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BRAZIL

FROM CURSED LEGACY TO COMPROMISED HOPE?

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TNI

Brazil: From cursed legacy to compromised hope?

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INTRODUCTION

Brazil provided perhaps the best hope for social movements that the rise of blocs like IBSA or BRICS might offer new opportunities for progressive economic and social transformation in our globalised world. This is because Brazil's emergence as a global power coincided with the ascendency to power of a former trade unionist, Luiz Inácio 'Lula' da Silva, and his Workers Party, known for its close relationships with social movements.

This hope was best exemplified in the World Social Forum, first held in Porto Alegre in 2001. Not only did these annual summits, attended by tens of thousands of activists, give visibility to an alternative globalisation movement—which the *New York Times* would later dub the 'world's second superpower'-—they were also sponsored and supported by municipalities and other government bodies successfully run by the Workers Party. For a while Lula, once he was elected President in 2003, seemed to live up to the hopes social movements placed in him—helping break with the Free Trade Agreement of the Americas (FTAA), calling for a multipolar world in rejection of US domination, and promising a new development path based on ending poverty and inequality.

Yet 12 years later, the alliance between social movements and Brazil seems much more fraught with tension. Domestically, the Brazilian government under President Dilma Rousseff faced unprecedented opposition from a popular movement angry at corruption and exorbitant spending in preparation for the FIFA World Cup. Internationally, accusations of Brazilian 'imperialism' are heard ever more often from social movements in neighbouring countries confronting Brazilian transnational companies and investments. Why is this, and what hope is there for Brazil forging a more progressive path in a multipolar world?

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THE 'CURSED LEGACY' OF VULNERABILITY

To understand the path that Brazil has taken in the last decade, it is important to first understand the context in which the Workers Party (*Partido dos Trabalhadores* or PT) rose to power and the decisions they subsequently took. The PT refers to the years preceding their election as the 'cursed legacy', as they had inherited an economy that was highly exposed to external speculative attacks (external vulnerability) and internal speculative attacks (related to the terms and conditions and liquidity of Brazil's public debt).

This vulnerability can be traced back in part to the adoption of the *Plano Real*[1] by the Itamar Franco government in 1993-94 in response to an ever growing current account deficit. In order to attract capital, high returns and good profits were offered to international investors. This certainly brought in investors, attracted by extremely high interest rates, rapid appreciation of stock values and the opportunity to acquire, for attractive prices, valuable assets in various sectors of the Brazilian economy, particularly those privatised between 1994 and 2001.

However, it also created a dangerous dependency on capital flows that could leave as quickly as they arrived. In 1997—the year of the Asian financial crisis—the country's current account deficit exceeded 4 per cent of GDP and became increasingly difficult to manage due to financial turbulence. Refusing to make more than minor tweaks to the model, the government's debt grew approximately nine-fold, from R$62 billion at the end of 1994 to R$554 billion in April 2001.[2] The government was forced to sign agreements with the International Monetary Fund (IMF) and other multilateral financial agencies, such as the World Bank (WB) and the Inter-American Development Bank (IADB).

With IMF pressure imposed through annual 'agreements', Brazilian authorities systematically resorted to budget cuts to deal with the problem. Cutbacks in social programs, wage freezes in the public sector and drastic decreases in investments in infrastructure became commonplace.[3] This type of measure contributed little to resolving the public debt issue, which continued to grow, and made living conditions increasingly unbearable. Even investors were warned off, fearful of the risks in the country's financial markets. Deficiencies in infrastructure—made evident in interruptions to the electricity supply which affected the entire country in 2002—showed the costs of unregulated privatisation which had prioritised profits for international financial investors over growth or public infrastructure.

At the same time, social movements increased their resistance against neoliberal policies and the government of Fernando Henrique Cardoso as the crisis worsened. The popular referendum on the external debt and FTAA, organized in this period by social organisations, helped consolidate not only the resistance against two of the pillars of the neoliberal policy—free capital flows and free trade—but also contributed ideas and proposals for a political platform and a growing institutional political opposition.

A COMPROMISED BREAK WITH NEOLIBERALISM

In his fourth run for the presidency, Lula campaigned on the promise he would break with this external economic vulnerability. However his party was also prepared to make compromises to head off strong anxiety from the business community. There was considerable apprehension about how a national development project—the goal of which was to introduce structural changes—would fare in a hostile environment characterised by the influence of US interests in the region, the hegemony of the financial liberalisation model, and the opposition of powerful domestic interests.

This was made apparent in the PT's "Letter to the Brazilian People" in the second half of 2002, released in the midst of the election campaign. The letter stated that a Lula government would "adapt" its programme to adhere to the agreement the previous Cardoso administration had recently signed with the IMF. It also dropped the party's previous insistence on tackling the debt issue, which included demands for an audit and other, even more radical, ideas. The letter ended the confrontational tone vis-a-vis the financial markets, their interests and institutions, and is commonly considered a turning point in the PT's historical positions.

