IN-DEPTH ANALYSIS

Brazil:
Promises of more change – but in which direction?

Abstract

On 26 October 2014, almost 142 million voters will elect Brazil's president for the next four years. The elections take place against a backdrop of economic stagnation and widespread discontent with inadequate public services and the political system, highlighted by social protests in 2013. After a decade of economic and social progress, and a parallel rise in the country's global stature, the sustainability of the country's last two decades of achievements is increasingly questioned. Facing these challenges, all major political forces have advocated 'change' in the run-up to the October elections. There are strong expectations that the government that takes over on 1 January 2015 will initiate a new phase in Brazil's social, economic and political development. The new government will have to address demands to renew the political system and to implement reforms to make the economy more competitive and capable of generating the growth needed to continue improving social conditions.
# Table of contents

1 25 years of change 4
2 A model in crisis? 5
3 Towards a more responsive and accountable political system? 7
   3.1 The corruption problem 8
   3.2 Prospects for political reform 9
4 Towards a more open economy? 14
5 Social policies and poverty reduction 20
6 Brazil as a global player 22
7 Relations with the EU 27
   7.1 Trade and economic relations 28
   7.2 Interparliamentary relations 30
8 Basic data 32
9 Map 33
1 25 years of change

Brazil has changed substantially in the last 25 years. The population has grown from around 145 million people in 1990 to over 203 million.\(^1\) Brazil continues to be a young country, but much less so than in the past: while the average age in 1991 was 26.5 years, in 2010 it had increased to 32.2 years.\(^2\) This is due to a steep decline in fertility rates, from around 2.7 in 1990 to around only 1.8 currently, and to the rising life expectancy (from 68 years in 1994 to 74 years in 2012, according to World Bank data).\(^3\)

The Brazilian economy has undergone major changes. The early 1990s were still marked by volatile growth rates, hyperinflation (culminating with an annual inflation rate of almost 2500 % in 1993), large external debt and public deficits that consecutive economic plans did not manage to control. However, a gradual stabilisation began in the mid-1990s, accompanied by increasing growth rates, particularly from 2004 and onwards, and rapidly growing exports and trade surpluses, largely stimulated by China's increasing demands of minerals and food products. Brazil's economy quickly recovered after the international financial and economic crisis in 2008, confirming its status as a buoyant emerging economy. Brazilian multinational companies – such as Vale SA (the second mining company in the world) and the Embraer aerospace company – have become global operators and are among the world's biggest enterprises.

Probably the most celebrated aspect of the transformation of Brazil in the last decades has been the improvement of social conditions and the reduction of poverty. Particularly during the last decade, macroeconomic stability, economic growth, the creation of new jobs, declining birth rates and active social policies – including steadily increasing social expenditure, the introduction of comprehensive social programmes and redistributive measures – have reduced poverty rates considerably.

Politically, Brazil has become more stable. President Collor de Mello, who in 1990 became the first directly elected president in 26 years, was impeached on charges of corruption after only two years in office. However, in the almost 20 years since President Fernando Henrique Cardoso was inaugurated in January 1995, Brazil has only had three different presidents. If incumbent Dilma Rousseff is re-elected on 26 October 2014, the three most recent presidents will all have been re-elected for a second term. Although Brazil has a fragmented party system with a large number of political parties in Congress and although party discipline is traditionally low, the broad and heterogeneous political alliances (including around ten different parties) that have supported the presidents have shown a great deal of stability.

---

\(^1\) Projections by the Instituto Brasileiro de Geografía e Estatística (IBGE)


\(^3\) http://data.worldbank.org/country/brazil
Economic and social progress and democratic consolidation have been paralleled by the country’s rise as an increasingly important global player.

1995, all presidents have in fact come from only two different political parties – the Brazilian Social Democratic Party (Partido da Social Democracia Brasileira, PSDB) and the Workers’ Party (Partido dos Trabalhadores, PT) – and one of the two parties will again hold the presidency until 2019. Another expression of continuity is the fact that Brazil has had only three different finance ministers since 1 January 1995 (compared to five in Chile, seven in Mexico and 15 in Argentina).

Economic and social progress and democratic consolidation have been paralleled by the country’s rise as an increasingly important global player. Currently the world’s seventh largest economy, Brazil is the biggest emerging economy after China and India, and has been forecast to become the world’s fourth largest economy in 2040 (after China, the USA and India). Brazil’s international role and influence have significantly increased, including through its active engagement with the group of BRICS (Brazil, Russia, India, China and South Africa) countries, participation in international organisations and multilateral bodies such as the G20 and the World Trade Organisation (WTO) and a reinforced presence in Africa, Asia and the Middle East. Brazil’s leadership in South and Latin America has been consolidated by the country’s global role (and vice versa) and through regional organizations such as the Mercosur (Mercado Común del Sur, Southern Common Market; in Portuguese Mercado Comum do Sul, Mercosul) and the Unasur (Unión de Naciones Suramericanas, Union of South American Nations; in Portuguese União de Nações Sul-americanas, Unasul).

Brazil’s international rise as a leading emergent country has been facilitated and accompanied by a great deal of international prestige. The country has acquired the status of a ‘global brand’, a model for how economic growth can go hand-in-hand with social progress, democracy and respect for human rights. As a democratic country with significant cultural capital and a positive image across the world (particularly compared to BRICS partners China and Russia), Brazil has, in many respects, become the ‘friendly face’ of a new, multipolar world.

2 A model in crisis?

The October 2014 elections (with the first round of the presidential elections and Congress elections on 5 October and the second round on 26 October) are taking place at a moment when the sustainability of the country’s last two decades of achievements is increasingly questioned. The large-scale social protests and demonstrations that swept the country in 2013 showed broad discontent with widespread corruption, an opaque and unaccountable political system and inadequate public and social services, particularly in health and education. The protests were widely seen as an expression of growing (and partly frustrated) expectations among the middle classes.

The social protests emerged in parallel to an economic slowdown. In contrast to the sustained growth rates registered most years since the mid-1990s, the economy’s annual expansion since 2012 has been only 1-2.5 % and is likely to
The 2013 social protests showed broad discontent with inadequate public services and the political system.

Economic growth has slowed significantly, but inflation remains high. There are concerns that the Brazilian economy has become too dependent on commodity exports and has lost competitiveness.

Continuing economic stagnation could also undermine Brazil’s international status.

Against this backdrop, all major political forces have promised ‘change’ in the run-up to the October elections. The promise has come from incumbent President Dilma Rousseff and Aécio Neves, her rival in the second round of the presidential elections on 26 October.

Several opinion polls confirm that the optimism of previous years have given away to a more sombre mood. According to one survey⁴, 72% of Brazilians appear to be dissatisfied with the situation of the country, compared to 55% before the start of the 2013 protests. Similarly, the share of those who found that the economy is not going well increased from 36% in 2010 to 66% in April 2014 (a change which is likely to have increased further). In addition to the economic situation, high crime levels, deficient health care, corruption and the low quality of the educational system cause concern.

Facing this combination of challenges, all major political forces have advocated ‘change’ in the run-up to the October elections. The PT and incumbent President Dilma Rousseff (who in 2010 was backed by a coalition called ‘For Brazil to continue changing’ (Para o Brasil seguir mudando) has campaigned under the slogan ‘more changes, more future’ (mais mudanças, mais futuro) or simply ‘Dilma - change/more’ (Dilma - muda mais), promising a ‘new cycle of transformations’. Less surprising, ‘change’ has also been the opposition’s key message. The coalition that supports PSDB’s Aécio Neves, who will dispute the presidency with Dilma Rousseff in the second round of the elections on 26 October, is called ‘Change Brazil’ (Muda Brasil) and

---

¹ Susanne Gratius & Maodalena Segre: Is the ‘Brazil Brand’ in crisis?, FRIDE Policy Brief no.175, February 2014
² http://www.pewglobal.org/2014/06/03/brazilian-discontent-ahead-of-world-cup/
Neves’s programme has been presented with the slogan ‘to truly change Brazil’ (para mudar de verdade o Brasil).

