

Brazil

Brazil takes off

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Now the risk for Latin America's big success story is hubris

Rex Features



WHEN, back in 2003, economists at Goldman Sachs bracketed Brazil with Russia, India and China as the economies that would come to dominate the world, there was much sniping about the B in the BRIC acronym. Brazil? A country with a growth rate as skimpy as its swimsuits, prey to any financial crisis that was around, a place of chronic political instability, whose infinite capacity to squander its obvious potential was as legendary as its talent for football and carnivals, did not seem to belong with those emerging titans.

Now that scepticism looks misplaced. China may be leading the world economy out of recession but Brazil is also on a roll. It did not avoid the downturn, but was among the last in and the first out. Its economy is growing again at an annualised rate of 5%. It should pick up more speed over the next few years as big new deep-sea oilfields come on stream, and as Asian countries still hunger for food and minerals from Brazil's vast and bountiful land. Forecasts vary, but sometime in the decade after 2014—rather sooner than Goldman Sachs envisaged—Brazil is likely to become the world's fifth-largest economy, overtaking Britain and France. By 2025 São Paulo will be its fifth-wealthiest city, according to PwC, a consultancy.

And, in some ways, Brazil outclasses the other BRICs. Unlike China, it is a democracy. Unlike India, it has no insurgents, no ethnic and religious conflicts nor hostile neighbours. Unlike Russia, it exports more than oil and arms, and treats foreign investors with respect. Under the presidency of Luiz Inácio Lula da Silva, a former trade-union leader born in poverty, its government has moved to reduce the searing inequalities that have long disfigured it. Indeed, when it comes to smart social policy and boosting consumption at home, the developing world has much more to learn from Brazil than from China. In short, Brazil suddenly seems to have made an entrance onto the world stage. Its arrival was symbolically marked last month by the award of the 2016 Olympics to Rio de Janeiro; two years earlier, Brazil will host football's World Cup.

At last, economic sense

In fact, Brazil's emergence has been steady, not sudden. The first steps were taken in the 1990s when, having exhausted all other options, it settled on a sensible set of economic policies. Inflation was tamed, and spendthrift local and federal governments were required by law to rein in their debts. The Central Bank was granted autonomy, charged with keeping inflation low and ensuring that banks eschew the adventurism that has damaged Britain and America. The economy was thrown open to foreign trade and investment, and many state industries were privatised.

All this helped spawn a troupe of new and ambitious Brazilian multinationals (see our [special report](#)). Some are formerly state-owned companies that are flourishing as a result of being allowed to operate at arm's length from the government. That goes for the national oil company, Petrobras, for Vale, a mining giant, and Embraer, an aircraft-maker. Others are private firms, like Gerdau, a steelmaker, or JBS, soon to be the world's biggest meat producer. Below them stands a new cohort of nimble entrepreneurs, battle-hardened by that bad old past. Foreign investment is pouring in, attracted by a market boosted by falling poverty and a swelling lower-middle class. The country has established some strong political institutions. A free and vigorous press uncovers corruption—though there is plenty of it, and it mostly goes unpunished.

Just as it would be a mistake to underestimate the new Brazil, so it would be to gloss over its weaknesses. Some of these are depressingly familiar. Government spending is growing faster than the economy as a whole, but both private and public sectors still invest too little, planting a question-mark over those rosy growth forecasts. Too much public money is going on the wrong things. The federal government's payroll has increased by 13% since September 2008. Social-security and pension spending rose by 7% over the same period although the population is relatively young. Despite recent improvements, education and infrastructure still lag behind China's or South Korea's (as a big power cut this week reminded Brazilians). In some parts of Brazil, violent crime is still rampant.

National champions and national handicaps

There are new problems on the horizon, just beyond those oil platforms offshore. The real has gained almost 50% against the dollar since early December. That boosts Brazilians' living standards by making imports cheaper. But it makes life hard for exporters. The government last month imposed a tax on short-term capital inflows. But that is unlikely to stop the currency's appreciation, especially once the oil starts pumping.

Lula's instinctive response to this dilemma is industrial policy. The government will require oil-industry supplies—from pipes to ships—to be produced locally. It is bossing Vale into building a big new steelworks. It is true that public policy helped to create Brazil's industrial base. But privatisation and openness whipped this into shape. Meanwhile, the government is doing nothing to dismantle many of the obstacles to doing business—notably the baroque rules on everything from paying taxes to employing people. Dilma Rousseff, Lula's candidate in next October's presidential election, insists that no reform of the archaic labour law is needed (see [article](#)).

And perhaps that is the biggest danger facing Brazil: hubris. Lula is right to say that his country deserves respect, just as he deserves much of the adulation he enjoys. But he has also been a lucky president, reaping the rewards of the commodity boom and operating from the solid platform for growth erected by his predecessor, Fernando Henrique Cardoso. Maintaining Brazil's improved performance in a world suffering harder times means that Lula's successor will have to tackle some of the problems that he has felt able to ignore. So the outcome of the election may determine the speed with which Brazil advances in the post-Lula era. Nevertheless, the country's course seems to be set. Its take-off is all the more admirable because it has been achieved through reform and democratic consensus-building. If only China could say the same.