Yet despite this *volte-face*, the new government was determined to reduce the country's vulnerability to external financial institutions by strengthening the state's role in the economy, building up Brazil's economic autonomy, and by forging alliances with regional and international powers that could counter imperial power. The idea was that if Brazil succeeded in creating more balanced power relations domestically and internationally, it would be better placed to implement its own structural reforms and new development path.[4] By 2005, the PT's decision seemed vindicated when it succeeded in paying off its multilateral debts, and ended its agreement with the IMF. The choices Brazil took to break this dependency, however, had consequences that continue to resonate, as we will examine.

BUILDING ECONOMIC INDEPENDENCE THROUGH INCREASED TRADE

The primary way Brazil sought to reduce its economic vulnerability was by increasing trade surpluses in order to accumulate international reserves, which would in turn serve as a safeguard against possible capital flight. The government decided to focus efforts on maintaining existing markets, while actively searching for new markets to expand trade.

To do so, the government had to manage a duality in Brazilian exports: one dynamic centred on exporting manufactured goods to the Americas (that is, South America and the US), and another focused on the sale of primary products (agricultural, energy and minerals) to Europe and Asia. As the Brazilian industrial complex imports a lot of its supplies, technology and parts, in order to boost exports of industrialised goods it had to quickly expand its trade surpluses, which required a rapid increase in agriculture and mining exports in the short run.

A combination of government efforts together with favourable external circumstances meant the government was very successful in its strategy. Brazil's trade balance went from almost $13 billion in 2002 to nearly $25 billion in 2003, and from that level to about $45 billion in 2005. In the same period, the total volume of exports rose from nearly $60 billion to almost $118 billion. The volume of international reserves also rose from a little under $38 billion in 2002 (of which approximately $23 billion were from agreements with the international financial institutions—IFIs—to deal with the 2002 financial crisis; $16 billion was from the IMF alone) to nearly $54 billion in late 2005,[5] the year the government finished paying off the IMF loan. More recently, Brazil's current account deficit has started to increase again due to a dwindling trade surplus that had its weakest result in a decade in 2013, stabilizing around 3,6 per cent of the GDP since the end of 2013 to June 2014.[6]

Another important development during the period was the change in the destination of Brazilian exports: whereas before, a third of exports went to developing countries and two-thirds to developed countries, the ratio is now half and half. This was mainly due to an increase in trade to China and the rest of Latin America (See Tables 1 and 2).

Table 1. Indicators on Brazil's External Sector: 1994-2008 (in percentages)

Year	Servicing of the foreign debt/Exports	Total External Debt/GDP	Net Total External Debt/GDP	International Reserves/ Total External Debt
1994	38.2	26.3	15.3	27.1
1995	44.5	21.7	12.2	33.9
1996	54.7	22.3	12.1	34.7
1997	72.6	23.7	15.2	27.2
1998	87.4	28.4	20.9	19.9
1999	126.5	42.0	32.5	16.1
2000	88.6	36.0	28.4	15.2
2001	84.9	37.9	29.4	17.1
2002	82.7	41.8	32.7	18.0
2003	72.5	38.8	27.3	22.9
2004	53.7	30.3	20.4	26.3
2005	55.8	19.2	11.5	31.7
2006	41.4	15.9	7.0	49.8
2007	32.4	14.1	-0.9	93.3
2008	19.0	12.1	-1.7	97.7

Source: Brazilian Central Bank Bulletin, available at www.bcb.gov.br

Table 2. Brazil: Exports to Mercosur, US, EU & China

	2002		2007		2012	
	Millions of US$	%	Millions of US$	%	Millions of US$	%
Mercosur	3318.7	5.50	17353.6	10.80	22801.5	9.40
US	1553.8	25.74	25313.6	15.76	26849.4	11.07
EU	15608.9	25.86	40428.0	25.17	48859.6	20.14
China	3048.4	5.05	12085.1	7.52	43686.1	18.01
Others	22851.0	37.86	65468.8	40.75	100383.2	41.38
Total	60361.8	100.00	160649.1	100.00	242579.8	100.00

Source: MDIC/SECEX/DEPLA, available at: www.desenvolvimento.gov.br

BUILDING UP NATIONAL AND TRANSNATIONAL CHAMPIONS

One key element of the PT's platform was an increased role for the state, and an industrial policy to support "national champions" in every productive sector of the economy—thereby strengthening their ability to compete at the global level.[7] The National Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, or BNDES) as well as state-controlled pension funds have played a critical role in supporting national corporations that have since become transnational giants, expanding into neighbouring countries and Africa. These corporations are in the mining sector (Vale being the prime example), services (construction firms like Odebrecht, Camargo Correia and Andrade Gutierrez, for example), energy (such as Petrobras) and the agro-export chain (mainly meat and soybean producers and processors such as JBS/Friboi and Brasil Foods). This strategy has been successful, particularly during the 'commodities supercycle' of the past decade which fuelled the growth of extractive industries in Brazil.

