

FOR E SIGHT

forging common futures in a multi-polar world



Brazil rising

The prospects of an emerging power

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Preface

The dramatic rise of the emerging economies has been about new markets, jobs and growth. But it has also been about new ideas. The growing power of the Brics – combined with anxiety about the spiralling public debts being built up in Europe and the US – will increasingly challenge economic principles, governing philosophies and political institutions advanced by the west. In order to adapt to this shifting global environment, western discourse and policy must pay heed to policies and debates in the emerging powers. Brazil, with its successful transition to democracy and robust economic growth, is an increasingly influential actor in the international arena but little remains known about the country's domestic debates and developments. This paper outlines how Brazil has pursued its own path to development in recent years, highlighting the key challenges and dilemmas that the country now faces with regards to its economic, social and foreign policies. Building on the discussions at the Foresight Brazil symposium that took place in São Paulo on 16-17th March, 2011, the paper argues that while Brazil has achieved enormous successes in recent years, it will need to adapt its path of development to changing internal and external environments.

About FORESIGHT

Foresight is a project that aims to forge common futures in a multi-polar world. It does this by promoting greater recognition of the development models and strategic visions of the key global powers. Organised by the Alfred Herrhausen Society, the international forum of Deutsche Bank, and Policy Network, the Foresight project brings together an international network of leaders and experts to explore the strategic choices that are open to different countries in a multi-polar and interdependent world. Following forums in Moscow, Washington DC and New Delhi, the Foresight Brazil symposium was organised in partnership with the Institute of Applied Economic Research (Ipea) and Gacint at the International Relations Institute of the University of São Paulo.

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Brazil in a multi-polar world

The context

“We can, in fact, be one of the most developed and least unequal nations in the world”.

Dilma Rousseff’s belief and commitment in her inaugural address as President of Brazil earlier this year is indicative of how far the country has come over the last two decades.¹

In the early 1990’s, Brazilians could have expected prices for daily consumer goods to double every few weeks and the value of their savings to decline by more than a thousand percent due to hyperinflation. The country had just elected its first post-military regime and prospects for future prosperity did not look bright in one of the world’s most unequal societies. After two decades of democratic governance and financial stabilisation, there is a great degree of hope and enthusiasm about Brazil. Indeed, the symbolism of a factory-worker without a formal education, and a female former militant in a deeply patriarchal society, being elected to the highest echelons of power indicates the extent to which Brazilian society and polity have changed.

In recent years, as economic growth rates have hit record highs and over thirty million Brazilians have joined the middle class, optimism about the country has abounded. In a 2010 survey, 62% of Brazilians saw national economic conditions as good, the second-highest of any country in the world.² With its abundance of land, freshwater, food and energy, and its comparative freedom from regional conflicts and tensions, Brazil is perhaps best-placed of the emerging powers in terms of the array of opportunities and lack of constraints before it.

The country’s popular and successful political leaders, including both former presidents, Cardoso and Lula, have helped it achieve macroeconomic stability, social inclusion and international prominence. In recent years, Brazil has evolved a distinctive development model, one that combined high economic growth with income redistribution and inequality reduction. This model has met with considerable success as has the country’s increased international activism. Indeed, Brazil’s internal and external policies have been part of an attempt to forge a “national project” (projeto de nação) to secure sustainable development.

Brazil’s path of development and global role formed the basis of the discussions at the Foresight Brazil symposium. The issues debated included sustainable growth, social cohesion, and the nature and impact of the rise of the emerging powers. The discussions indicated that there are still significant risks and challenges that Brazil confronts from crime and public security to education and infrastructure. The country’s success, along with strong leadership

1. Address of Dilma Vana Rousseff, President of the Republic - Inaugural Speech to Congress, 1 January 2011

2. Pew Global Attitudes Survey, Spring 2010

and sensible policy decisions, has also been the result of a favourable environment, including rising commodities demand from Asia and the relative retreat of the United States from South America over the last decade. Indeed, it appears that Brazil's success, while remarkable, may still be precarious.

