

Brazil Enhances its Sustainability of Development, & Future of Japan-Brazil Relations



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The Emergence of the New Brazil

In 2001, the U.S. securities firm Goldman Sachs introduced us to “BRICs” (Brazil, Russia, India, China) as countries from which we could expect high economic growth in the 21st century. For a while after that, however, skeptical voices were raised about the “B” in BRIC, in other words, Brazil. Japan in particular was not much interested in Brazil given the relatively low economic growth in Brazil at the time and its geographical remoteness, coupled with the trauma of a major burn Japan suffered in the 1980’s, the “Lost Decade,” after advancing into Brazil during the 1970’s economic boom period known as the “Miracle of Brazil.” But in recent years, Brazil has achieved such economic growth that it has overturned this type of skeptical viewpoint. (Chart 1)

Since the turn of the century, the Brazilian economy has been growing smoothly despite the impact of the Lehman Shock. In 2005, Brazil completed payoff of the IMF, in 2006, Brazil declared that it had achieved self-sufficiency in oil, and in 2007, it turned from a debtor nation into a creditor nation. The current characteristics of the Brazilian economy, in addition to being a country rich in natural resources and receiving the benefits of China’s rapid economic development, are that domestic consumption and credit markets are expanding with the middle class at the core, and domestic demand is driving the booming economy. Brazil’s middle class, which was roughly 30% of total population in the early 1990s, is now more than 50%, increasing to 100 million people. They are purchasing consumer durables on credit, such as automobiles, which are the 4th largest in the world in sales volume. Faced with these recent developments, the global view of Brazil changed from skepticism to

admiration. Britain’s leading magazine, “The Economist,” in 2009 displayed a cover using the “Take Off” image of Brazil, and also featured an article about the emergence of “The New Brazil.”

As for Japan, interest in Brazil has been growing noticeably since 2008, which was the 100th anniversary of Japanese immigration to Brazil, and 2009, the year it was decided that the Summer Olympics (2016) will be held in Rio de Janeiro, as a turning point. Various levels of public and private sectors put concrete plans and actions into motion.

In this publication, I will give an overview of 30 years of Brazil after the 1980’s from the perspective of political, economic, and social changes. At the end, to capture the current “The New Brazil” with sustainability as the keyword, I will express my opinion on the future of Japan and Brazil.

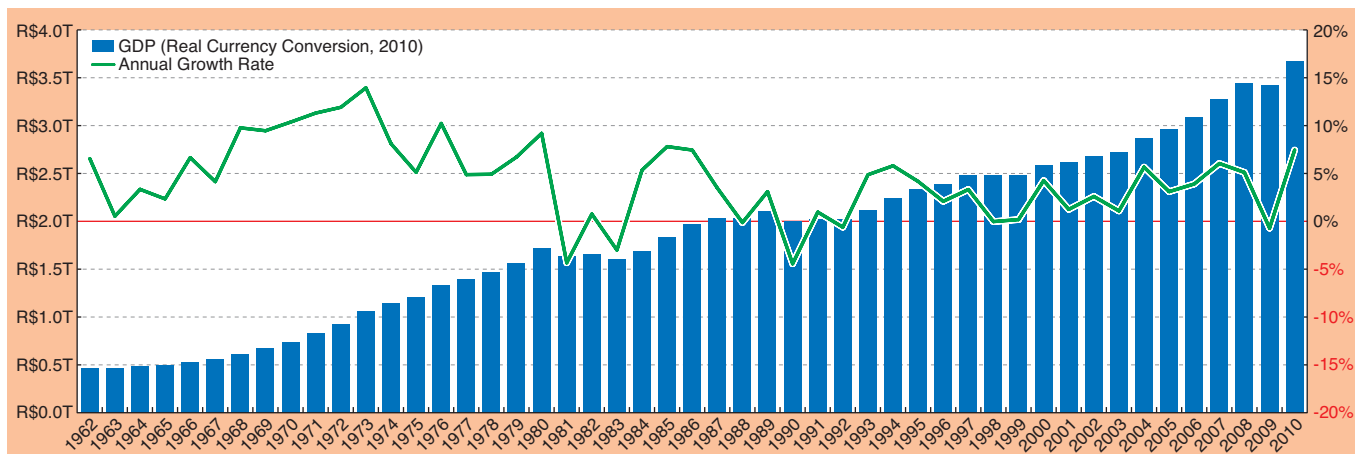
The 1980s: A Decade of Politics

For a period of 21 years from 1964 to 1985, Brazil experienced a period of military dictatorship. Both the presidential and gubernatorial elections were indirect, and other central or regional elections were merely a formality, involving the ruling party and the opposition party formed by the military government. In addition, labor strikes were prohibited, freedom of expression was limited, and democracy suffered a huge setback.