The programme of Marina Silva, of the Brazilian Socialist Party (Partido Socialista Brasileiro, PSB) and candidate for the Coalition United for Brazil (Coligação Unidos pelo Brasil), who finished in third place in the first round of the elections on 5 October, was launched with the slogan ‘courage to change’ (coragem pra mudar), and called for profound political, economic and social changes.

There is therefore a strong expectancy that the new government – regardless of the outcome of the elections on 26 October – will seek to initiate a new phase in Brazil’s social, economic and political development, continuing the transformation process that started more than 20 years ago, but also giving it a new direction and a new purpose. No matter who is sworn in as president on 1 January 2015 – Dilma Rousseff or Aécio Neves –, the new government will be expected to address demands to renew the political system and to adopt reforms to make the economy more competitive and capable of generating the growth needed to continue improving social conditions.

3 Towards a more responsive and accountable political system?

The country-wide protests that started in June 2013 were initially directed at against increases in bus and metro prices, and demanded free (and better) public transport. However, the protests rapidly developed into a manifestation of broader discontent with inadequate social services – particularly health and education –, as well as with widespread corruption in the public sector and a lack of transparency and accountability in the political system. The protest took place against a background of huge public expenditures preparing Brazil’s infrastructure for the Football World Cup in June-July 2014 and the 2016 Olympic Games in Rio de Janeiro. The outlays have highlighted the deficiencies of social and public services.

Analysts have seen the protests as an manifestation of growing (and partly frustrated) expectations and aspirations among the urban middle classes, who have benefited relatively little from the social programmes targeting the poor and whose purchasing power has been hurt by increasing prices. The middle classes are most exposed to the perceived contradiction between

---

6 The protests were the most important ones in Brazil for more than 20 years (since the 1992 demonstrations calling for then President Fernando Collor de Mello to be impeached for corruption) and took place throughout the country. They culminated on 20 June 2013, when around 100 demonstrations across Brazil were calculated to have gathered around 1 million persons (around 300 000 in Rio de Janeiro alone, around 100 000 in other big cities such as São Paulo, Manaus and Belo Horizonte). The first demonstrations were repressed by the police and various violent groups were active among the protestors, but on the whole the demonstrations were peaceful. Protests and demonstrations have continued ever since, but on a smaller scale.
The government took various political initiatives in response to the protests, seeking to address grievances.

The authorities' response to the protests was largely accommodating. President Rousseff, her government and local authorities, like most of the political spectrum, recognised the protests as legitimate and expressed their appreciation of the demands. Various initiatives were taken immediately in response to the protests, including: cancelling the announced increases in transport tariffs; promising to increase public transport funding; allocating 75% of oil royalties to education and 25% to health; adopting measures to improve health services by educating and employing more doctors; and reaching broad political agreements to improve education, health and public transport and to enhance fiscal responsibility.

3.1 The corruption problem

An important focus of public grievances has been corruption, which is a major source of Brazilians' distrust of public institutions, political parties and politicians. Although international rankings suggest that corruption in Brazil is not more widespread than in other Latin American countries, it has been calculated that corruption costs the equivalent of between 1.4% and 2.3% of Brazil's GDP each year.

Dilma Rousseff's almost four years in power have been marked by several corruption affairs, which have forced seven ministers and various high-level officials to resign. Rousseff has not tried to defend ministers accused of corruption or to prevent them from leaving the government, but has taken a strong stance against corruption and has promised to continue efforts to clean up the government and public administration.

The corruption scandal with the most serious potential implications for the president has been the 'mensalão' ('big monthly payment') affair, which involves the governing PT. The case dates back to 2005, when allegations were first made that the PT paid public money to legislators to ensure their support for President 'Lula' da Silva's government. Government officials, deputies and leading PT politicians were forced to resign. In 2012, leading members of the PT – including President 'Lula' da Silva's Chief of Staff and former PT President, José Dirceu – were sentenced to long prison sentences on charges, including of illicit association, money laundering and vote-buying. The trial was hailed as a watershed in the fight against corruption and impunity. However, in February 2014 the Supreme Court absolved some of the convicted (including Dirceu) of some charges and reduced their prison

---

7 On Transparency International’s Corruption Perceived Index 2013, Brazil scores 42 on a scale from 0 (highly corrupt) to 100 (very clean) and ranks as number 72 of 175 countries in the world. Among the 20 Latin American countries, Brazil ranks as number 5.
Brazil: Promises of more change - but in which direction?

Following the protests in the summer of 2013, the Congress took steps to combat corruption and embezzlement. In June 2013, the Chamber of Deputies rejected an unpopular proposal for a constitutional amendment that would have prevented federal prosecutors from carrying out criminal investigations on their own initiative. The measure had been widely seen as an attempt to curb anti-corruption efforts. Similarly, the Senate voted to classify corruption and embezzlement as ‘heinous’ crimes, paving the way for stronger penalties. Various legislative proposals in this sense have been discussed in the Chamber of Deputies, which has not yet voted on the matter. In July 2013, the Senate unanimously adopted a constitutional amendment establishing a ‘clean record’ (ficha limpa) as a condition for entering public service; however, the bill is still under scrutiny in the Chamber of Deputies.

A similar ‘clean record’ bill for elected politicians was adopted as early as in 2010 following a popular legislative initiative. The law makes candidates for elections ineligible for eight years if they have been convicted or impeached, or if they resigned to avoid impeachment. Various legal challenges, however, have meant the law was not applied before the 2012 (local) elections, when around 1 300 candidates were reportedly banned from participating. In connection with the 2013 ‘clean record’ bill, almost 200 members of Congress were said to be facing criminal charges, most corruption-related. In this year’s election, in mid-August, almost 500 candidates were impugned on basis of the Ficha Limpa law.9

3.2 Prospects for political reform

The 2013 protests also stimulated attempts at reforming the political system. One reform has abolished secret voting in both chambers of the Congress. A constitutional amendment to this effect was approved in late 2013, when the Congress (the Chamber of Deputies in September and the Senate in November) voted in favour of making voting public, although with some exceptions (notably the election of authorities). Secret voting in Congress had been one of the key points of various citizens groups’ criticism of the

The 2013 protests also stimulated efforts to reform the political system.

One reform has abolished secret voting in the Congress.

However, despite the support of the government and much of civil society for a comprehensive political reform, no major changes have been achieved. The president’s proposal to hold a plebiscite to convene a constituent assembly or to endorse a comprehensive reform was abandoned for lack of support in Congress.

Various proposals for political reform have been discussed in both houses of the Congress, but the legislature has only adopted relatively minor changes to laws on political parties and elections. In September (the Senate) and October (the Chamber of Deputies) 2013, the Congress approved – despite the governing PT’s vote against – a ‘mini-reform’ modifying the rules on the presentation of candidature, campaigning on social media and the accountability of campaign expenditure. The reform did not, however, introduce limits to and greater control over private financing of electoral campaigns, as had been demanded by civil society organisations and political parties, including the PT. As a result, it was widely criticised for not leading to more transparency. Some provisions of the law were later vetoed by President Rousseff. In any case, the new rules do not apply to the October 2014 elections.

A working group in the Chamber of Deputies in November 2013 presented various proposals for political reform, including holding state and national elections simultaneously to avoid nation-wide polls every two years, abolishing the re-election of the President, governors and mayors, giving political parties the choice between different models of funding (private, mixed or public) and placing limits on electoral campaign spending, and creating electoral circumscriptions within the states, bringing the elected politicians closer to the citizens. None of these proposals has advanced.

There is considerable public pressure for political reform; according to some surveys, 85 % of the population support this. Various citizens movements work for political reform, such as the Movement to Combat Electoral Corruption (Movimento de Combate à Corrupção Eleitoral, MCCE), which work together with organizations such as the national organisation of lawyers (Ordem dos Advogados do Brasil, OAB) and Brazil’s bishops (Conferência Nacional do Bispos do Brasil, CNBB). In 2013 the MCCE launched a campaign to collect signatures for a law to reform the electoral system with the slogan ‘clean elections’ (eleições limpas).