This paper builds on the discussions by analysing Brazil's approach to each of the three interlinked policy areas debated at the symposium. From our analysis it appears that as both global and internal conditions change, Brazil will confront difficult choices and further need to change, reform and build its development model, evolving more coherent and integrated strategies. And given the nature of global interdependence, the choices Brazil makes will impact not only its own citizens but also others around the world.

Seeking sustained growth

In 2010, the Brazilian economy grew by 7.5% to become the world's seventh largest, surpassing several advanced economies. This was indicative of its strength and robustness, one of the few to survive the global financial crisis relatively unscathed. Indeed, as growth has become increasingly rapid (rising from 1.3% in 2000), the country is emerging as a pivotal international economic player.³ The recent finds of off-shore oil have added to its abundance of natural resources, leading to much optimism and enthusiasm about growth and prosperity in Brazil.

However, significant challenges continue to persist including inadequate infrastructure, gaps in education and skills, inflation and the rising value of the country's currency, the real. Brazil often ranks poorly in competitiveness, innovation and ease of doing business rankings.⁴ The lack of sufficient infrastructure, particularly roads, ports and airports is a major hurdle in improving economic performance as is the skills gap. According to a recent report, Brazil faces a shortage of 8 million skilled workers over the next years, putting in danger prospects for sustained growth.⁵

In seeking to tackle these challenges and achieve prosperity, there are three key sets of inter-related dilemmas that Brazilian policymakers and businesses are likely to face. The first is regarding the role of different sectors in the economy; the second on the extent of openness and focus towards the global economy; and the third is the role of different actors in the economy.

The Brazilian economy exhibits a considerable degree of diversity with dynamism in services (currently its largest sector), industry and manufacturing, and primary products including agricultural produce and natural resources. However, recent trends, particularly in exports, indicate that the role of primary products has been rising, especially with increasing demand from China and other emerging economies. Brazil is a major exporter of orange juice, soya, sugar and iron ore. While it has benefited enormously from a commodities boom over the last decade, uncertainties remain over how to best harness its natural resources in the long-term. Indeed, there is intense debate about the role this sector should play in spurring economic growth. With its abundant resources, some believe that Brazil should take advantage of its natural strengths and comparative advantage. On the other hand, many are concerned about the risk of the natural resource curse or 'dutch disease', in which the wealth generated from commodity exports leads to an increase in the value of the country's currency, harming manufacturing and other economic sectors. And, with 86% of the country's population living in urban areas, the impact on non-primary sectors could have significant implications for employment.⁶

3. World Economic Outlook Database, International Monetary Fund

4. See, for example, World Economic Forum Competitiveness Index; Insead Innovation Ranking and World Bank Ease of Doing Business Reports

5. This is based on an estimate that the Brazilian economy will grow at an average of 4.6% until 2015. "Procuram-se 8 milhões de profissionais", Revista Exame, 15 April 2011

6. IBGE, Brazilian Institute of Geography and Statistics

The second dilemma relates to Brazil's openness to the global economy and how international developments impact on the country. While Brazil was one of the last countries to enter and the first to leave the global financial crisis, there are global trends that present risks for its economy. On the one hand, Brazil requires foreign direct investment, particularly to help finance its many large-scale infrastructure and development projects. On the other hand, rapid capital inflows (especially portfolio equity investments) are contributing to rising inflation, which hit 6.51%, reaching the upper limit of the government target.⁷ Although this is lower than in many emerging economies, given Brazil's history with hyper-inflation, it is a point of sensitivity and presents a major concern for the new administration. A number of factors, including international ones such as quantitative easing policies in the United States and the low valuing of currency in China, have contributed to the rise in the value of the real (reaching as high as 1.6 reals per US dollar)⁸ leading Guido Mantega, the Brazilian finance minister to coin the term "currency wars".⁹ As a result, the Brazilian government finds itself in a complex conundrum, that of trying to reduce both inflation and the value of its currency. In order to reduce inflation, the government has been raising its interest rate, which now at 12.25%, is amongst the highest in the world. At the same time, the high interest rate has served to attract foreign investors and capital into the country. To tackle this, the Rousseff government has introduced a number of capital controls since its inauguration earlier this year, such as expanding taxes on foreign borrowings to loans.