However, as a shadow was cast on the high economic growth of the 1980’s during the latter half of the military rule, the government led political liberalization (Abertura) in stages. The people who sought the implementation of direct elections through the pro-democracy movement, “Direct Elections Now” (Diretas Já) became

CHART 1

Changes in Brazil’s GDP, 1962 –



Note: Left axis, amount of GDP (Real rate, 2010) Right axis, annual growth rate

Source: Brazilian Institute of Geography and Statistics

increasingly active, and a democratic political system developed gradually. In 1979, through amnesty legislation, leftist politicians and others who had been exiled or deported returned to Brazil. Also, through a formal amendment of the Political Parties Act, a transition from a pro forma two-party system to a multi-party system was achieved. Furthermore, in 1980, the direct gubernatorial election system enjoyed a resurgence as well as the indirect senate election system that was abolished at the same time.

The new constitution was enacted in 1988, after the transition to civilian rule in 1985, as the culmination of a series of democratization measures. This constitution, while reducing the president's authority under the principle of political pluralism, greatly expanded and reinforced the authority of Congress. This was significant in that the Brazilian government transitioned from the authoritarian regime of long-term military rule to a constitutional democracy. Of particular importance was that the control by legislature was strengthened while the system of executive superiority, starting with the president, was revised. Specifically, the President's legislative authority called "Decreto Lei" was abolished and the "Provisional Measures," which require Congress approval to be enacted into law, became the only privileges granted the president. Moreover, conditions such as the number of Congress members required to reject a presidential veto or to enact a bill were relaxed.

With respect to political parties, there was a proliferation of parties and they repeatedly merged and split in the course of democratization, and it can be seen that electoral alliances between parties are not always consistent at the federal and local levels. The recent trend for the president is to come from the "Workers' Party" (PT) or the "Brazilian Social Democratic Party" (PSDB). But it is impossible for either party to carry governmental authority alone, and a coalition is always needed. The "Brazilian Democratic Movement Party" (PMDB), which boasts the largest number of members in Congress, is called the "bus party," because of its size and peculiarities, also common to other political parties to some extent. By "peculiarities," I mean that Brazilian parties sometimes decide whether or not to join the coalition after assessing the election results, and it's not uncommon for political parties that have formed an alliance to withdraw or to rejoin, depending on the content of legislation and political maneuvering. It is like a bus that they get on and off whenever they want. This applies not only to political parties but also to relationships and affiliations between parties and individual politicians. Thanks to lessons learned from the loss of cooperative federalism under the military regime, Brazil, which had adopted a federal system in which the governor always had great power, enhanced government decentralization and the judiciary's constitutional right to review under the 1988 Constitution. This formed the foundation of today's Brazilian political system, which is the presidential one necessary to negotiate and coordinate not only with government and opposition parties, but also with the governor and the judicial branch, unlike the past where the government, especially the president, strongly pushed national development.

The 1988 Constitution, in addition to restructuring institutions of the government, specified universalization of social welfare, respect for societal and individual rights, and political participation of citizens. This became the foundation for their institutions and

Photo: author



Large-scale cultivation of soybeans in a thriving inland area

policies. The Constitution also extended suffrage to include those between the ages of 16 and 18 on a voluntary basis, as well as illiterates. This enabled greater citizen participation in politics, including participation by the poor, which in turn had some degree of influence on subsequent election trends.

The 1980s can be seen as "A Decade of Politics" symbolized by the pro-democracy movement, the end of the military regime, the 1988 enactment of the Constitution, and the direct presidential election in 1989, as Brazil rebuilt the foundations of the lost institutions of democracy. In Brazil, a democracy which is currently stable and participatory primarily on the local level has consolidated itself since the 1980s with maintenance and modification of the political institutions through practice.