The campaign has evolved to incorporate new objectives and has broadened its aim to a comprehensive political reform, supported by a network of civil
Many civil society organisations, grouped in a broad-based movement, work for comprehensive political reform. In early September 2014, an informal plebiscite was held, with 7.8 million people reportedly participating and 97% 'voting' in favour of convening a constituent assembly to reform the political system.

All the main presidential candidates have supported political reform, including to end private enterprises' funding of electoral campaigns.

society organisations under the name of the Coalition for Democratic Political Reform and Clean Elections (Coalizão pela reforma política democrática e eleições limpas). The coalition includes more than 100 different organisations, ranging from the Landless Workers' Movement (Movimento dos Trabalhadores sem Terra, MST), the Unified Workers' Central (Central Única dos Trabalhadores, CUT) – Brazil's biggest trade union –, the hierarchy of the Catholic Church in the CNBB and Evangelical churches to the Brazilian League of Lesbians (Liga Brasileira de Lésbicas, LBL). The coalition advocates a reform to restore the values of representative democracy, remove the influence of economic interests in the elections, enhance internal democracy in the political parties, increase voters' control with the elected and in general to stimulate political participation.

A draft bill promoted by the coalition proposes, *inter alia*, introducing public financing of electoral campaigns and limitations on private contributions, replacing the vote for individual candidates with a vote for party lists and linking the mandate to the political parties and not the elected candidate. The demand for political reform is clearly linked to the social demands expressed by the 2013 protests; the coalition sees it as a precondition for resolving Brazil's social problems.

A parallel movement for reform is promoted by the 'National Plenary of Social Movements' (Plenária Nacional dos Movimentos Sociais), which includes many of the same organisations as the Coalition for Democratic Political Reform and which works for a plebiscite on a constituent assembly to draft a political reform to improve representative democracy and strengthen participatory democracy. On 1-7 September 2014 the movement organised an informal plebiscite, supported by around 430 social organisations and movements. Of the 7.8 million people who reportedly participated, 97% 'voted' in favour of convening an 'exclusive and sovereign' constituent assembly to reform the political system.

The demands for political changes have been echoed in messages of the main presidential candidates. As their 2013 proposals made clear, President Rousseff and the governing PT have supported political reform, to be launched by a referendum. The PT's government programme emphasises a 'comprehensive and deep' political reform as one of the elements of a 'new historic cycle', as well as the need for a referendum. The programme advocates the 'urgent transformation' of Brazil's political and electoral system, to achieve improved representativeness, institute clearer and more transparent rules on financing, allow citizens to better control their representatives and enhance participation in the decisions of governments on all levels.

Also Aécio Neves from the PSDB has announced that political reform will be a priority for a government under his leadership, calling political reform the

---

10 http://www.reformapoliticademocratica.org.br/
11 http://www.plebiscitoconstituinte.org.br/
However, the apparent broad support for political system reform contrasts with the lack of progress on the issue in the Congress.

However, the apparent broad support for political system reform contrasts with the lack of progress on the issue in the Congress. According to the Coalition for Democratic Political Reform and Clean Elections, the movement's demands are supported by 161 members of the outgoing Chamber of Deputies, who together represent 19 of the 22 parties with a seat in the Chamber. However, the large majority of representatives supporting reform come from the left of the political spectrum – mainly the PT and other (nominally) left-wing parties, such as the (relatively small) PSB, the Democratic Labour Party (Partido Democrático Trabalhista, PDT) and the Communist Party of Brazil (Partido Comunista do Brasil, PCdoB). In contrast, support for reform within the ranks of the big or medium-sized centrist parties – in first place, the Party of the Brazilian Democratic Movement (Partido do Movimento Democrático Brasileiro, PMDB) and the PSDB – is much weaker. Although the PT has been the largest party in the Chamber of Deputies (and will remain so in the next legislature), the parties on the left are a clear minority in the Congress. Overall support for

12 http://www.reformapoliticademocratica.org.br/camara-dos-deputados/
This is related to the low levels of party discipline, the lack of cohesive party groups and the influence of informal alliances across the parties – between politicians from the same state or defending similar socio-economic interests.

The fragmented party system means that all governments take account of the interests and positions of a broad range of coalition partners, as well as of informal groups in Congress, making it difficult to promote reforms which go against vested interests.

The composition of the Congress elected on 5 October 2014 will not be substantially different from previous legislatures. If anything, the new Congress appears more fragmented than before. The government will continue to depend on support from a broad multi-party coalition, which may again reduce the prospects for political reform.

political reform has therefore been limited, although it exists across the political spectrum.

The lack of support in Congress for a reform the political system is related to the low levels of party discipline and cohesion. Many political forces are loosely organised 'catch-all' parties, less bound by ideological, political affinities or a common programme than patronage and the shared desire to access positions in government (on federal, state or local level) and public resources and influence public spending. One implication of this – in addition to widespread corruption – is that informal alliances across the parties between politicians from the same state or defending similar socio-economic interests are important. One of the most influential alliances is the 'rural bench' (bancada ruralista), which defends the interests of landowners and agribusiness, and which includes around one fifth of the members of Congress. Other, increasingly influential, group is composed of deputies with links to Brazil's large evangelical Christian communities.

At the same time, Brazil has a fragmented party system with a large number of political parties in Congress. The seats in Congress are traditionally evenly distributed with no party having more than around 17-18% of seats. This means that the Executive must establish large party coalitions and seek support from a broad and heterogeneous alliance of parties in Congress to find a majority for its proposals. Any government thus needs to take account of the interests and positions of both a broad range of coalition partners and informal groups in Congress, often making it difficult to promote reforms that go against vested interests.

President Rousseff's electoral coalition, 'With the Strength of the People' (Com a Força do Povo) includes nine political parties, including five of the six biggest in Congress. Her candidate for vice-president is – as in 2010 – Michel Temer from the PMDB, the biggest of the 'catch-all' parties, often characterised as spoils-oriented. Aécio Neves's 'Change Brazil' coalition also includes nine political parties.

The composition of the new Congress elected on 5 October 2014 will not be substantially different from previous legislatures. If anything, it seems even more fragmented than it has been, with the preliminary results of the polls suggesting that 28 parties have gained a seat, compared to 22 in the 2011-2015 legislature. In addition, although the PT will probably remain the first party in the Chamber, it seems to have lost many seats, making any future government under Rousseff even more dependent on support from other forces. Similarly, although Aécio Neves's PSDB appears to have increased its representation from 44 to around 55 seats, the alliance backing his candidacy is far from having a majority. Any Brazilian government will have to depend on support from a broad multi-party coalition, meaning that non-ideological parties will continue to occupy a key position.

Despite all the leading candidates' commitment to political reform, it is therefore an open question how much progress can be expected in this area in the coming years. One indication of the difficulties in this respect was that some of the PT's demands for political reform – mainly the public financing of
4 Towards a more open economy?

De-accelerating economic growth in recent years has contributed to perceptions that the 'Brazilian model' is in crisis and needs reform. In 2014, economic growth is projected to drop to less than 1%. Despite lower growth, prices have continued rising rapidly, and inflation is close to 7%.

One reason is less favourable international conditions and a decline in exports.

De-accelerating economic growth in recent years has more than any other single factor, contributed to perceptions that the 'Brazilian model' is in crisis and needs reform. The impact of the economic slowdown has been all the stronger because it follows a long period of sustained growth, running almost without interruption after the mid-1990s (except 1998-1999 and in 2009). A strong recovery from the international financial and economic crisis in 2008-2009 led GDP growth to reach 7.5% in 2010. Yet the Brazilian economy expanded by a mere 2.7% in 2011 and 1% in 2012. In 2013, growth picked up moderately, reaching 2.5%, but is forecasted to drop significantly this year. While Brazil’s Central Bank projects economic growth to reach 0.9% in 2014 (downgrading from earlier projections of 1.8% growth), the International Monetary Fund (IMF) expects it to drop to only 0.3%, followed by a modest recovery (1.4% growth) in 2015.