The third dilemma is how to foster the role of different actors in the Brazilian economy. Growth in Brazil has been spurred by a rise in domestic demand, as a new middle class has emerged, benefiting from an expansion of formal work and rises in minimum wage.¹⁰ Indeed, government expenditure in Brazil, which accounts for around 34% of GDP is much higher than in most emerging economies. The loans given by BNDES, Brazil's national bank of development, amount to greater than those made by the World Bank.¹¹ While this has been advantageous for furthering growth and prosperity, BNDES has been criticised for lending mainly to large corporations. Many are concerned about the economy being dominated by large actors and the long-term implications of this for innovation, entrepreneurship and growth. On the other hand, many large-scale projects do require public investment and big companies to carry them through. For smaller-scale initiatives, the role of further private investment could be valuable and should be encouraged.

There are global trends that present risks for its economy(...)the government finds itself in a complex conundrum, that of trying to reduce both inflation and the value of its currency

The government's attempt to curb spending this year, including a pledge to a \$50 billion cut, show the extent to which it prioritises reducing inflation, which affects the poor more than the rich.¹² However, there is a careful balance to strike. Higher interest rates and lower availability of financing tend to curb private investment and may end up harming Brazilian business and the manufacturing sectors. Indeed, as the country's industry faces challenges both

7. Note: Given Brazil's history the Central Bank sets the target at 4.5 % (give or take 2%); See "Inflation could test Rousseff's popularity", Financial Times, 7 May 2011

8. "Brazil has array of tools", Bloomberg, 4 April 2011

9. "Currency war warning from Brazil's finance minister" BBC News, 28 September 2010

10. There is debate about whether this is actually a middle class (e.g. Marcelo Neri) or just a new type of working class (e.g. Marcio Pochmann, Jesse De Souza)

11. "Nest egg or serpent's egg" Economist, 5 August 2010

12. 'Governo anuncia corte recorde de R\$ 50 bilhões no orçamento de 2011' O Globo, 9 January 2011

from cheap imports and the high value of the real, it may need to concentrate on more innovative and niche products adding to successes such as Embraer (the aircrafts manufacturer) and flex-fuel cars. As Brazil seeks to evolve an economic model that is more sustainable in the long-term, it will need to move towards more balanced growth. This will involve balance between the different sectors of the economy including agriculture, resources and manufacturing; between global markets and domestic realities; and between the different actors in the economy including the state and the market.

In order to boost the competitiveness of the Brazilian economy and make the most of its natural resource strengths, deeper structural improvements will be necessary, especially in infrastructure and education. These may need to be accompanied by tax and other reforms. However, the nature of the Brazilian political system, which often moves in an adhoc and piecemeal way is likely to see gradual change and not sudden transformations. While this hybrid and flexible approach has so far served Brazil well, over the coming years, the country may need to evolve a more consolidated economic strategy and vision, one that embraces both private and public actors and the different sectors of the economy in a more integrated approach.

Fostering social development

Brazil achieved remarkable levels of social progress in recent years. Redistributive policies, based on a development model that combined economic growth, income distribution and social inclusion, lifted a staggering twenty-million people out of poverty and helped another thirty million to climb the ranks of the middle-class.¹³ In contrast to most other emerging economies, Brazil was able to combine high rates of economic growth with increases in per capita income and reductions in income inequality.¹⁴ Much of this success was achieved through higher and targeted levels of social spending, particularly on the expansion of formal employment and credit, steady rises in the minimum wage, and the implementation of income transfer programmes such as Bolsa Família.¹⁵ Efforts to alleviate poverty and eradicate hunger were also part of a broader agenda to restore the self-esteem of Brazilians and promote citizenship for all. Today, there is much optimism that Brazil is set to become a developed, middle-class society.

