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## [Outlook 2011: Brazil Jumps from Economic Stability to Economic Mobility](#)

[Mery Galanternick](#) | Dec 01, 2010 | [Comments 0](#)



Brazilian President-elect Dilma Rousseff greets supporters after a victory celebration speech Oct. 31, 2010, at a hotel in Brasilia. Rousseff will be Brazil's first female president after having defeated her rival, José Serra of the Brazilian Social Democratic Party.

RIO DE JANEIRO — Few of Brazil's leading executives are sitting as pretty as computer manufacturer Helio Rotenberg, whose company has swept to the top of sales partly on the tide of the millions of newly minted members of the middle class. The far-reaching demographic change is seen as one of the central pillars of an economic and political transformation in Brazil over the past 16 years, as the country has evolved from a poor, underdeveloped nation into one of the world's leading emerging economies, together with China, India and Russia.

"Brazil's greatest revolution in the past few years was to bring 35 million people from poverty into the ranks of the middle class, massively expanding the consumer market," said Rotenberg, the chief executive of Positivo Informática, whose homegrown brand of computers outsells leading international competitors.

Outgoing President Luiz Inácio Lula da Silva has been credited with implementing policies that promoted upward social mobility by addressing inequality and raising living standards—an achievement that has some comparing him to U.S. President Franklin D. Roosevelt and his New Deal. Since Lula took office on January 1, 2003, the country dramatically reduced the jobless rate from a historic high of more than 13 percent that year to 6.7 percent in September. So far in 2010, the economy has generated two million jobs,

compared to 600,000 in 2003.

The larger middle class is evident in Rotenberg's industry. In 2003, Brazil was the sixth-largest consumer of computers. It has since jumped to third place, behind only the United States and China. Positivo Informática, which has headquarters in the city of Curitiba, is the leading brand of computers in the local market as well as an information-technology supplier. "We are one of the few cases in the world where a local company stands above multinational brands," Rotenberg said.

Among many industries, retailers, manufacturers and homebuilders have benefited from the increase in Brazilian purchasing power (turn to page 54 for an interview with leading homebuilding executive, Gafisa's Wilson Amaral).

But the greatest challenge now is whether the winner of the Oct. 31 presidential runoff, Lula's handpicked successor Dilma Rousseff, will be able to continue to deliver economic stability and guide a country that is also moving into the often-risky territory of oil wealth. Rousseff is expected to keep many of Lula's policies in place when she takes office Jan. 1, but she will be trying to maintain course under new circumstances.

Some economists and business leaders have criticized Lula and the Workers Party for failing to acknowledge the role of the rise in international commodity prices in transforming the economy. Brazilian business leaders also have a long list of things that they say are required to make the economy more dynamic.

"We have to upgrade our ports, where costs are very high. We need cheaper and efficient transportation. We need alternative ways of transportation," Rotenberg said. "All this is urgent and essential."

While Brazil is second only to China in terms of attracting foreign investment, economic growth is hindered by interest rates that are among the highest in the world. An overvalued currency is hurting Brazilian exports and pushing up domestic prices. A Big Mac now costs \$5, compared with \$1.50 when Lula took office. The country gets low marks on crucial issues like corruption and must address gaps in healthcare, education and infrastructure.

Attacking these problems will require long-term commitment from the new president, but the benefits of solutions are many.

"We have many problems, but each time we make an improvement, Brazil takes discernible steps forward," said Marcelo Neri, chief economist of the Center for Social Policies at the Getúlio Vargas Foundation.

Education is one area that the business sector says must be improved. Although the percentage of children now attending school has risen steadily in the past 20 years, there is widespread agreement that the lack of good education is hampering Brazil's industrial and overall development.

"We have to improve the quality of education in terms of economic competitiveness and in terms of human resources," Neri said.

Although Lula announced a \$500 billion infrastructure spending plan at the beginning of his second term in 2007, less than half of the projects have been carried out.

"Brazil is good in terms of getting organized but not good in execution," said Jörg Pigaht, who recently stepped down as managing director of Maersk Oil & Gas do Brasil.

The country boasts a growing number of highly successful companies, including the state-run oil company Petrobras, which recently completed the largest secondary stock offering on world record.

With massive oil reserves far beneath the ocean floor under a layer of salt in the ultra-deep waters off the southeast coast, Brazil is also at the forefront of energy development. Those oil reserves, as yet untapped, could help vault Brazil into developed-nation status if the proceeds are managed cautiously and if the country avoids what is often called the "curse of oil." Oil wealth often fails to translate into development.

"A lot of countries that have discovered huge amounts of petroleum have suffered this curse," said David Fleischer, a political scientist at the University of Brasilia. "The best example is Venezuela, which has been exporting [high-priced] petroleum for the last eight years, but this huge amount of petrodollars has not developed Venezuela at all."

Fleischer said a permanent seat on the United Nations Security Council would provide the country with a psychological boost. Since the start of Lula's term, Brazil has been actively pursuing this goal, funneling foreign aid to South American countries through the development bank, the BNDES.

"Gaining a permanent seat on the U.N. Security Council would not only mean achieving the status of a more developed nation but also the status of a recognized world power," Fleischer said.



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