



Brazil: The Future Arrives

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Europe's discovery of Brazil was an accident. In 1500 a group of Portuguese sailors looking for India were washed up on its shores and since then fortunes have been made and lost in a country so fertile that in some areas farmers can have three harvests a year. Testimony to misplaced foreign optimism about Brazil can be found in the state of Pará where Henry Ford, needing to produce car tyres, invested in an Amazonian rubber plantation located in a municipality named Fordlândia but where today the jungle is slowly reclaiming the abandoned, dilapidated houses and buildings.

Things might have been different today for the car maker as Brazil casts off the country's enduring image as always being a country whose full potential will never be realised. It was an Austrian author, Stefan Zweig, who settled in Brazil in 1940 after fleeing Nazism who remarked that his new home was "the country of the future" with wags later adding "and it always will be". He authored "Brazil: A Land of the Future", a year after his arrival and wrote about its history, economy and culture. At one point he quoted Amerigo Vespucci, the Florentine merchant and navigator, who is said to have described Brazil thus: "If paradise on earth exists anywhere in the world, it cannot lie very far from here!"

Significantly for Brazil is the fact that three core essentials have come together in sustained harmony for the first time: democracy, economic growth and low inflation. It is now possible that Brazil, with a population of 192 million, could turn out to be one of the world's five biggest economies (together with China, the United States of America, India and Japan) by the middle of the century. All three main rating agencies have classified Brazilian government paper as investment grade and in a bizarre turn of events, Brazil's government has announced that it proposes to lend money to the International Monetary Fund; only ten years ago the IMF (with stringent conditions attached) loaned money to Brazil.

Time Magazine chose President Luiz Inácio Lula da Silva, known by his sobriquet, Lula, as the world's most influential leader, but it would be wrong to attribute too much of Brazil's current economic success to him; perhaps, to a certain extent, Lucky Lula would be a more accurate nickname. If so, it should also be said that it was luck combined with common sense (as is the case with many stories of success) that proved to be the winning formula. Certainly no one should underestimate this man who began work in a laundry at 12 years of age and was a shoeshine boy and office boy before becoming a metal worker. "I have never let my schooling interfere with my education", said Mark Twain; Brazil's president didn't have that problem.

Many Brazilians believe that Fernando Henrique Cardoso, who was president from 1995 until 2003, was the man who stabilised the economy. This is a country where inflation between 1990 and 1995 averaged 764% a year, until a sea change took place in 1994 and a team of economists under Mr Cardoso (who at that time was finance minister) introduced a new currency, the real. The Real Plan, as it was known, had curbed price rises within a year and in 1999 the exchange-rate peg had been abandoned, allowing the real to float while, at the same time, the central bank was told to target inflation. The reforms brought fiscal discipline, bolstering the government's finances, and, most importantly, international creditors began to feel (as they do today) that the country could be trusted to honour its commitments.

Jim O'Neill at Goldman Sachs, the Wall Street bank, invented the term "BRICS"

in 2001. (Unfortunately, as I write this the bank is having bricks, in the metaphorical sense, thrown at it following fraud allegations made by the US Securities and Exchange Commission.) The term was shorthand for the emerging economies of Brazil, Russia, India and China, which, at the time, made up perhaps one-sixth of the world economy. Last year, according to the IMF, they accounted for one-quarter, having collectively overtaken the US. All four are among the ten largest accumulators of reserves, accounting for 40% of the world's total. Brazil, however, really scores because, firstly, it does not have the ethnic tensions common to Russia and India (not to mention China's credit-and-investment-led growth) and, secondly, this South American behemoth, with its USD240 billion in foreign reserves, has a domestic market that is quite insulated (exports account for only 13 per cent of gross domestic product).

Just as Panama cannot take credit for the creation of its famous canal, but it can for what the country has done with it since it took control from the US, so Lula can be recognised for building upon the reforms he inherited while, at the same time, fighting off his own political party's attempt to move him more to the left. Where the Brazilian president's real talent seems to lie is in his homespun approach to diplomacy as the country becomes more involved globally; since 2004 the number of Brazilian diplomats abroad has increased some 40%. It would appear that the president has followed Rudyard Kipling's advice by being able to walk with kings without losing the common touch.

The country's increasing prominence on the world stage has introduced (as it has in China) a degree of self-assurance. In the first of my columns which concentrated on the country (Brazil: Ambitious and Confident - Issue 153, February 2005) at the end of 2004 I referred to a less parochial Brazil with global ambitions which could lead to a weakening of ties with the US. This has happened, with traditional trading partners of the past such as the US and the European Union, increasingly being replaced by those in Asia, the Middle East and Africa. Not just trading patterns, but politics also, have changed.

If the US is unhappy with Ecuador's relationship with Iran ("Blood, Oil and Tears" – Issue 205) you can imagine

Washington's displeasure over Brazil's refusal to back sanctions against Iran as the US attempts to achieve an international consensus about Iran's nuclear programme. The Brazilian president has said "I am infected by the peace virus" and is insisting on negotiations because he argues that people should not be pushed into corners. His approach reflects the Brazilian belief in *jeitinho* – the knack of getting around difficulties in doing business although Moisés Naim, editor of Foreign Policy magazine, has called Brazil a political giant but a moral pygmy.

This April in Brasilia the president hosted the leaders of China, Russia and India at the second "BRICS" summit (South Africa was also there). Lula believes that the "BRICS" have a major role "in creating a new international order" more along European Union lines (he notes that just two generations ago France and Germany were at war with each other). He sees the US dollar's dominance as being mainly cultural and says this can change. These views are probably tempered by the fact that trade only comprises a fifth of Brazil's economy.

It does seem, as I suspected in 2004, that the US has missed its moment with Brazil. In Dostoyevsky's novel, "The Idiot", the hero makes every effort not to break a valuable China vase; although he tries to keep his distance he still ends up smashing it. It is an illustration of how by trying too hard to avoid danger you can make it happen. In the case of Brazil and the US, however, it has been quite the reverse: Washington has effortlessly kept its distance and in doing so has not broken (what is now) a valuable Chinese relationship.

In October Brazil will have general elections and if Lula has his way the country will have its first woman president, Dilma Rousseff, who was his chief minister before stepping down in March to become a candidate. She has a reputation for being a tough technocrat but she does not have Lula's charisma (the next president will have to try and keep in place a broad coalition of parties often in conflict with each other). The future has arrived in Brazil – even if it is a little uncertain – but, alas, Mr Zweig and his wife were destined never to see it; they both committed suicide not long after his remark was in common use.

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