However, significant challenges remain, both in terms of persisting inequalities and the quality of essential services such as policing, education and healthcare. According to the sociologist Jessé de Souza, one-third of Brazilians continue to live in precarious conditions and are excluded from mainstream society.¹⁶ There are vast and entrenched inequalities that separate these segments from the culturally privileged and politically engaged. The poor and uneducated do not enjoy the full benefits of citizenship and are the main victims of precarious work, social violence and lack of political access. Crime, racial inequality, prejudice and poor infrastructure still affect the overwhelming majority of the population. Despite recent progress, regional disparities are still significant. Although other regions are now growing faster, the state of São Paulo remains responsible for 33% of national GDP. While there is a compelling case to be made that Brazilians are significantly better off than they were a decade ago, in reality, today's optimism coexists with deep sentiments of insecurity, anger toward impunity, and resentment toward corruption, across all levels of society – putting a strain on Brazil's social fabric.

Optimism coexists with deep sentiments of insecurity, anger toward impunity, and resentment toward corruption

In its path towards further social development, Brazil is likely to face three interlinked challenges. The first is how to forge social solidarity and foster an engaged and active citizenry. The second is regarding the future of the government tax and spend model, especially at time of public spending cuts. And the third is how to ensure better access and quality of essential services and the role of private actors and civil society in this field.

13. Institute of Applied Economic Research (2003-09); Neri, M ' A nova classe média: o lado brilhante dos pobres: FGV; 2010

14. Pochmann, M. 'Novo padrão de mudança social', Folha de São Paulo 17 November 2010

15. Abrahão, J. 'The construction of a strategic social policy' in Charting New Directions: Brazil's role in a multi-polar world, Foresight publication; 2011

16. Interview with Jessé de Souza, IHU Online, 24 January 2011

First, there are challenges of creating a more cohesive society and engaged citizenry. The previous government sought to promote social rights, but it also furthered the consolidation of citizenship and the construction of a stronger 'nation'. President Lula sought to overcome what he perceived as a deeply divided democracy and the predominance of a profoundly asymmetrical form of government. 'Gone are the days when Brazil used to be governed for one third of its population', he announced in 2006.¹⁷ Efforts to eradicate hunger and mitigate poverty were associated with a broader agenda of social cohesion and citizens' rights. 'Hunger is the most dramatic and urgent expression of a structural imbalance, requiring correction through integrated policies that foster full citizenship', he stated.¹⁸ Indeed, this period witnessed the revival of a long-standing Brazilian concern, the idea that a country needs a 'national project'. Leading strategists often alluded to the goal of 'nation building' as part of the government programme. The new development minister, Tereza Campello, articulated this broader purpose by saying 'we will go ahead with our national project, [to promote] economic development with income redistribution, [but also] cultural redistribution, and power redistribution.'¹⁹ Many of these initiatives were the result of individual leadership and specific programmes and are yet to be institutionalised. How to sustain and deepen them will be increasingly important as the expectations of diverse and upwardly mobile groups change.

The second dilemma relates to the future of Brazil's tax and spend model. Recent studies have shown that significantly higher levels of social spending were instrumental in reducing income inequality, which fell to its lowest levels in fifty years.²⁰ Between 2003 and 2010, the poorest 50% of the population had a 69% increase in income, while the richest 10% an increase of 10%.²¹ Investments in education and healthcare have had the most significant effects, while income transfer programmes have had positive but a more limited impact.²² Progressive social spending, in the form of income distribution and investments in public health and education, was a direct measure adopted by the government to compensate for a regressive taxation system that has traditionally hindered social mobility. Indirect taxation, such as consumption tax, accounted for 48.4% of total tax intake in 2008.²³ Considering that the poor spend 30% of their income on the consumption of basic goods and services while the rich spend only 12%, it is quite clear that low-income groups have been shouldering this tax load.²⁴ Tax reform could make a substantial contribution to social development by boosting federal revenue and easing the tax burden on low-income groups. However, no agreement exists on the necessary changes. If no consensus is reached on tax reform, and the government is left to foot the bill, plans for universal rights to health, education and security could be delayed or even derailed.