In the case of Vale, Brazil's top mining corporation, the expansion process began in the 1990s with the privatisation of Vale do Rio Doce, the state-owned iron ore mining firm. The pension funds of state enterprises and BNDES assumed control of the company with its so-called "privatisation", in May 1997. In that agreement, shareholders passed managerial control over to executives of the Bradesco bank, one of Brazil's largest privately-owned banks. With the surge in iron ore exports and a high international price for iron, Vale's financial capacity grew rapidly and it began to expand throughout the world. It is among the top 500 companies on the *Forbes Global 2000 Leading Companies* list, ranked 442nd.[8]

Producers and processors in the agribusiness chain followed a similar process: they too grew rapidly due to the surge in primary goods exports and prices, and had support from the BNDES. BNDES not only funded imports and exports, but also increasingly helped to finance Brazilian investments abroad.[9]

USING FOREIGN POLICY TO SUPPORT BRAZIL's DEVELOPMENT AND REDUCE VULNERABILITY

In a document written at the beginning of President Lula's first term of office,[10] Foreign Affairs Minister Celso Amorim outlined the government's determination to use diplomacy as "a tool to support the country's social and economic development project". This proposed a renewed emphasis on building regional integration, promoting "a multipolar global order", and reforms of the UN.

Latin America, not surprisingly, was a high priority on Brazil's diplomatic agenda as it was the easiest region in which Brazil could advance its economic interests, and facilitate the expansion of Brazilian companies. Regionally, Brazil was of course better able to establish affinities, and political and cultural links in general. Brazil's support for building regional integration—and the relative success thereof—also provided the platform for Brazil's broader intervention on the global scene.

In its immediate neighbourhood, Brazil engaged with Mercosur, made up of Argentina, Brazil, Paraguay and Uruguay (and more recently Venezuela). This involved the creation of a "structural convergence fund"[11]—a common fund set up between the four countries to finance projects related to the regional integration process—and the establishment of mechanisms for trade in national currencies (which, until now, is limited to Brazil and Argentina). It also posited the reform of the Mercosur Parliament. Regional integration has, however, been hampered by the fact that the Mercosur countries are still mainly commodity exporters, often focusing on the same products (soybean and meat, for example), and therefore compete directly with each other on the global market.

On a broader Latin America-wide stage, Brazil played a role in building Unasur (Union of South American Nations), in the aftermath of the broken-down FTAA talks. It arose as an initiative to bring Mercosur and the Alba countries from South America[12] together, and now unites all countries in South America. Probably its most important decisions have been to create the South America Defence Council in 2008, and a regional financial architecture—including the creation the Bank of the South (Banco do Sul) as a regional financial development agency—which marks a distinct departure from the financial architecture that had exacerbated Brazil's vulnerability in the 1990s. While member countries contribute funds to the bank according to their economic power, they all participate as equals on its board of directors.[13] Not all Unasur countries currently participate in the Bank of the South initiative (so far it only includes the Alba and Mercosur countries), but once the agency begins to operate other countries in the region have the option of joining. There has been intense debate in Brazil on funding the Bank of the South, with concerns about the potential competition to its own national development bank (the BNDES), and the diversion of resources from addressing Brazil's internal regional and social imbalances. To date, the bank is beginning to be structured, but it is still "more a promise than a reality".[14]

At the same time, Brazil and 33 other countries of South America, Central America and the Caribbean formed the Community of Latin American and Caribbean States (Celac, in Spanish and Portuguese) in February 2010. Unlike the Organization of American States, CELAC excludes Canada and US. The general idea is to strengthen political dialogue and cooperation in the region, and facilitate a common regional identity.

It still is not clear how all of the new institutions will work together, or how they will work with pre-existing ones (how the Celac and the OAS will work together, for example). It is clear, however, that their creation marks the failure of US attempts to implement a cross-continental FTAA (even if separate FTAs have been signed with individual countries).

All of these manoeuvres have succeeded in limiting the US's power in the region. Nevertheless, they have involved a delicate diplomatic chess game by the Brazilian government. Brazil has never adopted a confrontational strategy with the US, like the ones employed by Venezuela and Bolivia, but it has also been clear to reject all possible direct interference by the US in the region. The US's need for relations with Brazil in the context of greater antagonism to the US across Latin America, has meant that Brazil has emerged as a privileged intermediary between the US and the region.

BUILDING A MULTIPOLAR WORLD

Brazil has been one of the key drivers behind efforts to build new power blocs, particularly of emerging economic powers in the South, that could challenge a unipolar world dominated by the US. Amorim's foreign policy from 2002 committed itself to building a multipolar world, arguing it would "provide a more stable and secure international environment, providing better conditions for development for all".[15] In fact, Brazil's diplomatic team seems to have been most comfortable working as a nation within a larger economic and political bloc, allowing it to defend its interests alongside others without overtly exposing Brazil's positions, and enabling it to establish multiple and distinct political alliances.

