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More people have more money to spend in Brazil. Paulo Fridman / Bloomberg News

Nuts and bolts spur Brazil's success

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If someone had suggested in 1993 that Brazil, a country with hyperinflation, a shrinking middle class and one of the most glaring inequalities in the world, would surpass Britain in economic terms within a generation they would have been laughed at.

But today, less than two decades later, Brazilians are the ones laughing. The [London Centre for Economic and Business Research](#) says Brazil's GDP last year was larger than that of the United Kingdom's.

The South American giant whose booms and busts were once predictable enough for it to be known as the country of the future - and always would be - is now the sixth-biggest economy in the world, trailing only the US, China, Japan, Germany and France.

"It means that there are more Brazilians and they aren't as poor as they were," said Peter Slowe, the head of a volunteer placement organisation in Brazil.

"But Brazil is a much sounder place for investment than it was. Good social and economic policies have gone hand in hand. And its strength is that it is a democracy so its boom is likely to be more sustainable than China's."

And the strength of the real, at a 12-year high against the dollar, is also a factor. But there are also concrete reasons for the turnaround and most of them can be set on one of two main pillars: the huge increase in

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commodities production for hungry markets such as China and India, and a series of smart economic policies that have tamed inflation, helped cut inequality, and fostered a big upturn in domestic consumption, particularly among the country's poor.

Brazil, one of the Brics, along with India, Russia, China and South Africa, is the world's biggest exporter of iron ore, soya beans, coffee, oranges, sugar, tobacco, beef and chicken and it has upped production significantly over the past decade, albeit with an environmental cost.

Deforestation in the Amazon is falling but a huge amount of damage has already been done.

Grain production hit a record 163 million tonnes last year, almost twice that of the 1990s. Just five commodities account for 47 per cent of all Brazil's exports.

And the country has become, nominally at least, self-sufficient in oil. Recent deep-sea discoveries off the coast of Rio de Janeiro are the biggest anywhere in the world this century and the state oil company Petrobras has pledged to invest US\$224 billion (Dh822.77bn) over the next four years to produce, refine and export it.

Petrobras is now the world's second-biggest oil company and its \$70bn share offer in 2010 was the world's biggest. The government's decision to insist that up to 65 percent of all Petrobras' purchases are made by Brazilian workers using Brazilian materials helped transform local industries all the way down the supply chain.

"[Petrobras'] growth coincides with Brazil's growth and with our newfound self-esteem," the president, Dilma Rousseff, said recently. "Over the last nine years Brazil, Brazilians and Petrobras have together undergone historic changes and conquests."

But if Petrobras' fortunes are thanks in large part to the luck of striking oil, social and economic decisions cannot be understated. The foundations were laid at the second half of the 1990s by the former president Fernando Henrique Cardoso, who introduced a stable new currency and tamed inflation that reached 1,477 per cent a year at its peak.

His successor, Luiz Inacio Lula da Silva, built on that base and sped up moves to reduce inequality. Mr Lula expanded the Bolsa Familia programme that gives a monthly stipend to poor families who ensure their children stay in school and today more than 13 million households rely on the handout.

At the same time, Mr Lula bumped up the minimum wage and created jobs, reducing unemployment from 13 per cent in 2004 to less than 5 per cent today. All told, more people - and particularly the poor - have more money to spend, giving a significant fillip to internal production and the domestic market.

Today, more than half of Brazilians are members of the so-called middle class, up from 31 per cent in 1993. The Gini level that measures inequality has fallen for 12 straight years and is now at its lowest level since 1960.

"The early years of the new millennium will be known in Brazilian history books as [years] of reduction in inequality," said Marcelo Neri, the chief economist at the Centre for Social Policies and a leading expert on Brazil's socio-economic changes.

But while Brazil is still growing - the economy cooled last year yet still expanded 2.7 per cent - the positive statistics only tell one side of the story.

Andre Sacconato of Brasil Investimentos e Negócios talks about the Brazilian economy

Brazil has come a long way in recent years, but is there still a lot to do? I'd say we are halfway there. I think that the big macro-economic advances of the last 10 years are those that everyone knows, taming inflation and passing a law, lei de responsabilidade fiscal, that punishes irresponsible economic abuses by federal, state and municipal governments. And of course the plano real and the floating exchange rate. That made the economy stable and that was the basis for any longer term thinking. And then there was the Lula government wealth distribution program. The more equitable distribution of wealth through the Bolsa Familia was very efficient and that is the big difference between Brazil and the other Brics. What do we need to improve? There are two fundamental points. One is infrastructure. We need to invest in infrastructure otherwise we are limited to growth of 3 to 4 per cent. Brazil doesn't save and so there isn't enough money to invest. The logistics cost in ports and airports, for example, is very high. The second point is education. That limits growth as we can't generate sufficient manpower.

What about much discussed structural reforms such as for labour, tax and social security, how important are they? Reform are important to lift growth. Labour reform is what we all talk about. Hiring is very expensive and if we had a reform we would be more competitive. But my personal opinion is that if Brazil advances in education and infrastructure it will be able to grow, even without those major reforms. Brazil has always carried out incremental reforms, it has never done major reforms. Political and tax reforms are important but if we reform and modernise infrastructure and education we can keep growing."

Does Brazil depend too much on China? China slows, what will be the effect on Brazil? Today, we have a certain dependency on China when it comes to exports. But it is not so skewed, they are up there with the [European Union] and [the United States]. A possible slowdown in China will hit Brazil. The good thing is that a deceleration will not be very pronounced, it will be managed. And Brazil exports principally food and raw materials. The Chinese might stop buying cars but they won't stop eating and so they will always need these goods. There is a dependency, one fifth of our exports go to China, but I don't think it is a worry in the short and medium term.

The average household income is still only 2,222 reais a month, or less than Dh4,590, according to the government's own statistics. One-in-10 households survive on 295 reais a month, or \$162. Only two-thirds of homes have sewage and one-in-eight houses have no rubbish collection.

Only 9 per cent of roads are paved and there are almost no passenger railways. Airports are being reformed for the 2014 Fifa World Cup and 2016 Olympics but are behind schedule and widely regarded as a disaster. Public transport in most cities is dangerous at worst and insufficient at best. The murder rate, while falling, is still one of the highest in the world, and Brazilian students come close to last in international education tests.

Thanks to high taxes, poor services and urban violence, very few Brazilians enjoy the same quality of life as in the UK.

Even though the reformed South American giant has come far, there is still a long and rocky road ahead.

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