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Parts of Rio de Janeiro are undergoing a renaissance, like the port area where the Kaleša Club, above, caters to the rising middle class in a space that used to house a brothel. (Douglas Engle for The New York Times)

Brazil finally poised to step up as global economic player

By Alexei Barrioneuvo

Published: July 29, 2008

FORTALEZA, Brazil: Desperate to escape her hand-to-mouth existence in one of the poorest regions of Brazil, Maria Benedita Sousa used a small loan five years ago to buy two sewing machines and start her own business making women's underwear.

Today the mother of three, who started out working in a jeans factory for minimum wage, employs 25 people in a modest two-room facility that produces 55,000 pairs of cotton panties a month. She bought and renovated a house for her family and is now thinking of buying a second car. Her daughter, who is studying nursing, would be the first family member to finish college.

"You can't imagine the happiness I am feeling," Sousa, 43, said from the floor of her business, "Big Mateus," which she named after a son. "I am someone who came from the countryside to the city. I battled and battled, and today my children are studying, with one in college and two others already in school. It's a gift from God."

Today her country is much like she is. Brazil, the largest South American economy, is finally poised to realize its long-anticipated potential as a global player, economists say, as it rides its biggest economic expansion in three decades.

Despite investor fears about the leftist bent of President Luiz Inácio Lula da Silva when he was elected in 2002, he has demonstrated a light touch when it comes to economic stewardship, avoiding the populist impulses of leaders in Venezuela and Bolivia.

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Instead, he has fueled Brazilian growth through a deft combination of respect for financial markets and targeted

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Brazil finally poised to step up as global economic player



social programs, which are lifting millions out of poverty, said David Fleischer, a political analyst and emeritus professor at University of Brasilia.

The country even assumed a major role in pushing for a deal in talks at the World Trade Organization, seeing greater access to global markets as an opportunity for its own exporters, rather than a threat.

The growing economic power of Brazil is being felt up and down the social spectrum, creating a new class of super-rich

even as people like Sousa lift themselves into an expanding middle class.

The momentum of this expansion is expected to last. As the United States and parts of Europe struggle with slowing economies and the fallout from housing crises, the Brazilian economy shows few of the vulnerabilities of other emerging powers.

It has greatly diversified its industrial base, has the potential to expand its booming agricultural sector into virgin fields, and holds a tremendous pool of untapped natural resources. New oil discoveries will thrust Brazil into the ranks of the global oil powers within the next decade.

Yet while exports of commodities like oil and agricultural goods have driven much of its recent growth, Brazil is less and less dependent on them, economists say, having the advantage of a huge domestic market - 185 million people - that has grown wealthier with the success of people like Sousa.

In fact, with a stronger currency and inflation mostly in check, Brazilians are on a spending spree that has become a prime motor for the economy, which grew by 5.4 percent last year.

They are buying both Brazilian goods and a rising flood of imported products. Many businesses have relaxed credit terms to allow Brazilians to pay for refrigerators, cars and even plastic surgery over years instead of months, despite some of the highest interest rates in the world. By June, 100 million credit cards had been issued in Brazil, a 17 percent jump from the previous year.

At Casas Bahia, a modestly priced Brazilian furniture chain, the number of customers buying items on installments nearly tripled to 29.3 million from 2002 to 2007, said Sonia Mitaini, a company spokeswoman.

Tatiana Welikson, an actress in Rio de Janeiro, thought she had had all the plastic surgery she could afford after getting liposuction treatments for her belly, back and legs, and fat injections in her buttocks.

But when the Piu Bella Clinic in Barra da Tijuca offered to let her finance breast implants over 24 installments, she agreed. "My sisters, all of them, have big breasts," said Welikson, 31. "I wanted them, too! I still have six payments to go, but it was worth it."

Other signs of new wealth abound. In Macaé, an oil boom town near Rio de Janeiro, contractors are racing to finish new shopping malls and luxury housing to keep up with demand from burgeoning oil-service firms.

At a port in Angra dos Reis, a town known for its spectacular islands, an estimated 25,000 workers have found jobs building new Brazilian oil platforms.

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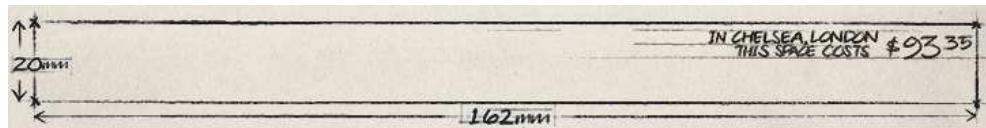
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Some economists say that a slowdown in the rest of the world's economy, especially in Asia, which is buying much of Brazil's exported soybeans and iron ore, could slow growth. "But that probability is small," said Alfredo Coutinho, the senior economist on Latin America for Moody's Investor Service.