Despite lower growth, prices have risen quickly. Inflation reached 5.9% in 2013, and in September 2014 inter-annual inflation stood at 6.8%. One of the measures to control price increases has been high interest rates; currently (early October 2014), the Central Bank’s main interest rate stands at 11%.

This, in turn, has a negative impact on growth.

Further reasons for de-accelerating growth include the less favourable global environment and weaker demand from Brazil’s principal export markets, such as China and Argentina. Overall, the value of exports fell by 5.3% in 2012 and 0.2% in 2013. This trend continued in the first eight months of 2014, which registered a 1.7% decline in the total value of exports of compared to the same period in 2013.

In contrast, imports continued to grow (in 2013) or fell less than exports, leading to a substantial reduction of Brazil’s traditional surplus on the trade balance. In 2013 the surplus stood at a mere USD 2.7 billion, compared to USD 25 billion in 2009, and it seems likely that the country will register its first trade deficit in 14 years in 2014. The inflows of foreign direct investment (FDI) also point to a less rosy economic situation. On the back of strong growth in exports and domestic demand, FDI inflows increased significantly in the last decade, reaching a record USD 67 billion in 2011. However, the steady inflows of foreign capitals have stagnated since 2012, even dipping slightly (to USD 64 billion in 2013), although Brazil has maintained its position as one of the world’s major destinations of FDI flows.

---

13 Figures from the Central Bank (Banco Central do Brasil): [http://www.bcb.gov.br/?indicators](http://www.bcb.gov.br/?indicators)
Sluggish growth has highlighted the structural weaknesses of the Brazilian economy. Many see excessive dependence on commodity exports and vulnerability towards volatile international prices as problems.

The relative decline in manufactured exports also reflects the industry’s loss of competitiveness and what some have defined as a ‘de-industrialisation’ process.

It is broadly acknowledged that underlying and structural...
problems need to be addressed in order to make the Brazilian economy more competitive and more sustainable. Solutions include modernising the country’s infrastructure (which in many respects is considered of poor quality and lagging behind other emerging economies), improving the educational system, improving the workforce’s qualifications, simplifying administrative procedures, streamlining the tax system, improving access to credits and dismantling monopolistic structures in some areas of the economy.15

In recent years the government has implemented different measures to stimulate growth and investment, diversify exports, boost the industry’s competitiveness, and develop infrastructure. The ambitious ‘Bigger Brazil’ (Brasil Maior) plan, launched in August 2011. The plan includes tax cuts for certain industries, export incentives and measures to promote innovation and technological development and improve access to funding from the public National Development Bank (Banco Nacional do Desenvolvimento, BNDES). The plan is estimated to have cost around USD 16 billion in the three-year period 2011-2014. Since 2007, investments of around USD 900 billion have been channelled through the programme known as the PAC (Programa de Aceleração do Crescimento, Programme for the Acceleration of Growth), focusing on energy, transport and financing a national housing programme. Similarly, large infrastructure development plans were launched for the 2014 Football World Cup and the 2016 Olympic Games in Rio de Janeiro.

The state-owned BNDES has had a central role in funding infrastructure investment and industrial activities. From 2007 to 2013, the value of disbursements from the Bank almost tripled, increasing from 65 to 190 billion reais (the equivalent of around EUR 62 billion). One reason for the expansion has been that the state-subsidised BNDES is able to offer credits in more advantageous conditions than private banks. However, the bank’s growing weight in the Brazilian economy – and that of other state-owned enterprises – has provoked criticism and it has come to be seen as one of the principal expressions of government intervention in the economy (sometimes branded ‘state-capitalism’). Policies to improve the industry’s competitiveness have also included measures aimed at defending its position on the domestic market, such as certain restrictions on imports and government procurement rules favouring local production, which have widely been seen as protectionist. The European Commission’s ‘Tenth Report on Potentially Trade Restrictive Measures’, covering the period from May 2012 to May 2013, highlights Brazil among the emerging economies that have applied the highest number of potentially trade-distorting measures.16

Despite the authorities’ efforts, ailing economic growth and exports have strengthened perceptions that the Brazilian strategy for growth – largely based on commodity exports, massive public investment programmes, targeted measures to defend and improve the competitiveness of national

Calls to modernise the economy and remove the constraints that prevent it from entering a new cycle of growth, have grown stronger. A dominant theme has been the need to improve conditions for the private sector with less public bureaucracy, simpler and lighter taxation and greater exposure to international competition.

The opposition has advocated more business-friendly and liberal policies and has pledged to carry out free-market reforms, including spending cuts, to boost the economy.

The need for structural reforms to modernise the economy and remove the constraints that prevent it from entering a new cycle of growth, have grown stronger. In this regard, a dominant theme has been the need to improve conditions for the private sector and boost its competitiveness with less public bureaucracy, simpler and lighter taxation and greater exposure to international competition. These demands are supported by Brazil’s relatively low position in the International Finance Corporation and the World Bank’s ‘Ease of Doing Business Index’ - 116th of 189 countries (and 10 out of 18 Latin American countries).

Overall, the need for structural reforms to make the economy more competitive is recognised across most of the political spectrum. The current government has adopted a number of liberalising reforms over the years, notably awarding concessions contracts to private companies in the transport sector, opening the vital (for exports) port sector to private capital and privatising airports. President Rousseff has also clearly stated the need for a general modernisation process to spur renewed economic activity. In line with this, her government programme in the 2014 elections sets out a ‘commitment to the productive Brazil’ and the objectives of reducing the costs of investment and production, stimulating a capacity for innovation, reducing logistical costs and improving the business environment. Increasing competitiveness is a key goal in the programme, together with the improving public services and infrastructure, de-bureaucratising procedures, easing access to credit, creating more quality-jobs, and stimulating entrepreneurship and technological development.

The government’s economic policy has been one of the main targets of Rousseff’s main rivals during the electoral campaign. Both Aécio Neves and Marina Silva have advocated more business-friendly and liberal policies and pledged to carry out free-market reforms, which they argue are necessary to boost the economy. The PSDB candidate has promised to strengthen macroeconomic discipline, fight inflation, reduce public spending and central government, promote an early tax reform, and diminish the role of the BNDES, while ensuring the Central Bank’s ‘operational autonomy’ vis-à-vis the executive. He has in general announced a return to the liberal economic policies of former PSDB President Fernando Henrique Cardoso (1994-2002).

Despite the distinct options that Rousseff and the PT, on the one hand, and Neves and the PSDB on the other have advanced in terms of economic policy, the differences in practice between them may be less pronounced than their electoral messages suggest.

For one thing, whichever government takes office on 1 January 2015 will be confronted with a number of immediate concerns, such as the growing public sector deficit - which in August 2014 reached almost USD 6 billion, the

---

17 [http://www.doingbusiness.org/data/exploreeconomies/brazil/](http://www.doingbusiness.org/data/exploreeconomies/brazil/)
In any case, whichever government takes office on 1 January will need to address immediate concerns such as the growing public sector deficit and the risk that Brazil’s credit rating may be lowered to below investment grade. Political obstacles may make it less likely that a change in government will lead to sweeping economic reforms.

Regardless of its political colour, the new government will also likely prioritise a comprehensive tax reform. With a total tax burden representing around 37% of GDP – substantially higher than in other Latin American and emerging countries – there is little room to increase taxation. This means that it will be necessary to reduce compliance costs and increase the efficiency of the tax administration in order to get better value from the revenues. Another fundamental aim of a tax reform would be to reduce the current tax structure’s negative influence on competitiveness and productivity. However, any government is likely to face political difficulties in reforming the state budget and addressing the problems affecting the long-term sustainability of the public finances. In this regard, a reform of the pension system could become a critical issue. For the moment, the public pension system is registering growing deficits, which demographic developments will only increase further.