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The third dilemma relates to plans for universal health, education and public security. In the 1990s, the federal government introduced income tax deductions for those who made use of private healthcare and private education. In practice, the true beneficiaries were the middle and upper classes, who use private services exclusively and who diligently fill their tax returns. This informal arrangement with the private sector to ensure access to quality services has been detrimental to the poorer segments of society because it reduces contributions to the state budget and

17. 'Elite não quer que país avance, diz Lula' Folha de S. Paulo, 16 October 2006

18. President Luiz Inácio Lula da Silva speech to the 7th Plenary Meeting of the UN General Assembly, 23 September 2003

19. Campello, T. 'Discurso de posse da ministra Tereza Campello' 2 January 2011

20. Abrahão, J. 'The construction of a strategic social policy' in Charting New Directions: Brazil's role in a multi-polar world, Foresight publication, 2011

21. Neri, M. 'Desigualdade de Renda na Década' FGV, Rio de Janeiro, 2011

22. Ipea. 'Equidade Fiscal No Brasil: Impactos Distributivos da Tributação e do Gasto Social' in Comunicado do Ipea no. 92, 19 May 2011

23. KMPG

24. Ipea

undermines plans for universal social provision by the government. Meanwhile, the quality and availability of health, education and policing services in many areas remains abysmally low. Low-income groups therefore suffer from inadequate access to education and a high level of vulnerability to crime. As Brazil develops and pursues more ambitious goals, will it choose to introduce universal social provision by the state, or will it do something different? The Brazilian government will need to think creatively about how it can tap on the strengths of the vibrant civil society and private sectors in each of these areas, while at the same time, ensuring that accessibility is increased for all. Indeed, successful initiatives, such as the UPPs (pacification units which work with crime-ridden neighbourhoods) have combined the services of the government with citizens' engagement.

As Brazil seeks to move forward in these areas, it will face difficult political choices about taxation, spending, service delivery and how to involve a range of actors. In its quest for universal welfare, it may be able to draw on the experiences of other countries but will ultimately need to forge its own path of building a society in which people feel secure, have access to opportunities and are able to utilise quality services to fulfill their capabilities.

Attaining international influence

In her first speech on foreign affairs newly-elected president Dilma Rousseff declared that “a country’s foreign policy is more than its global projection; it is also an essential component of a national project of development, especially in an increasingly interdependent world (...) The internal and external dimensions of our policy are indeed inseparable”²⁵ Brazil has a long tradition of linking foreign policy initiatives with development objectives. Yet, the idea was embraced with newfound vigour in policymaking circles in the early years of this decade and has gained momentum since.

Brazil’s global activism under the Lula administration was broadly tied to development strategies at the domestic level in an attempt to preserve national scope for policy planning. This included efforts to secure autonomy from the United States, deepen integration in South America and forge links with developing countries across Asia, Africa and the Middle East and other emerging economies through adhoc groupings such as Brics and Ibsa. Efforts to coordinate developing world positions in bodies like the WTO allowed it to block trade measures deemed unfavourable to its interests and win concessions on issues such as the licensing of generic drugs. It also included the promotion of an international social agenda, first articulated in the ‘Action against Hunger and Poverty’ campaign launched at the United Nations in 2004.²⁶ In the global south, in particular, Brazil sought to share best practice measures in poverty alleviation, income redistribution, health and education reform, and biofuels production, initiatives which allowed the country to garner support for its policies at home. These experiences strengthened the view that foreign policy aided domestic development, and that the two are firmly intertwined.

