giant. This approach leads, secondly, to the full integration of Brazil into the South American community, despite the existence of significant discrepancies in size between partners and of distinctive linguistic barriers (Brazil is the only Portuguese speaking country among the Hispanic speaking continent). Therefore, Brazil benefits from regional support, because it strengthens its power in international negotiations and enables the country's representatives to appear as managers of the joint interest of the whole South American community on the global level.

Apart from Brazil's leadership as peace-keeping and stabilizing power on the South American continent, it is diligent in forging intercontinental alliances with other emerging economies. In defiance of geographic, cultural, ideological and systemic divergences, the cooperation between the states forming the BRICS (Brazil, Russia, India, China, South Africa) group was institutionalized by holding regular summits. Besides, during the climate negotiations of the United Nations, Brazil, South Africa, India and China decided to liaise closely with each other, forming the BASIC group. More importantly, joining forces since the establishment of the IBSA Dialogue Forum in 2003, the three emerging nations with democratic structures (India, Brazil, South Africa) have assumed influential positions within global governance institutions. Aside from these channels of influence, the G20 offers a useful platform to Brazil for articulating its interests and taking a decisive part in shaping WTO negotiation processes. The considerable bargaining power of this group cannot be underestimated, which had been evidenced by the failure of the Doha Round in 2003. Indeed, Brazil and its partners insisted on the dismantling of agricultural subsidies and the reduction of import duties on agricultural products in industrial countries, but the EU and the USA were not inclined to make concessions. As a result, no compromise could be achieved.

Even though Brazil proved discursively skillful in presenting itself as an advocate of the global South within regional and intercontinental alliances, there is no denying that national interests are always present. In this light, Brazil's approval for Venezuela's accession to the MERCOSUR as well as its overt condolences for the death of the former president Hugo Chávez must be seen in the context of existing economic and trade interests. In fact, Brazil tolerated weakening the democratic principles at the core of MERCOSUR when accepting Venezuela, in order to facilitate the purchase immediately after the accession of 20 Embraer airplanes worth USD 900 million. Similarly, notwithstanding the nationalization of the oil company Petrobras in Bolivia, Brazil continues to support Evo Morales outwardly in order

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to avoid any controversial debates that might damage Brazil's positive image in South America.

Both on the regional and, even more apparently, on the international level, the actions of the Brazilian government in international affairs appear inconsistent and contradictory in some aspects. On the one hand, for instance, Brazil represents itself as an advocate of the Palestinians. On the other hand, however, its government contracted the purchase of 14 drones manufactured by the Israeli weapon producer "Israel Aircraft Industries" (IAI) in 2009. Brazil envisages using these drones, among others, to combat crime and arms smuggling as well as for providing international security during the 2014 FIFA World Cup and the 2016 Olympic Games. Furthermore, German and French frigates performed tests along the Brazilian coast in April 2013, although Brazil has never hold back its criticism of NATO. Consequently, it is obvious that Brazil's political rhetoric and its political behaviour diverge markedly.

Over the past years Brazil managed to claim for itself representing the interests of the emerging and developing countries of the global South without distancing from the Western industrial powers. It follows from the above that, despite the South-South-rhetoric pushed ahead by Brazil, there are shared values with the western hemisphere, which might be conceived as an important opportunity to take forward a strategic partnership. Among the BRICS Brazil is the country with the most striking cultural ties to Europe in general and to Germany in particular. As demonstrated by the joint lobbying for the reform of the United Nations with the G-4 partners Germany, Japan and India, Brazil does not exclusively maintain diplomatic alliances with Southern countries. Giving its foreign policy an ambivalent direction, the Brazilian government balances skillfully between diverse interests. On the one hand, this ensures that Brazil brings together the countries from the South and continues to be supported by them. Simultaneously, neither the diplomatic relations with the Western industrialised countries nor its own sovereignty nor its decision-

making autonomy are damaged. Nevertheless, a constructive dialogue over strategies for an improved involvement of Brazil in the process of mastering global challenges has not taken place yet.

This could prove to be of importance, because Brazil is capable of mobilising interests and acting as an efficient mediator. Since it has significantly increased its visibility and influence in the development cooperation with Africa over the past few years, the country shows up as an interesting partner for Germany and the EU within the context of triangular cooperation projects in this area. Albeit Brazil involvement in Africa, which is, from a quantitative point of view, still less important in terms of trading, investment and financial volume than the Chinese commitment, the former is less frequently confronted with allegations of exploiting resources or encouraging corruption. Having created jobs for locals and transferring technology mainly to the agricultural sector, Brazil's engagement in Africa is predominantly considered positive. Considering the parallels between the allies – like the colonial past or the quality as an developing country -, Brazil shows understanding for the situation in many African states and is able to adopt different approaches compared to industrialised donor countries. The Brazilian involvement in the development cooperation, therefore, is perceived distinctively. While China's rise is increasingly put on the centre stage and inspires numerous heads of governments, the appreciation of Brazil expressed by the African continent is momentous, because it shows that democracy, economic growth and poverty alleviation may not be a contradiction in terms.