Probably the most criticised aspect of the Brazilian growth model of the last 12 years is the alleged protectionism and relative isolation from the global economy. Despite many years of increasing exports and imports, the country’s share of global trade is low relative to the size of the economy.
Government critics argue that by shielding themselves from international competition and largely relying on the domestic market, Brazilian enterprises lose the opportunities globalisation and a more open economy would offer in terms of strengthened competitiveness, technology transfers and cheaper imports. More specifically, critics point out that Brazil has concluded no free-trade agreements another major world trader—country or regional group—and remains at on margins of the current movement towards ‘mega trade agreements’, such as the Transpacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP). Similar concerns have been voiced about the absence of a free trade agreement with the EU, despite almost 15 years of EU-Mercosur negotiations.

Business organisations and the political opposition have demanded a less protectionist economy. They have, for example, called for Brazil to conclude free trade agreements with the USA and the EU and to change Mercosur’s rule which prevents its members from individually negotiating and concluding trade agreements with third countries. The opposition to Dilma Rousseff’s government has taken a similar line. The PSDB has for a long time criticised the policy of opting exclusively for the Mercosur membership. Aécio Neves, disparaging the general thrust of Brazil’s foreign policy, has argued that Mercosur should become a free trade area only, returning to the objectives of trade liberalisation and opening markets. He has pointed to the Pacific Alliance as an example to follow.

If Aécio Neves presides a PSDB-led government, indications are that Brazil would seek greater economic integration with the rest of the world, possibly abolishing protectionist policies and trying to conclude new trade agreements. However, free-trade policies will be met with resistance from the sectors that benefit from the current relative level of protection. Concluding trade agreements with third countries and blocs—which would require a reform of Mercosur rules—would likely take years to materialise.

On the other hand, President Rousseff and representatives of the PT have signalled that they would maintain policies to protect national industries. They argue that measures dubbed protectionist represent a legitimate commercial defence and that abandoning them would create a ‘disaster’ for the Brazilian industry.19

18 http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS
19 http://www.reuters.com/article/2014/10/01/us-brazil-economy-trade-idUSKCN0HQ4RU20141001
5 Social policies and poverty reduction

Arguably the most important achievements of the governments led by Presidents Luiz Inácio 'Lula' da Silva (2003-2011) and Dilma Rousseff have been the reduction of poverty and the improvement of living conditions for millions of Brazilians. The percentage of the population living in poverty fell from around 40% in 1990 to 19% in 2012, while extreme poverty decreased from around 17% to 5% of the population in the same period. As a result, it is estimated that between 2003 and 2011 alone, more than 40 million people joined the 'middle class', which now comprises more than half of Brazil's population. Unemployment has also been brought down significantly: the rate of open urban unemployment stood at 5.0% in July 2014, compared to 12.3% in 2002. Despite deep-rooted income and regional inequalities, overall inequalities and income gaps have narrowed somewhat during the last decade thanks to economic growth and social improvements.

Social progress has been accomplished through a series of comprehensive social and cash transfer programmes and a steady increase in social expenditure. Brazil is one of the few countries in Latin America where social spending as portion of the GDP has grown continuously over the last two decades; today it amounts to close to 25% of GDP. Reduced poverty rates and rising incomes have decisively contributed to increasing consumption and domestic demand, which in turn have boosted economic growth.

Despite recent sluggish economic growth, social expenditure has continued to grow, with anti-poverty programmes, healthcare and education benefiting from increased spending. President Rousseff's government has set the goal of further reducing poverty and expanding the middle classes by raising incomes and creating more jobs. In 2011, it launched the 'Brazil without Poverty' (Brasil sem Miséria) programme, pledging to eradicate extreme poverty by 2014 and to lift more people out of poverty. In 2014, the government has raised the minimum wage, and with it pensions and social security payments, by close to 7%; a rise of nearly 9% is foreseen for 2015 in the government's budget proposal. Similarly, an ambitious law known as the National Education Plan (Plano Nacional de Educação, PNE) entered into force in June 2014, including goals such as eradicating illiteracy and schooling all small children and primary and secondary education in the next ten years. The PNE law also gradually increases public investment in education to 10% of GDP in 2024 (compared to currently around 6.5%). The reform is largely funded by revenues from oil production.

Poverty reduction and successful social policies constitute important political capital for the governing PT and President Rousseff. Continuing and further expanding social programmes have been prominent promises in Rousseff's electoral campaign and government programme, which defines

---

20 Figures from the UN Economic Commission for Latin America and the Caribbean (ECLAC), Social Panorama of Latin America 1999-2000 and 2013.
prominent in President Rousseff’s electoral campaign and government programme.

Social policies may be expected to largely continue, and existing social programmes are unlikely to be interrupted or radically changed - although they may be modified and are likely to be complemented with new ones – regardless of the outcome of the 26 October elections.

Similarly, the opposition has stressed that social welfare programs will be maintained and possibly enhanced.

President Rousseff’s rivals have faced elections campaign allegations that their victory would threaten social conquests. Both Marina Silva and Aécio Neves, however, have stressed that they would maintain and possibly enhance social welfare programmes. Characteristically, among the points mentioned first in Neves’s programme is ‘social assistance’, as ‘in a country of inequalities, social policies are instruments for transformation of the Brazilian people’s life’21. A main chapter in the programme is dedicated to ‘the combat against poverty and social inequality’, stating the need to take steps towards a ‘new social agenda’ and to recognise that poverty reduction requires integrated policies going beyond cash transfer programmes. Similarly, Marina Silva’s programme emphasised the need to enhance and integrate existing social programmes, to counter income concentration and combat social and regional inequalities, proposing new ‘third generation’ programmes that consider poverty a multi-dimensional problem.

Social policies may therefore be expected to largely continue, and existing social programmes not to be interrupted or radically changed – although they may be modified and are likely to be complemented with new programmes – regardless of the outcome of the 26 October elections. This reflects the extent to which the social policies and successful anti-poverty programmes of the last decade are recognised across the political spectrum and have become a sort of ‘common good’ that is not disputed by the opposition, even as its politicians try to prevent social welfare from being identified with PT-led governments. In a larger perspective, it might be said that just as economic policies under the last decade’s PT governments have shown a degree of basic continuity with the preceding PSDB governments, a commitment to preserving social improvements and further reducing poverty and economic inequalities is now a broadly consensual element of economic and social policies.

However, the central challenge in the coming years will be to maintain – and even to increase – social expenditure, as pledged by all main political forces in an environment of lower economic growth and pressures to bring down the fiscal deficit. In the medium- and longer term, a ‘worst case scenario’ would mean that continuing weak economic growth and persistent high inflation gradually undermine the social progress achieved during the last

expenditure, as pledged by all main political forces, given lower economic growth and pressures to bring down the fiscal deficit.

6 Brazil as a global player

Brazil has become an increasingly important global player over the last 15 years. The country's foreign policy has become more assertive and aims to increase the country's presence in the main international and multilateral fora. Brazil's strong economic performance and social progress have helped raise the country's profile.

Brazil has been particularly active in engaging with other emerging powers and developing countries, principally in the framework of the group of BRICS countries, but also in the 'IBSA' (India, Brazil, South Africa) dialogue. Brazil has also promoted and coordinated the positions of developing countries in the negotiations on agricultural trade in the WTO. In general, Brazil has strengthened the country's presence abroad and political and economic links to partners in the 'global South', not the least in Africa and the Middle East.

In Latin America, Brazil has been at the forefront of efforts to deepen regional integration, through its membership of the Community of Latin American and Caribbean States (Comunidade de Estados Latino-americanos e Caribenhos, CELAC), Mercosur and was the driving force behind the creation of Unasur in December 2004. The country's position was reinforced further with the establishment of the G20 as the main forum for international economic cooperation and governance.