While Brazil’s recent international activism has contributed to its rise as a key global actor, the country faces complex dilemmas going forward. These include its cooperation with the region, its relations with major global powers and the impact of changing internal dynamics on its external policies.

First, there are questions about the future of region formation in Latin America. The government firmly believes that the rise of Brazil is inextricably linked to that of its regional partners. President Dilma has reaffirmed that the region will continue to be Brazil’s first priority. However, the widening gap, in terms of economic size and global prominence, between Brazil and its neighbours raises difficult dilemmas. While the country’s success has led it to be viewed as an attractive model by many, it has also aroused suspicion and insecurity amongst others. As a result, Brazil will need to take heed of its neighbours anxieties and show generosity in order to alleviate their concerns. But implementing policies to deal with anti-Brazilian sentiment (in the form of payments, technical support, debt relief, scholarships, etc.) is not easy in the face of domestic public opinion. Concessions to smaller economies are seen negatively by the wider public for whom Brazil itself remains a poverty-stricken and crime-ridden nation. This underscores a fundamental contradiction within efforts of region formation – the fact that it is difficult for Brazil to pay the costs associated with it. The country’s recent decision to triple payments (which had historically been extremely

25. Rousseff, D. ‘Discurso da Presidenta da República, Dilma Rousseff, do Instituto Rio Branco, 20 April 2011

26. Nina, A. ‘Action against hunger and poverty: Brazilian poverty in Lula’s first term’, Centre for Brazilian Studies, University of Oxford, 2006

low) to Paraguay for electricity from a joint hydroelectric dam, is an important step in this direction. Such progress is necessary in order to foster stability in the region and prosperity in Brazil, which also depends heavily on the expansion of energy and infrastructural projects across the subcontinent.

Brazil will also need to think carefully about how to manage its relations with the world's major players at a time in which the existing international order is in flux. As Marco Aurélio Garcia, a senior foreign policy adviser in the Presidency said "we are heading toward a multipolar world. But this will also be an asymmetrical world. National policies continue to be imposed on the global economy – be they US monetary policies or Chinese exchange rate policies – and they will continue to do so."²⁷ The alliances Brazil forms and the paths it takes in order to respond to this asymmetry are constantly evolving. While it maintained close and amicable ties with the United States, during this past decade Brazil also pursued a more autonomous foreign policy. It stood up to Washington on issues considered vital to its policy autonomy and national interests, thus halting the installation of a US military satellite facility in its territory and resisting the Free Trade Area of the Americas (FTAA) initiative proposed by the US, which was deemed harmful for Brazilian industry.

Brazil also pursued closer links with other emerging economies as a counterpoint to the influence of established powers. Two years ago, China emerged as Brazil's largest trading partner but this has brought its own risks. Many are now concerned that the economic relationship could be harmful for Brazil's industry, with China mainly importing commodities and flooding the Brazilian market with cheap manufactured goods. Brazil has been relatively agile in trying to correct the imbalance. Beijing was President Dilma's first destination abroad, outside of Latin America, and her delegation was determined to secure better terms of trade for industrial goods. Some success was achieved when Beijing agreed to buy 35 jets from Embraer while Foxconn promised to invest \$12bn in a manufacturing complex in Brazil. However, there is no shortage of challenges ahead, not least within Brazil's own vicinity, South America, where China has become a competitor.

Changing internal dynamics also have implications for a more robust and multilevel foreign policy. Social mobility and democratic consolidation in Brazil have brought to the fore a greater variety of interests and domestic actors opining on government policy while also strengthening the country's cultural diversity and multiple heritages. The expectations and needs of the upwardly-mobile segments of society will strongly influence the national agenda in the years to come, including foreign policy which has recently become a more politicised issue.²⁸ While the foundations of

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foreign policy are unlikely to change anytime soon, the variety of voices that have emerged make relationships abroad more conditional on what opportunities they generate and what they represent in the hearts and minds of newly empowered citizens. If Brazil's international identity will reflect the emerging social order at home, it may come to be redefined. Indeed, there is no certainty about where Brazil will stand on the emerging international fault-lines, whether it is a 'western' or 'southern' country. It may well continue to combine these identities or even adopt an entirely different character.