In fact, because Brazil's economy has become so diversified in recent years, the country is less susceptible to a hangover from the struggling U.S. economy, unlike many other countries in Latin America.

"What makes Brazil more resilient is that the rest of the world matters less," said Don Hanna, the head of emerging market economics at Citibank.

The rest of the world certainly has helped. Soaring global prices for minerals and other commodities have created a new class of super-rich. The number of Brazilians with liquid fortunes exceeding \$1 million grew by 19 percent last year, third behind China and India, according to a survey by Merrill Lynch and CapGemini.

Eike Batista and João Carlos Cavalcanti, who made their fortunes from mineral mining, are among the new captains of industry. Batista, a college dropout and former champion powerboat racer, was ranked No. 142 on Forbes' list of billionaires, with an estimated net worth of \$6.6 billion.

Cavalcanti, a geologist whose father was a railroad laborer, says he has 39 cars and 14 homes, and is worth \$1.2 billion. He is bullish on the future of Brazil, although he worries that its currency

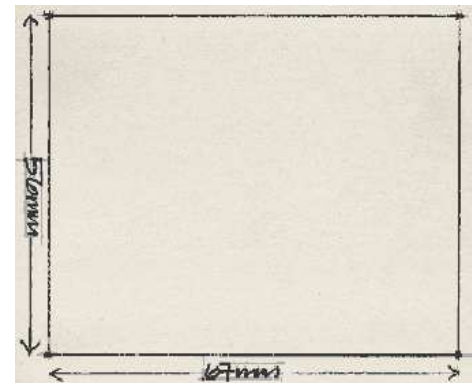
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could be overvalued and will make the country's exports too expensive. "If the dollar continues like it is, within two years the country will go bankrupt," he said.

So far, however, neither foreign investors nor the president, da Silva, seem concerned. Earlier this year, da Silva declared that Brazil had finally become a "serious" country after it was awarded investment-grade status from credit rating agency Standard & Poors, a designation that accelerated a flood of foreign investment.

At the same time, he has deepened many of the social programs begun 10 years ago under then-president Fernando Henrique Cardoso, who ushered in many of the structural reforms that laid the foundations of Brazil's stable growth today.

In Sousa's case, for instance, she owes much of the success of her underwear business to the loans she has received from the Bank of the Northeast here, a government-funded bank that has quietly awarded "microcredit" to 330,000 people to develop businesses in this fast-growing region.

Other programs, like one called Bolsa Familia give small subsidies to millions of poor Brazilians to buy food and other essentials.

Bolsa Familia has been far more effective at raising per-capita incomes than recent increases in the minimum wage, which rose 36 percent since 2003, said Marcelo Neri, the director of the Center of Social Policies at the Getulio Vargas Foundation in Rio de Janeiro.

The bottom-up nature of such social programs has helped to greatly expand both formal and informal employment as well as the Brazilian middle class. The number of people below the poverty line - defined as those earning less than 125 reais a month, or \$79.50 - fell to 33 percent in 2006 from 38 percent 2000.

In this northeastern region of Brazil, the social programs have put more money in the pockets of people who are buying televisions and refrigerators at a faster rate than in the rest of the country.

Two years ago Maria Auxiliadora Sampaio and her husband were struggling to find work to support their three children. They were receiving Bolsa Familia payments of about 50 reais a month. Then she used a microcredit loan of 300 reais to buy nail polish and reenergize her manicure business, which she ran out of her house.

Today Sampaio is making 100 to 120 reais a day giving manicures - about four minimum salaries per month, she said. She works hard to keep her customers loyal, allowing them to pay her at the end of the month, when they receive their salary checks, and sometimes even loaning them small sums of money herself.

With her next loan, she plans to put 220 reais toward buying a stove to sterilize the nail clippers. Until then, she makes do with hot water.

The fruits of her new business have allowed the couple to retille their house, and buy a television and a mobile phone. Earlier this month her husband, who works at a Cachaca factory, was able to realize a dream: to buy a drum set.

He plans to use it to start a band that plays forró, a traditional music in this region of Brazil. His wife said that "We always ate and paid bills, but he waited and waited," and finally bought the set in cash for 1,240 reais. "I feel like we are part of this group of people that are coming up in the world," Sampaio, 28, said. "I was nothing. Today, I am in heaven."

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