In June 2011, Jose Graziano da Silva, former Minister for Food Security and the person responsible for implementing 'Zero Hunger' (Fome Zero) programme in Brazil, was named Director-General of the UN Food and Agriculture Organisation (FAO) – an appointment that reflected the international recognition of Brazil's social and anti-poverty programmes. Similarly, the election in May 2013 of Roberto Carvalho de Azevêdo, Brazil's former Ambassador to the WTO, as the organisation's Director General could be seen as a recognition of Brazil's multilateral commitment.

Brazil has also taken a number of initiatives that reflect its ambition to

22 For instance, between 2002 and 2012, the number of Brazilian embassies in Africa increased from 17 to 37 (more than the UK has), and the BNDES has opened an office in South Africa.
Brazil has also taken initiatives testifying to its ambition to influence the norms regulating the international community - for example by promoting the concept of 'responsibility while protecting' (RWP) and international rules on internet governance.

Although foreign policy is traditionally removed from day-to-day political discussions, the electoral campaign has served to highlight distinct visions of Brazil's international relations.

The government has stressed that it will further prioritise strengthening regional organisations in Latin America and relations with the BRICS and the 'global south', without 'ideological discrimination'.

The opposition has emphasised foreign policy as a tool for Brazil's influence the norms regulating the international community. One example is the promotion, in the UN framework, of the concept of 'responsibility while protecting' (RWP), complementary to the principle of the 'responsibility to protect' (R2P), which was adopted by the UN in 2005 and which has provoked concerns about the use of military power and the selective use of international law. Launched by President Rousseff in her speech to the UN General Assembly (UNGA) in September 2011, RWP is based on the following principles: the prevention of conflicts is always preferable to armed intervention, all peaceful means to protect civilians under threat should be exhausted before resorting to force, and that the use of force should produce as little violence and instability as possible; and force must be monitored and assessed. The RWP-proposal could be seen as an example of Brazil's effort to play an mediating role between the USA and Europe, on the one hand, and, on the other, states such as China, Russia and other emerging countries, which traditionally reject interventions, even to protect civilian populations under threat.

Another example of Brazil's participation in world affairs is its initiative to promote international rules on internet governance. This initiative (related to revelations about the US National Security Agency's (NSA) surveillance of Brazil, including of communications from President Rousseff and surrounding Petrobras) was presented to the UNGA by President Rousseff in September 2013. She proposed creating a system within the UN framework to govern the internet, including mechanisms to protect users from the illegal interception of data. In April 2014 Brazil hosted an international conference on internet security (the 'Global Multistakeholder Meeting on Future of Internet Governance'), with the participation of governments, industry and other private sector representatives, experts, etc.

Despite Brazil's growing international weight and its increasingly central role in multilateral diplomacy, the country has not achieved its probably most important foreign policy goal: a permanent seat in the UN Security Council (UNSC).

Foreign policy issues are traditionally removed from the day-to-day political debate and are conducted mainly by the Ministry of Foreign Affairs, which has a reputation for professionalism and relative independence from domestic politics. Foreign policy issues also normally play only a negligible role in electoral campaigns. In the campaign before the October elections, questions concerning Brazil's position in the world have not been at the forefront of debates; yet it has nevertheless highlighted two relatively distinct visions of the country's foreign policy in the coming years.

On one hand, the government has stressed that it will continue to prioritise strengthening regional organisations in Latin America - without 'ideological discrimination' - and relations with the BRICS and the 'global south', without

---

23 The current Foreign Minister, Luiz Alberto Figueiredo, and his predecessors (Antonio Patriota, Minister 2011-2013 and Celso Amorim, Minister 1993-1995 and 2003-2011) are all career diplomats.
insertion in the global economy, facilitating access to new markets and integrating Brazilian companies in global value chains. It has also called for the conclusion of trade negotiations with the EU, reinforced relations with the USA and a reform of Mercosur to end the bloc’s isolation from international trade negotiations.

The regional policy is therefore the area where a possible change in government after the 26 October elections is likely to produce the clearest and most immediate changes. Disregarding the developed countries. The principles governing Brazil’s foreign policy will, for the government, remain the defence of democracy and human rights, non-intervention and respect for national sovereignty, the negotiated solution to conflicts, the combat against poverty and multilateralism.

In contrast, the opposition – Aécio Neves as well as Marina Silva – has emphasised the economic aspects of foreign policy, arguing that foreign policy should serve the country’s economic development, facilitating access to new markets and the integration of Brazilian companies in global value chains. Both have also called for an update of relations with the USA and the industrialised world in general to strengthen access to markets and technology. Neves’s government programme calls for the conclusion of the trade negotiations with the EU and ‘setting the basis’ for a ‘preferential agreement’ with the USA, and in general a re-examination of the policies of regional integration, re-establishing the ‘primacy’ of trade liberalisation.

Against that background, and in view of Neves’s clearly stated goal that Mercosur return to its initial objectives and make its rules more flexible to allow members to progress in trade negotiations with third countries, Brazil’s regional policy is the area where a possible change in government after the 26 October elections is likely to produce the clearest and most immediate changes. According to Brazil’s former Ambassador to the USA, Rubens Barbosa, who is advisor to Neves’s electoral campaign, Brazil under Neves would diversify partnerships in Latin America and work for a ‘deep reform’ of Mercosur, putting an end to the bloc’s isolation from international trade negotiations.

However, although Rousseff’s programme includes a clear commitment to consolidate and strengthen Mercosur and does not refer to a reform of the bloc, the government has not been immune to the concerns about the lack of progress in Mercosur’s economic integration agenda and, particularly, in the trade negotiations with the EU. It may thus be equally difficult for a future PT-led government to ignore the increasing calls for a reform of the Mercosur and for more ‘flexible’ regional rules that would allow member states to pursue trade and investment agreements with countries and regions outside the group. Furthermore, a change of course in Brazil’s approach to Mercosur would be welcomed by two of the bloc’s other member states, Uruguay and Paraguay. In this regard, a first step could be to engage in a process of convergence between Mercosur and the Pacific Alliance.

The two candidates have made only a few, rather unspecific pledges on other aspects of Brazil’s foreign policy, making it difficult to assess how they might evolve in the coming years. One important question relates to membership of the BRICS group, which, together with Brazil’s increased presence in Africa, Asia and the Middle East, has served as an important vehicle for the country’s efforts to increase its role as a global player in a multipolar world. While the partnership with the BRICS countries will continue to be of strategic importance for Brazil due to their economic and political weight, it may nevertheless face challenges. In the first place, in case of a change in
The partnership with the BRICS will continue to be of strategic importance for Brazil due to the BRICS countries’ economic and political weight. But a change in government could lead cooperation with the BRICS to be downgraded, given the opposition’s pledge to reinforce links with the USA, the EU and the developed world.

If relations with the ‘global South’ continue to be the centre of Brazil’s foreign policy priorities, the differences between the BRICS countries and their competing interests may make it difficult to advance a common agenda.

government, Brazil’s cooperation with the other BRICS countries could be downgraded, given the opposition’s pledge to reinforce links with the USA, the EU and the developed world in general.

However, even if relations with the ‘global South’ continue to be at the centre of Brazil’s foreign policy priorities, BRICS membership could bring new challenges. Despite the scepticism of some analysts about the economic prospects of the group – expressed in the notion of the ‘broken BRICS’, which has gained some traction since it was introduced in November 201224 – Brazil’s commitment to the BRICS group has remained unchanged, as illustrated by the sixth BRICS summit held in Brazil on 15 July 201425. The most prominent decisions taken at the summit, the creation of the ‘New Development Bank’ to fund infrastructure projects and of a ‘Contingency Reserve Arrangement’, seemed to confirm the BRICS countries’ determination to give real, practical substance to their cooperation and to serve as a counterweight to the influence of the established international financial institutions, the World Bank and the IMF. The creation of the New Development Bank, which is foreseen to have assets of around USD 100 billion, also responds to Brazil’s needs to expand and improve its infrastructure. Furthermore, the BRICS summit was followed by yet another summit (in Brasilia, on 16-17 July 2014) between the heads of state of the Unasul and the BRICS – a tangible demonstration that Brazil sees its regional leadership and global role as interconnected.