Apart from development cooperation, Brazil offers a high potential in the area of environmental policy. The country can be part of a sustainable and strategic partnership based on common values with Germany and the UE. The South American giant belongs to the world's largest producers of hydroelectricity together with Canada, China, Russia and the USA and the bulk of domestic energy demand is supplied by renewable energy resources. Moreover, the largest

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biodiversity as well as the largest river on earth can be found in Brazil. Guarding the world's largest CO2 reservoir – the Amazon rainforest – and in its quality as major exporter of bio ethanol, Brazil plays a central role in addressing global environmental issues like climate protection, resource preservation and sustainable energy supply. As income rises and livelihood conditions improve, public interest intensifies its focus on global environmental issues, which makes them relevant for politicians. In this way, these matters gain greater presence in the political discourse of the government. During the UN climate conference Rio+20 that took place in July 2012 in Brazil, the host has been firmly established itself once and for all as a significant player with far-reaching environmental ambitions on the global stage. The positions adopted by Brazil during the 2012 UN climate summit in Doha confirmed this impression. With regard to cooperation with the EU, Brazil – together with the partners forming the BASIC alliance- stood up for the implementation of a second phase of the Kyoto protocol from 2013 to 2020. According to internal information, the conclusion of the protocol would not have been possible without the proactive mediation of Brazil.

Even if the cooperation on security issues has so far proved to be difficult, there are overlapping interests in this area so that a partnership with Brazil offers great potential to leverage synergies. In this context, Brazil's reluctance to make concessions in regard to nuclear non-proliferation represents a strategic move in order to be given more consideration in the international security dialogue. In spite of having so far refused to sign the additional protocol of the International Atomic Energy Agency (IAEA) which enhances monitoring mechanisms, Brazil developed together with Argentina a bilateral verification regime for civilian nuclear programs similar to the model of the IAEA.

Since Brazil's successful heading of the UN peacekeeping mission in Haiti in June 2004, the country is acquiring increasing importance for the establishment of a stable global security order. According to national media reports, from March 2013 the Brazil-

ian government once more will send 1,250 soldiers to Haiti for a period of 6 to 8 month in order to monitor the local elections. As a total of 20,000 Brazilian peacekeepers have taken part in the mission since 2004, Brazil proved to have the necessary capacity to command such an intervention. Recently, it has also taken the lead over the maritime division of the peacekeeping mission in South Lebanon. This has strengthened Brazil's self-confidence considerably, which, consequently, provides the basis for its bid for a permanent seat on the UN Security Council. This is noteworthy because this claim is also made by Germany.

Conclusions

Widely discussed by the international media, Brazil's economic rise seems to be an omnipresent topic. Despite its often overlooked shortcomings in various areas, Brazil will continue to play a major role in the global economy. By contrast, the rising relevance of the South American giant on the global political scene still appears to be underestimated and misunderstood. Based on the strong economic growth over the past few years, the country's government successfully evolved an expressively independent and self-assured foreign policy, which is reflected in the increasing presence of Brazil in debate on global matters. Brazil is not merely integrated in myriads of Latin American cooperation initiatives but has also assumed a crucial role in mediating conflicts within and outside its immediate vicinity. There is no denying that Brazil has strengthened its position within international organizations as well as gained lasting visibility on the global stage. Its government intentionally chose to swim against the current and shouldered responsibility, which drew global attention and was widely acknowledged.

Even though at first glance the foreign policy of the Brazilian government might seem incoherent and preferentially dedicated to South-South cooperation respectively, it is undoubtedly guided by national interests and contrasts far less with the values of the Western hemisphere than expected. Indeed, overlapping interests, the possible pooling

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of synergies as well as the common cultural ties offer a considerable potential for a lasting strategic partnership, that should not be underestimated. Brazil's close relationship with its Southern homologues, which often is considered to be contrary to its Western alliances, allows Brazil to act as a link between industrialised, emerging and developing countries and to build bridges. With this in mind, there is a noteworthy cooperation potential to be used, particularly with regard to development, environmental and security issues.