The creation of IBSA (India, Brazil, South Africa), the establishment of the G20, the building of stronger trade and political relations with China, and the founding of the BRICS are proof of the relative success of Brazil's diplomatic moves to strengthen multilateralism. With regards to trade, Celso Amorim's advocacy of developing country priorities is widely credited for ending the sway of disadvantageous trade deals at the WTO.

In the creation of the BRIC (Brazil, Russia, India and China, with the "S" being added later when South Africa joined the group), two main ideas guided Brazil's efforts to bring together what it considered relevant economic space outside of the so-called "triad" (US, Japan, Europe). With India and South Africa (which, together with Brazil constitute IBSA), the idea was to form a kind of "ground floor" group made up of developing countries that are key regional players, formally have a democratic system, and operate in relative harmony with the triad. This group's agenda would go beyond trade expansion to include more structural concerns such as development, income distribution, relationships with social movements and sustainability. IBSA members would then move to the "upper floor" to join Russia and China (members of the UN Security Council) in a discussion on issues related to the G20, the United Nations, the IFIs, and financial aspects of development. Important proposals on the "BRICS bank" and the idea of having a system of conducting trade in national currencies between BRICS members have emerged. The numerous differences (political, social, ethnic, military, economic, geopolitical, etcetera) among countries, and their respective strategic goals have, however, created tensions and contradic-tions within these blocs, so how they will develop in the future is difficult to judge.

Brazil's involvement in the BRICS led to a shift in the country's attention from Latin America, where it had traditionally been focused, to the global level. The government is unlikely to have intervened in tensions between Iran and the International Atomic Energy Agency—and more recently in conflicts in Libya and Syria—had it not been for its participation in the BRICS. This has obliged Brazilian diplomats to make significant efforts to take more global positions.

SUCCESS–BRAZIL AS A GLOBAL PLAYER

On many accounts, Brazil's foreign policy and economic strategy has been a great success. Brazil has moved from being seen as an indebted crisis-ridden country to a Latin American success story, an exemplar of inclusive growth, and a respected giant on the global political stage. In 2011, Brazil overtook Britain as the sixth largest economy in the world. While the richest nations of the North struggled with financial crisis, Brazil's economy continued to grow and with $327 billion in foreign currency reserves in June 2011, Brazil became a creditor to the US. The tables had seemingly been turned.

Moreover, Brazil was increasingly recognised for its distinctive economic model that had not just enriched a few, but achieved the greatest reduction in poverty in Brazilian history. According to some estimates, the number of poor dropped from around 50 to 30 million in the space of six years, and the number of the destitute by 50 per cent. Lula's programme of direct cash transfers to poor families, the *Bolsa Família*, became a symbol of Brazil's new development path and was widely praised as an initiative to follow worldwide. Brazil has also been investing heavily in its future: since 2005, government spending on education has trebled, and the number of university students doubled.[16]

Its economic success and moral example have given Brazil a particular level of respect and leverage on the global stage. This was apparent when Lula not only recognised Palestine as a state in 2010, but also refused to join the blockade of Iran, even inviting Iran's President Mahmoud Ahmadinejad to Brasilia. The US's impotent fury at these displays of diplomatic independence was a sign that Brazil's emergence as a globally-respected power had led to major reconfigurations of the global geopolitical landscape.

BRAZIL's 'FAUSTIAN PACT' WITH SUCCESS

There is no doubt that Brazil's challenge to US imperial dominance—both in their former 'backyard' and globally—along with its own record on poverty reduction, have offered hope to movements and governments keen on breaking with a failed neoliberal model. The rise of the more radical "Bolivarian bloc"—the group of countries that adhered to the Bolivarian Alternative for the Americas (Alba, for its acronym in Spanish and Portuguese)—and the so-called 'pink tide' in Latin America, were both inspired by Brazil's example and often benefited from Brazil's strong political support. Brazil has for example stood alongside governments such as Bolivia and Ecuador when they have faced efforts at internal destabilisation (in Bolivia in 2008 and Ecuador in 2010), or been threatened or undermined by outside countries (such as European nations' attempts to ground Bolivian President Morales' plane in 2013).

Brazil's chosen path to free itself from external vulnerability, and escape the 'cursed legacy' of neoliberal failure, has been an emphasis on exports and the promotion of new 'home-grown' TNCs. This path has its pitfalls—which could threaten Brazil's continued economic rise—and contains seeds for social unrest and environmental destruction, while also limiting the possibilities for progressive transformation.