However, the differences between the BRICS countries – as regards demography, economic structure, level of development, political regime, etc. – also create competing interests that may make it difficult to further advance a common agenda. For instance, Brazil has criticised Chinese economic policy for creating exchange rate imbalances and inflating the Brazilian currency, thereby reducing the competitiveness of Brazilian exports. Shifts in the structure of the Chinese economy, which should lead to a more sustainable economy but also to lower growth, may affect Brazil’s strategically vital relationship to China, the biggest BRICS country26.

Brazil’s political alignment with the BRICS, or in general the ‘global south’, may also be challenged. On some occasions during the last couple of years, Brazil’s positions on international issues and crises have underlined differences with the US and the wider Western world. In March 2011, when Brazil was serving as a non-permanent member of the UNSC, it abstained from voting on Resolution 1973 (2011) on Libya, which authorised member states to take all necessary measures to protect civilians under threat of attack. Instead, Brazil spoke out against the NATO-led bombing campaign. Similarly, Brazil opposed external interference in – or sanctions against – Syria, abstaining in October 2011 on the UNSC vote on a resolution

25 http://www.brics6.itamaraty.gov.br/
26 http://knowledge.ckgsb.edu.cn/2014/06/02/finance-and-investment/china-and-brazil-growing-together-apart/
Brazil's political alignment with the BRICS – and in general the 'global south' – may also be challenged, particularly if the international climate becomes more confrontational in the coming years, following the deterioration of relations between Russia and the EU and the USA and potential new international crises involving Russia and China.

In March 2014 Brazil again abstained from voting on a UNGA resolution defending Ukraine's territorial integrity and condemning Russia's annexation of Crimea. Explaining the vote, Brazil expressed support for all efforts to achieve a peaceful solution to the crisis and for inclusive political dialogue respecting the rights of all Ukrainians, emphasising the importance that all stakeholders 'exercise maximum restraint'. The BRICS countries' neutrality vis-à-vis the conflict in Ukraine, the absence of criticism of Russia at the July 2014 BRICS summit, and President's Putin's visit to Brazil in connection with the summit have been seen as contravening EU and US efforts to pressure Russia through targeted sanctions and other means.

An international climate that could be more confrontational in the coming years – following the deterioration of relations between Russia on the one hand and the EU and the USA on the other, and with the possibility of new international crises involving Russia and China – could lead to demands on Brazil for clearer and more unambiguous positions. This would make it more difficult for the country to maintain its autonomy and the principles of non-interference and non-intervention in the internal affairs of other countries.

For some, the credibility of the foreign policy of Brazil – a country unequivocally committed to democracy and human rights – requires it to come out more strongly and more systematically against violations of democratic principles and abuses. This aspect of Brazil's foreign policy – for instance the country's good relations to Iran (which have become more distant in recent years) – has occasionally provoked domestic criticism. In this context, it is illustrative that Marina Silva's political programme states that it is impossible to ignore the differences between each of the BRICS, not only with respect to their economic, political, cultural and environmental agendas, but also as regards their respect for human rights and civil liberties, and that these differences should be recognised.

---

27 In November 2011, Brazil voted in favour of a UNGA Resolution condemning killings and torture by the Syrian security forces, while the other four BRICS countries abstained. In the context of the decision in July 2012 to withdraw its diplomats from Syria, Brazil strongly condemned the violent oppression of unarmed civilians.

Brazil: Promises of more change - but in which direction?

7 Relations with the EU

Brazil has been a key partner for the EU for many years. In 1960, Brazil was the first South American state to establish diplomatic relations with the European Economic Community, and a first trade cooperation agreement was signed with Brazil more than 40 years ago, followed by other cooperation agreements. The EU-Mercosur Framework Cooperation Agreement signed in December 1995 also contributed to bilateral cooperation with Brazil.

The EU-Brazil Strategic Partnership was established in 2007 in recognition of Brazil's increasing global weight. Building on a shared commitment to international cooperation and multilateralism, a key objective of the Partnership is to reinforce cooperation between the EU and Brazil to meet global challenges (such as poverty and inequality, energy and the environment, including climate change) and to advance cooperation in sectors and areas of mutual interest. For Brazil, the Strategic Partnership with the EU is the only partnership concluded with a regional group.

Since 2007, there have been seven EU-Brazil summits. Participants in the most recent one, on 24 February 2014, agreed to strengthen political dialogue in order to converge further on global issues and positions in international fora, particularly on three main issues: economic growth and job creation, global challenges, including cyber security and climate change, and foreign and security policy issues. It was also agreed that the next EU-Brazil Joint Action Plan, for the period 2015-2017, should include four key areas: international peace and security; inclusive growth; science, technology and innovation; and, global challenges in areas such as sustainable development, climate change, environment, energy security and international cyber policy.

The Strategic Partnership has served as a basis for a significantly intensification of EU-Brazil relations, reflected in the many sectoral dialogues and cooperation initiatives. Overall, cooperation and dialogue with Brazil have progressed substantially, although the relationship also poses challenges, deriving from the two parties' divergent international status and positions on some geopolitical issues.
Another challenge has been the translation of common views into practical cooperation, bilaterally and in multilateral fora.

With a new European Commission and a new Brazilian government taking office on 1 January 2015, the moment may be propitious to overcome some of the Partnership's limitations and open a new phase in the EU-Brazil relationship.

7.1 Trade and economic relations

Brazil is the EU's ninth most important trade partner and export market in the world and the single biggest supplier of agricultural products to the EU.

Exports to Brazil have grown, almost without interruption, for more than a decade. and divergent positions on some geo-political issues. A recent example may be the situation in Ukraine and the increase in Brazil's agricultural exports to Russia, which have replaced banned European exports. According to informations in the press, initiatives by Brazil (and other Latin American countries) to step up exports to Russia and gain a larger share of the Russian market by taking advantage of Russia's ban on EU imports, have caused concern in the EU.29 The high-level dialogue on international peace and security offers an opportunity to deepen dialogue and mutual understanding on such issues, although the differences are unlikely to disappear altogether. Other challenges have been the translation of common principal views into practical cooperation in multilateral fora and, in general, the perception that the practical results of the EU-Brazil Joint Action Plans have been less than what could have been hoped for.

The present juncture – with a new European Commission and a new Brazilian government taking office on 1 January 2015, and the start of a new legislature in the EP and the Brazilian Congress – may be propitious overcoming some of the limitations of the Partnership and opening a new phase in the EU-Brazil relationship. The forthcoming EU-Brazil Joint Action Plan 2015-2017 and the programming of cooperation initiatives with Brazil in the framework of the EU Partnership Instrument for the 2014-2020 period (which will replace 'traditional' bilateral development cooperation) offer opportunities for deepening the partnership and setting precise goals and mechanisms for achieving results.

In the economic realm, Brazil is the EU's ninth most important trade partner and export market in the world (and the most important in Latin America) and the single biggest supplier of agricultural products to the EU. For Brazil, the EU as a group remains the country's most important trading partner, although exports to China have increased; China which became Brazil's second trade partner in 2009. In 2013, 20.5 % of Brazil's foreign trade was with the EU, and 19.8 % of exports went to the EU (compared with 19 % to China and 10.3 % to the USA).

The total value of trade between the EU and Brazil increased by 125 % from 2002 to 2012, when it reached a record EUR 77 billion. However, while EU exports to Brazil increased by 220 %, EU imports from the country grew by 95 % – and practically stagnated between 2008 and 2012. This development is reflected in the growth of Brazil's overall importance as export market for the EU: Brazil's share of total EU exports grew from 1.4 % to 2.4 % in this period, while its share of total EU imports stagnated.