27. Garcia, M. A. Speech at the Progressive Governance Conference in Oslo, Norway, 13 May 2011

28. Foreign policy is an area of government activity that has traditionally been delegated to the discretion of the Ministry of External Relations. In the last two decades, both presidents Cardoso and Lula have carried out their versions of presidential diplomacy. Last year's presidential race saw foreign policy emerged as an electoral issue for the first time. During this period, regional concessions, for example, as mentioned earlier have met with strong resistance from public opinion. Relations with China, Iran, and Cuba were further heatedly contested in public and business circles.

As Brazil seeks to exert greater global influence as part of its project of national development, its ability to do so will also depend on the extent to which it is able to embed itself within international institutions. Efforts to do so have so far only met with limited success largely in part due to an aversion to change on part of the established powers. Indeed, existing institutions such as the IMF and UNSC continue to reflect outdated realities and suffer from a loss of legitimacy, which also hinders their effectiveness. The longer Brazil's demands for greater equity in international institutions are obstructed, the greater the risk to the international system as a whole.

Conclusion

In recent years, Brazil has demonstrated that it is possible to combine things that have often been considered mutually exclusive in developing countries: charismatic leadership with a vibrant democracy; an open market economy with social interventions to benefit the poor; a diverse society with the relative absence of ethnic strife; and increasing international assertiveness while arousing little suspicion or fear.²⁹ In this way it has served as a model for Latin America and a symbol of hope for many others around the world.

The country has attempted to pursue a national project with the aim of eradicating poverty and hunger and promoting equity and citizenship. This has been based on targeted social interventions built on the back of rapid economic growth spurred by rising global demand for commodities and high commodity prices. At the same time, significant challenges arise from its changing internal and external environments. Its rapid growth, booming commodities trade and attractiveness for investors have led to problems of inflation and the rising value of its currency. The finds of off-shore oil could help spur further growth and prosperity but they also carry risks if not effectively managed. While income transfers and the expansion of formal work have helped raise millions out of poverty, many still suffer from crime and insecurity, and lack of access to quality public services. Although the country's recognition as a major global power presents it with an international platform, it also gives rise to dilemmas for its regional and global role.

Reform must seek to free politics from the excessive influence of money, opening up opportunities to greater citizen participation, wider access to political parties, and ultimately a more efficient and informed political process

As Brazil seeks to navigate both long-persistent and newfound challenges, the country will need to adapt its development path. In order to further raise the living standards of its people, Brazil will need to shift from a model that has been predominantly of redistribution to a model that provides better access to production. This will involve improving infrastructure, education and public security as well as simplifying the processes and costs of doing business, making productive means more accessible for all and bringing more sectors into the formal economy. It will also involve building an engaged and active citizenry that takes part in the process of political, economic and social change.

Indeed, the nature of Brazilian politics lies at the heart of its development challenges. While the country's ability to combine democratic consolidation and rapid economic development is a remarkable achievement, significant hurdles still remain. The current multiparty political system, dubbed coalitional presidentialism, requires relentless and painstaking efforts by the leading party to bridge competing interests with minor partners in order to get legislation passed. Besides the sheer number of political parties and their ideological heterogeneity, this process is further

29. See Rachman, G. 'Latin America's new shining path' Financial Times, 16 May 2011

complicated by the lack of party discipline and loyalty, creating an environment of high unpredictability. Executive-legislative relations also depend on careful management of power-sharing and allocation of government jobs.