Table 3. Latin America and the Caribbean: Trade Composition According to Category of Goods - 1990-2005 (in US$ 1000 and %)

	1990		1995		2000		2005	
	Value	%	Value	%	Value	%	Value	%
EXPORTS								
Primary Products	**59 660 438**	***49,1***	**68 268 126**	***30,8***	**95 682 178**	***27,5***	**195 497 173**	***35,6***
Manufactured Goods	**60 524 886**	***49,8***	**148 719 859**	***67,2***	**246 988 500**	***71,0***	**344 496 900**	***62,7***
Based on natural resources	26 723 201	*22,0*	49 943 363	*22,6*	60 035 563	*17,2*	92 757 946	*16,9*
Low Technology	11 723 937	*9,6*	26 860 492	*12,1*	41 039 559	*11,8*	53 025 008	*9,7*
Medium Technology	18 958 605	*15,6*	52 634 815	*23,8*	88 094 099	*25,3*	131 287 423	*23,9*
High Technology	3 119 144	*2,6*	19 281 190	*8,7*	57 819 280	*16,6*	67 426 524	*12,3*
Other Transactions	**1 425 787**	***1,2***	**3 848 891**	***1,7***	**5 382 477**	***1,5***	**9 373 454**	***1,7***
Total	**121 611 111**	***100,0***	**221 410 993**	***100,0***	**348 053 155**	***100,0***	**549 367 528**	***100,0***
IMPORTS								
Primary Products	**17 862 358**	***18,6***	**23 271 772**	***10,2***	**34 929 565**	***9,7***	**52 965 801**	***11,1***
Manufactured Goods	**73 651 888**	***76,8***	**195 989 386**	***86,1***	**316 195 279**	***87,9***	**419 241 128**	***87,5***
Based on natural resources	18 997 544	*19,8*	41 632 974	*18,3*	57 325 034	*15,9*	81 645 012	*17,0*
Low Technology	9 555 483	*10,0*	31 783 566	*14,0*	53 505 457	*14,9*	63 637 682	*13,3*
Medium Technology	32 713 066	*34,1*	85 629 075	*37,6*	127 772 692	*35,5*	176 350 405	*36,8*
High Technology	12 385 794	*12,9*	36 943 770	*16,2*	77 592 095	*21,6*	97 608 028	*20,4*
Other Transactions	**4 422 747**	***4,6***	**7 956 127**	***3,5***	**8 599 913**	***2,4***	**6 812 811**	***1,4***
Total	**95 955 928**	***100,0***	**227 602 572**	***100,0***	**359 725 338**	***100,0***	**479 019 740**	***100,0***
RESULTS								
Primary Products	**41 798 079**		**44 996 354**		**60 752 612**		**142 531 372**	
Manufactured Goods	**- 13 127 002**		**- 47 269 526**		**- 69 206 779**		**- 74 744 228**	
Based on natural resources	7 725 657		8 310 389		2 710 529		11 112 933	
Low Technology	2 168 454		- 4 923 074		- 12 465 899		- 10 612 674	
Medium Technology	- 13 754 462		- 32 994 260		- 39 678 594		- 45 062 983	
High Technology	- 9 266 651		- 17 662 581		- 19 772 816		- 30 181 505	
Other Transactions	**- 2 996 960**		**- 4 107 235**		**- 3 217 436**		**2 560 644**	
Total	**25 655 183**		**- 6 191 579**		**- 11 672 183**		**70 347 788**	

Source: Economics Indicators and Statistics, CEPALSTAT, available at: www.eclac.cl

Brazil, as we have noted, built its economic independence and success in large part on a overwhelming emphasis on exports—particularly of primary commodities and industrial products requiring the intensive use of natural resources, such as those produced by the food industry and mineral and energy resources. This process was true of much of Latin America as can be seen in Table 3.

This model of export-led growth has had negative implications for Brazil (and Latin American generally). The first contradiction it has opened up is between the production of food for export, and food insecurity among the country's population. The transformation of virtually all major agricultural production into exportable commodities establishes a direct link between prices on the domestic market (in local currency) and those on the international market (in foreign currency). While in the short term, growth policies that increase the poorest classes' income have enabled them to pay for food, in the long-term it has made many more people vulnerable to rising prices.

An export fixation has also had environmental costs. Brazil has an undeniable competitive advantage in terms of natural resources and other factors of production: an abundance of mineral and forest resources, water, and potentially arable land, as well as favourable demographics (a large working-age population and median population growth rate). These are not all replenishable, however, and the rapid growth of natural resource-based industries—whose extractive-model is both extensive and intensive—raises questions of sustainability. There is a real danger of 'eating the future', and depleting the reserves that will be available for future generations. One must remember that when the country exports minerals or agricultural products, it is also exporting what is embedded in these goods—water, land, energy and labour—all furnished at low prices in order to ensure the competitiveness of exports.

The destructive impact of the construction of hydroelectric dams to produce cheaper energy or huge open-cut mining operations, especially in the Amazon region, are the most obvious examples. But it can also be seen in the expansion of soybean and livestock production into forest areas, and its dominance over the traditional forms of production and ways of life of indigenous and other peoples who have been living in Brazil's interior for centuries. A Greenpeace report in 2006, *Eating up the Amazon*, among others, helped bring about some changes, although it is still not clear how much this displaced the problems to new regions, such as the Cerrado. While the rate of deforestation in the Amazon was cut in half in the period 2000-2012, from approximately 40,000 sq km per year to approximately 20,000 sq km per year, the most recent figures show a reversal of the trend, with the rate increasing by 28 per cent in 2012-13 compared to the previous year.[17] The revision of the Forest Code (FC) in 2012—after more than a decade of efforts by Brazil's powerful agricultural lobby—eased restrictions on logging, and is seen by many as the reason for the rising rate of deforestation. The process of expansion of agricultural land also contributes to the concentration of land ownership, and exacerbates social problems and violence in rural areas.