Moreover, in 2013 trade dropped by 5 % because EU imports from Brazil fell - for the second consecutive year - by almost 12 %. Overall, the EU's imports

29 http://www.ft.com/intl/cms/s/0/4730c97a-216a-11e4-a958-00144feabd0c.html
from Brazil have dropped by 15% between 2011 and 2013. At the same time, EU exports to Brazil continued to increase (in 2012 by 11%, in 2013 by a mere 1%). Therefore, the trade balance, which was in Brazil's favour up to 2012, recorded an EU surplus of close to EUR 7 billion in 2013. EU-Brazil trade has apparently continued its downward trend in 2014: according to Brazil's Central Bank, in the first nine months of 2014 trade exchanges fell by 5.5% compared to the same period in 2012, due to a further fall in both Brazilian exports to the EU and in Brazil's imports from the EU.30

This evolution reflects the general problems affecting Brazil's foreign trade: the strong surge in imports of manufactured products and the dependence on the exports of primary commodities. While the EU's sales to Brazil are mainly made up of products such as machinery, transport equipment, chemicals and other manufactured goods, the EU's imports from Brazil are dominated by primary products, in particular agricultural products. Similarly, Brazil is an important market for commercial services, area in which the EU maintains a solid trade surplus.

Trade relations have on occasions been subject to disputes. In recent years, the EU has denounced import restrictions implemented by Brazil. In December 2013, the EU requested consultations with the Brazilian government under the WTO's dispute settlement rules. The issues concerned taxation rules in certain industries (affecting automotive and electronic products, among others) which the EU considers discriminate against imports and provide prohibited support to Brazilian exporters.

Overall, both the EU and Brazil are likely to benefit from an agreement to liberalise trade. For the EU, Brazil is the second most important market among the developing/emergent countries (after China), and exports to the country have expanded almost without interruption for more than a decade. Companies from the EU have invested for close to EUR 247 billion in Brazil (foreign direct investment stocks in 2012). For Brazil, the EU remains the

30 http://www.bcb.gov.br/?indicators
2015 could bring progress towards a trade agreement.

The Brazilian government has repeatedly confirmed a strong commitment to concluding the EU-Mercosur Association Agreement. This was clear, for example, during the EU-Brazil summit on 24 February 2014 when President Rousseff stated that the objective of a trade agreement was close to being achieved. Against that background, progress towards a trade agreement – in the framework of the EU-Mercosur negotiations or perhaps through a bilateral agreement, as advocated by the Brazilian opposition – may be expected in 2015.

### 7.2 Interparliamentary relations

The European Parliament (EP) has in many ways worked to forge closer links between Brazil and the EU. In its recommendation to the Council on the EU-Brazil Strategic Partnership, adopted in March 2009, the Parliament stressed Brazil's role as a significant regional and global player and a key interlocutor for the EU. The resolution also stated that a regular structured dialogue between the Brazilian National Congress and the EP should be established. Similarly, in a resolution adopted in February 2012 on the EU foreign policy towards the BRICS and other emerging powers, the EP underlined the increased relevance in foreign policy terms of Brazil (and the other BRICS countries), calling for enhanced cooperation on matters of international concern. The Parliament particularly called for relations to be stepped up with those BRICS that share and respect democratic values and strive for a social market economy. Underscoring Brazil's importance as a leading regional power, the Parliament welcomed the EU-Brazil Strategic Partnership Joint Action Plan 2012-2014 and the mutual commitments made in the areas of democracy promotion and reforms of the multilateral system of governance.

The EP's support for a regular structured dialogue between the Members of the Brazilian National Congress and the EP is echoed by the commitment included in the 2012-2014 EU-Brazil Joint Action Plan (and in various summit declarations) to further strengthening interparliamentary dialogue. In the Plan, the parties agree to support continuing regular contacts and working to establish a regular structured dialogue between the two parliaments.

However, interparliamentary cooperation between the EP and the Brazilian Congress has not yet been fully institutionalised. Most parliamentary contacts and exchanges with Brazil have taken place through the EP's Delegation for relations with the Mercosur countries, which has regularly visited Brazil, and in the framework of the Euro-Latin American Parliamentary Assembly (EuroLat). In recent years working groups from three committees working on external relations have also visited Brazil (the Committee on International trade, or INTA, in April 2010; the Committee on Development, or DEVE, in February 2011; and the Committee on Foreign Affairs, or AFET, in March 2013).

A first interparliamentary meeting between the EP and the Brazilian Congress
The creation of a Delegation for relations with the Federative Republic of Brazil, which held its constitutive meeting on 13 October 2014, should help establish a regular dialogue with the Brazilian Congress.

took place on 6 July 2011 in Strasbourg. Participants expressed support for creating a permanent forum to deepen dialogue between the EP and the Brazilian Congress, although this has not yet been followed up. In the meantime, both chambers of the Brazilian Congress have put forward informal proposals for a regular forum for dialogue with the EP. Such a forum could meet once or twice a year to debate issues of common interest, monitor the implementation of the EU-Brazil Joint Action Plan and address recommendations to the summits. The proposals have not yielded tangible results.

Against that background, the creation of the EP's Delegation for relations with the Federative Republic of Brazil, which held its constitutive meeting on 13 October 2014, should allow progress to be made towards the goal of establishing regular, structured dialogue with the Brazilian Congress. The dialogue could, in turn, monitor the EU-Brazil Strategic Partnership. The Brazilian interlocutors of the new Delegation will be the members of the Brazilian Congress, also recently elected, whose new legislature begins on 1 February 2015.
## Basic data

### People and geography

<table>
<thead>
<tr>
<th>Population</th>
<th>201 032 714</th>
<th>212 077 375</th>
<th>2013 (estimate)</th>
<th>2020 (forecast)</th>
<th>Source: Instituto Brasileiro de Geografia e Estatística (IBGE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital city</td>
<td>Brasília</td>
<td>3 703 312</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other major cities</td>
<td>São Paulo</td>
<td>19 611 862</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rio de Janeiro</td>
<td>11 793 174</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Belo Horizonte</td>
<td>5 392 938</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Porto Alegre</td>
<td>3 934 434</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total land area</td>
<td>8 514 877 km²</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poverty</td>
<td>18.6 % of population in poverty (2012)</td>
<td>5.4 % of population in indigence (2012)</td>
<td>ECLAC: Social Panorama of Latin America 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life expectancy at birth (2012)</td>
<td>77 (women)</td>
<td>70 (men)</td>
<td>World Health Organisation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Literacy rate (adult)</td>
<td>91.3 % (2012)</td>
<td></td>
<td>UNESCO</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Economy

<table>
<thead>
<tr>
<th>GDP (billion USD; current prices)</th>
<th>2014</th>
<th>2015</th>
<th>Source: IMF, World Economic Outlook Database, October 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>0.3 %</td>
<td>1.4 %</td>
<td></td>
</tr>
<tr>
<td>GDP per capita (USD current prices)</td>
<td>11 067</td>
<td>11 527</td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>6.2 %</td>
<td>5.9 %</td>
<td></td>
</tr>
<tr>
<td>Unemployment</td>
<td>5.0 % (July 2014)</td>
<td></td>
<td>Instituto Brasileiro de Geografia e Estatística (IBGE)</td>
</tr>
</tbody>
</table>

### Rankings

<table>
<thead>
<tr>
<th>Name of index</th>
<th>Ranking:</th>
<th>Explanation and source:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption Perception Index</td>
<td>72 / 175; 5 / 20 LAC</td>
<td>Transparency International - Corruption Perceptions Index 2013</td>
</tr>
<tr>
<td>Press freedom</td>
<td>91 / 197 / 7 / 20 LAC</td>
<td>Freedom House - Freedom of Press index 2013</td>
</tr>
<tr>
<td>'Ease of doing business'</td>
<td>116 / 189 10 / 18 LAC</td>
<td>International Finance Corporation / World Bank - Doing Business Index</td>
</tr>
</tbody>
</table>
Brazil: Promises of more change - but in which direction?

Map

Source: http://www.nationsonline.org/onenworld/americ.htm