The result is a very protracted political system, which often moves in piecemeal and adhoc ways. The structural reforms which are necessary to unleash Brazil's development potential as well as the longer-term vision necessary for its global rise depend to a large degree on reforming politics itself. Such reform must seek to free politics from the excessive influence of money, opening up opportunities to greater citizen participation, wider access to political parties, and ultimately a more efficient and informed political process that facilitates development.

Brazil's success will, of course, depend on a number of internal factors including the strength and vision of its political leadership and the ability to forge consensus amongst different interest groups and sections of society in a rapidly changing domestic context. But it will also depend on its connections with the global economy and the way other major powers interact with the country. Indeed, a stable and successful Brazil is in the interests of those beyond its borders. As a dynamic market economy and a vibrant democracy with an emphasis on social inclusion, Brazil offers hope in an increasingly turbulent world. With its proximity and similarity to the United States in terms of size and diversity, its historic and cultural ties with Europe, Africa and Asia, and its key role in furthering links amongst the emerging economies, it occupies a unique position in world affairs. Brazil's own experience of managing diversity at home, as well as region formation and conflict aversion in Latin America offer significant lessons. In the words of President Obama, other key global powers should "root for Brazil's success".

Annexe

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Nelson Barbosa, executive-secretary of the Ministry of Finance, Brazil

Rubens Barbosa, president of International Trade Council of the Federation of the state of Sao Paulo Industries (Fiesp) and former Ambassador to the United States

Marcel Fortuna Biato, Brazilian ambassador to Bolivia

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Alistair Burnett, editor, World Tonight, BBC Radio 4

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Charles Kupchan, professor of international relations, Georgetown University

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Fyodor Lukyanov, editor, Russia in Global Affairs

Peter Mandelson, president, Policy Network and former UK first secretary of state and EU trade commissioner

Thomas Matussek, German ambassador to India

Deepak Nayyar, professor of economics, Jawaharlal Nehru University and distinguished university professor of

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Marcelo Neri, director of the Center for Social Policies at the Getúlio Vargas Foundation (FGV)

Leonardo Paz, debate and studies coordinator at the Brazilian Center for International Relations (Cebri)

Zhongying Pang, professor of international relations, Renmin University of China, and visiting senior research fellow, East Asian Institute, National University of Singapore

Márcio Pochmann, president, Institute of Applied Economic Research (Ipea)

Timothy Power, director, Latin American Centre, University of Oxford

Mzukisi Qobo, senior fellow, Center for Politics and Research and former chief director of trade policy, South African Department of Trade and Industry

Gideon Rachman, chief foreign affairs columnist, Financial Times

Élcio Gomes Rocha, chief economist, Bank of Brazil

Riordan Roett, director of Latin American Studies, Johns Hopkins University

Rathin Roy, director of the UN International Policy Centre for Inclusive Growth (IPC-IG)

Ronaldo Sardenberg, president, Anatel and former ambassador to United Nations, and former minister of science and technology

Giorgio Romano Schutte, professor of International Relations at the Federal University of the ABC.

Ricardo Sennes, director of Gacint, a thinktank related to the Institute of International Relations at the University of São Paulo

André Singer, professor of politics at the university of São Paulo and former press secretary in the President's office

Matias Spektor, assistant professor at the Getúlio Vargas Foundation (FGV)

Maria Herminia Tavares de Almeida, director, Institute of International Relations, University of São Paulo

Mauricio Tolmasquim, president, the Energy Research Company (EPE)

Frans Timmermans, Dutch member of parliament and former minister of European affairs

Daniel Vargas, researcher, Harvard University and former minister of strategic affairs

Andres Velasco, professor of international finance and development, Harvard University and former Chilean Finance Minister

Eduardo Viola, professor of international relations at the University of Brasília

Morten Wetland, Norwegian permanent representative to the UN

Yao Yang, director, China Center for Economic Research

Jaap de Zwaan, director, Netherlands Institute of International Relations