Another effect of international integration that relies on exports of low technology products is that it augments pressure for reducing labour costs, whether it be through lower wages, the elimination of historical gains and benefits, and/or reducing workers' rights. In an economy that is less dependent on international trade and less exposed to trade fluctuations, increases in workers' incomes are dynamically transformed into growth in sales volumes, which in turn boosts production—all on a virtuous path to growth. In an economy highly open to imports from other countries and dependent on its exports, wage increases or expansions in workers' rights and benefits are seen as factors that raise costs for export sectors, hindering companies' ability to compete.

SHIFTING THE BALANCE IN FAVOUR OF CORPORATE POWER

Perhaps even more damaging than the export-led model though has been the way it has strengthened particular corporate sectors and shifted the power balance against social movements within the Brazilian government and the PT itself.

Social movements and civil society organisations had led resistance to the neoliberal model, namely to the process of financial and trade liberalisation and privatisation in the 1990s and early 2000s, and were part of the new hegemonic coalition that won the elections in 2002. Many leaders of the PT and other parties in the coalition come from social movements and civil society organisations and worked to lobby the government sectors responsible for defining these policies. As a result, the government opened up spaces for civil society organisations and social movements, networks and coalitions to participate in the discussion and formulation of foreign policies (on trade and human rights, for example), thereby allowing the sectors most interested in altering the government's strategy to have some influence in the process.

However the PT's decision to focus on strong growth in exports and imports —in order to build up international reserves and reduce Brazil's economic vulnerability—invariably privileged certain interests. The main beneficiaries of this focus were the major national and transnational corporations operating in the country that were integrated into the international market. Many of these companies participate in international production chains as, simultaneously, both importers and exporters.

Brazil's policy of fostering convergences among companies is not limited to sectors engaging in foreign trade. Since 2006, a process of mergers and the reorganisation of the corporate sector has gained momentum, which has resulted in enormous sectoral and multi-sectoral conglomerates. This concentration has been actively encouraged by BNDES, the main funder of the Brazilian economy. The bank is optimistic about the positive impacts large corporations can generate due to their financial, technological, management and market potential, as well as their synergies and the role they play in coordinating a chain of suppliers, distributors and service providers.

Petrobras and Embraer are two domestic companies that have become particularly dominant according to the report "Who wins and who loses with Brazilian exports" by the network of Brazilian NGOs and social movements, REBRIP.[18] Petrobras is Brazil's largest corporation, specialising in the trade of oil and oil products. Embraer imports parts to assemble airplanes, which it then exports as finished products. The rest of the country's major exporters are in two main groups: mining and processed minerals (iron and steel, for example) and large-scale agriculture and livestock, which includes processed food products (such as processed meat, soybean oil, pulp and paper, sugar and ethanol). In addition, some dominant Brazilian players are subsidiaries of transnational corporations, actively importing and exporting, as is the case with Fiat from Italy, Daimler from Germany or the US-based Caterpillar. All of these exports involve the intensive use of environmental resources.

These corporations and sectors not only benefit from Brazil's policies to stimulate trade, they also exert a powerful influence over Brazil's ministries and its foreign trade policies. Their interests often contradict those of social movements and the government's supposed commitment to a new development path and a more inclusive politics. The composition of the Brazilian delegation to multilateral or bilateral trade negotiations provides a good example of the continued contestation of power in the government: in the same delegation, one found the Ministry of Agriculture representing the agribusiness sector and the Ministry of Agrarian Development, which represented the interests of peasant farmers.[19]

The contradictions were also evident in the long and bitter debate in the Brazilian congress over revisions to the Forest Code (FC), fuelled by tensions between the agribusiness lobby, government enforcement agencies, and environmentalists. Created in 1965, the FC was transformed via a series of presidential decrees during the 1990s into a de facto environmental law.[20] A decade of lobbying by agribusiness interests resulted in proposed amendments which loosened environmental protection and regulation. After five years before the Brazilian Congress, and repeated presidential vetoes of elements of the bill, it came into law in October 2012.[21] In trying to find a balance between sustainable economic growth and environmental responsibility, the result satisfied nobody and remains controversial.[22]

Early in 2014, Brazil's ombudsman—charged with protecting the rights of citizens under the Brazilian Constitution—"brought constitutional challenges to 39 provisions of the revised forest code. At the heart of the argument is the Brazilian government's constitutional duty to protect an ecologically balanced environment for the benefit of current and future generations."[23]

BRAZIL TODAY

The calamity of the international economic crisis in September 2008 seemed to mark a decisive turning point for countries such as Brazil vis-a-vis the rich nations of the North. For it was the industrialised countries that had most benefited from, or defended, the previous neoliberal model—like the US, England, Japan and Mexico, among others—which were hit the hardest by the crisis. The US in particular was at the epicentre of the crisis. In the aftermath of the failed Iraq invasion, there was a clear sense that the days of US unrivalled global dominance were numbered.

Latin America, by contrast experienced a rather unusual period of generalised growth despite the economic crisis— something it had not seen for over three decades. Much of this has been attributed to the countries' large international reserves and favourable commodity prices. However another key cause of Latin America's apparent immunisation from the global crisis was due to the domestic policies adopted by countries such as Brazil, based on income transfer programs, minimum wages and wage increases. In other words, the expansion of domestic consumption had created a *virtuous cycle* which led to increased private investment, higher tax revenues and even more room to raise public spending—either through additional income transfer programs or public investment.

Brazil also took other proactive measures, including expanding credit for consumers and financial support to the business sector. This set of measures resulted in rapid economic recovery for Brazil and the majority of South American countries, starting as early as the second half of 2009. However, it also had some negative impacts: by attracting foreign capital in hot pursuit of high returns, the value of the Brazilian real ended up increasing. The real's value rose sharply throughout 2010, reducing the trade surplus, which, after hitting a peak of nearly $46.5 billion in 2006, fell to about $25 billion in 2008. It remained at that level throughout 2009 and then declined slowly, down to $19.5 billion in 2012. The current account balance, after years of being positive (since the beginning of the Lula government), began to operate in the red from 2008 onwards

These results set off warning lights for the government. In January 2010, the government announced various incentives to enhance Brazil's trade performance, at the heart of which were tax relief measures, as usual. Also central was the government's intention of intensifying the signing of new trade agreements. According to government data, countries and regions identified as a priority for agreements were: the US, Canada and Mexico, Chile, Colombia, Peru, Eastern European countries, Iran, Saudi Arabia, Egypt, South East Asia and West Africa (Kenya and Sudan were mentioned on the list).

On the other hand, the increasing costs of infrastructure projects, whether related or not to mega-events such as the World Cup or the Olympic Games, supported by the public budgets (federal-, state- or municipal- level budgets) and the cuts in social expenditures, as well as guarantees for profits for some strategic areas, such as urban transportation (which is operated by private entrepreneurs) and public-private partnerships led to a social explosion in the mid-2013. The political consequences of this upheaval, particularly in the forthcoming national elections in October 2014, remains to be seen.

The search for an end to external and internal vulnerability seems destined to continue. The challenge for social movements is to reclaim their leadership role not only in challenging the costs of export and TNC-led development, but also to articulate alternatives that can revive the hopes that Brazil offered popular movements in the early years of the twenty-first century.

Endnotes

1 The "Real Plan" or *Plano Real*—named after the new Brazilian currency created in July 1994, the "real"—was the stabilization plan launched in 1993-1994. The plan consisted of a combination of trade and financial liberalisation, with the establishment of an overvalued fixed exchange rate in order to force prices to drop quickly, and the use of capital inflows to deal with the current account deficits brought on by the combination of these measures.

2 This figure includes a large number of public bonds indexed at the exchange rate.

3 In the deals with the IMF and other financial institutions, Brazilian authorities agreed to treat public investments and public expenditures as one and the same thing. As much of the investment in infrastructure in Brazil came from state-owned companies, the cutbacks that resulted from the agreements with the international financial institutions affected these investments. This eventually caused many infrastructure-related sectors—such as energy and transportation—to experience major operational problems. The national power grid, for example, became unstable, and in 2002 three of Brazil's five major regions— including the southeast region, where Rio de Janeiro and Sao Paulo, the country's two largest cities, are located—experienced blackouts. This generated not only economic losses at the time, but also risks for development in the future.

4 The government program proposed during President Lula's election campaign in 2002 stated that strengthening relations within South America was one possible way of gaining power to confront proposals developed under US hegemony, like the FTAA. The *2002 Government Program* can be found in the archives of the PT website: www.pt.org.br.

5 In November 2012, Brazil's international reserves were estimated at more than $370 billion.

6 See http://www.reuters.com/article/2014/06/24/brazil-economy-external-idUSL2N0P50K220140624

7 For more on this issue, see Tautz, C., Siston, F., Pinto, J.R.L., and Badin, L. (2010)."O BNDES e a reorganização do capitalismo brasileiro: um debate necessário", in Os Anos Lula: contribuições para um balanço crítico 2003-2010, Ed. Garamond: Rio de Janeiro, pp. 249-286.

8 See: http://www.forbes.com/global2000/

9 Especially in cases in South America and Africa, the BNDES assumed an important role in the transnationalisation of Brazilian companies. The bank has set up offices in Montevideo (Uruguay) and London (United Kingdom), and is acting as a sort of secretariat for discussions on strategies for coordination between existing development banks in the BRICS. It is also contributing to the discussion within the BRICS (Brazil, Russia, India, China and South Africa) on the organisation of a new financial institution for global development, which is to controlled by the members of the group.

10 Amorim, C. (2004). Conceitos e estratégias da diplomacia do governo Lula. *Diplomacia, Estratégia e Política*. 1(1). Brasília: Projeto Raúl Prebisch.

11 Structural Convergence Fund (SCF) to which countries provide resources according to their economic power. The projects to be financed must benefit the poorest countries. In practice, this means that mainly Brazil, and Argentina to a lesser extent, are financing projects in Uruguay and Paraguay.

12 ALBA—formally, the Bolivarian Alliance for the Peoples of Our America - Peoples' Trade Treaty (*Alianza Bolivariana para los Pueblos de Nuestra América - Tratado de los Comercios de los Pueblos*)—is made up of Bolivia, Ecuador, Nicaragua and Venezuela, as well as the Caribbean countries of Cuba, Dominica, Antigua & Barbuda, Saint Lucia, and Saint Vincent & the Grenadines; Suriname was admitted as a guest country in 2012.

13 Argentina, Brazil and Venezuela have signed a commitment to each contribute 20 per cent of the subscribed capital of $7 billion, while Bolivia, Ecuador, Paraguay and Uruguay have pledged 10 per cent each The institution's final decision-making structure differs significantly from that of traditional multilateral financial institutions, like the IADB, the IMF or the World Bank, where voting power varies according to each country's quota.

14 Munevar, D. (2013). Banco do Sul segue mais como promessa do que realidade. *Correio do Brasil*. August 1, 2013, http://correiodobrasil.com.br/ultimas/banco-do-sul-segue-mais-como-promessa-do-que-realidade/632061/

15 Amorim, C. (2014). Conceitos e estratégias da diplomacia do governo Lula. In Diplomacia, Estratégia e Política. 1(1). Brasília: Projeto Raúl Prebisch.

16 Anderson, P. (2011). O Brasil de Lula, Novos Estudos CEBRAP, n.91, S. Paulo.

17 Brazil says Amazon deforestation rose 28% in a year. (2013). *BBC News*, November 15 2013, Retrieved June 21 2014, from http://www.bbc.com/news/world-latin-america-24950487 ; Carrington, D. (2013). Amazon deforestation increased by one-third in past year. *Guardian*, November 15 2013, Retrieved June 21 2014, from http://www.theguardian.com/environment/2013/nov/15/amazon-deforestation-increased-one-third. See also the interactive map prepared by the University of Maryland, at http://earthenginepartners.appspot.com/science-2013-global-forest

18 *Quem ganha e quem perde com as exportações brasileiras*. (2008). Rio de Janeiro: REBRIP/FASE. Available at: http://www.rebrip.org.br/downloads/sistema/material/3/exportacoes-brasileiras-rebrip-fase.pdf/quem-ganha-e-quem-perde-com-as-exportacoes-brasileiras.pdf

19 *Negociações Comerciais na Era Lula. criação do G-20 e embates entre o agronegócio e a agricultura familiar*. (2004). Rio de Janeiro: ActionAid Brasil/REBRIP. November 2004. Available at: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CCEQFjAA&url=http%3A%2F%2Fwww.rebrip.org.br%2Fdownloads%2Fsistema%2Fdocumentos%2F67%2FNegociacoes%2520Comerciais%2520Internacionais%2520na%2520era%2520Lula.pdf%2Fnegociaco

20 For details of the 1965 FC and subsequent amendments and decrees, see: http://faolex.fao.org/cgi-bin/faolex.exe?rec_id=008606&database=FAOLEX&search_type=link&table=result&lang=eng&format_name=@ERALL

21 Federal Law 12.727, 17 October 2012; http://www.planalto.gov.br/ccivil_03/_Ato2011-2014/2012/Lei/L12727.htm

22 For a comprehensive examination of the FC and its implications, see Soares-Filho, B., Rajao, R., Macedo, M., Carneiro, A., Costa, W., Coe, M., Rodrigues, H., Alencar. A. (2014). Cracking Brazil's Forest Code. *Science*, 344 (6182): 363 http://www.sciencemag.org/content/344/6182/363.full.pdf. See also Haley, I. (2014). *Decoding The Amazon: Brazil's Controversial New Forest Code*, http://www.duqlawblogs.org/joule/decoding-the-amazon-brazils-controversial-new-forest-code/

23 Haley, I. (2014). *Decoding The Amazon*: *Brazil's Controversial New Forest Code*, http://www.duqlawblogs.org/joule/decoding-the-amazon-brazils-controversial-new-forest-code/

The economic rise of China, India, Brazil and others has been met by most analysts in the North with a mixture of breathless excitement or fear. But what does the rise of these nations mean for local and international social movements committed to economic, social and environmental justice?

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