The 1990s: A Decade of Economy

Although Brazil began the consolidation of political democracy, its economy fell into a crisis that became known as "The Lost Decade," as it declared a moratorium on foreign commercial bank loans in 1987. The 1990s, in which Brazil was in an economic crisis at the beginning of the period can be characterized as the "Decade of Economy," with attempts to revive and stabilize its troubled economy.

In the first direct election in 1989 after the military regime, Fernando Collor de Mello was elected president. Immediately after the inauguration, he kicked off the "Decade of Economy" by implementing open market economic policies based on neoliberal lines. However, the "shock therapy," which included freezing assets that were carried out to suppress the inertial inflation, did not keep a lid on inflation. Instead, it invited significant economic confusion. Moreover, President Collor himself was found guilty of political corruption, triggering nationwide protests which drove him from the presidency in late 1992.

After the collapse of the Collor regime, Vice President Itamar Franco was appointed president, but the "Decade of Economy" was the creation of the administration of Fernando Henrique Cardoso, inaugurated in 1995. Cardoso led the "Real Plan" as the Minister of Finance, which was carried out by the Franco administration, and

successfully put an end to the inflation that had reached 2,477% in 1993. This achievement, for which Cardoso was credited, won him the presidency. He began to work towards stabilizing the macro economy through currency and interest rate management, while also taking decisive action to attain economic liberalization by privatizing state enterprises and attracting foreign investment. The result was that the Brazilian economy that had been in chaos repeatedly from “The Lost Decade” to the first half of 1990, began to show economic indicators signifying stability in inflation, interest rates, and exchange rates, among others, after the Real Plan was introduced. Promoting regional integration such as the launch of “Mercosul” in 1995, the foundation of the current Brazilian economy was built under the Cardoso regime which spanned 8 years over two terms.

However, the economic growth remained modest in the second half of Cardoso administration, because of the high interest rate policy that placed priority on macroeconomic stability, and the higher external vulnerability, such as increase in external debt and deteriorating current accounts, influenced by the Asian currency crisis in 1997 and the economic collapse in Argentina in 2000. President Cardoso was world-renowned as a sociologist who touted the “Dependency theory” and advocated the idea that even peripheral countries could develop economically, depending on the nature of their ties with the global economy. Brazil under the Cardoso administration strengthened ties with the globalizing world economy, and it became stable economically though more vulnerable at the same time, as a consequence. This, however, would be a natural consequence, based on the beliefs of President Cardoso.

In the 1990s, after repeating attempts for the liberalization of economy and the termination of hyperinflation, Brazil achieved to stabilize the chaotic economy after the Plano Real and then experienced further economic growth. The 1990s laid the cornerstone of today’s strong Brazilian economy, and thus can definitely be called the “Decade of Economy.”

The 2000s: A Decade of Society

Although the chaotic political and economic situation in Brazil had stabilized by the turn of the 21st century, social inequality, one of the hallmarks of Brazilian society, remained unresolved. The first decade



Photo: author

São Paulo, the economic center and largest city in South America

of the 21st century, in which Brazil attempted to redress inequality and achieve social justice based on trial and error and development, could be deemed “A Decade of Society.”

Lula’s leftist Workers’ Party government was established in 2003, advocating “social developmentalism” as a model of national development. This model takes social policy as one pillar to achieve inclusive sustainable development with fewer disparities by expanding a mass consumer market and creating a new middle class. The Lula administration, starting with “Bolsa Familia” that adds some conditions such as commuting to school to receive the social assistance in cash, carried out various social policies at the national level. Because of that, the social expenditures increased, continuing a trend which had been seen since the Cardoso administration. This is because the Cardoso administration also embarked on a social policy of education and health at the national level, espousing “social liberalism” that focused on social development, although it emphasized market economy. As a result of active and ongoing effort by the two administrations of long-term social policies, the Gini coefficient, which represents the income gap between the people, has been on a trend toward improvement in recent years. (Chart 2)

Aside from income disparity, various social indicators have improved. In the 10 years between 1999 and 2009, the average life expectancy rose from 70.1 to 73.2 years, the mortality rate of infants under 1 year old dropped from 28.4% to 22.5%, the percentage of people attending school for more than 11 years went from 19.0% to 33.3%, and the prevalence of trunk sewer lines went from 43.6% to 53.3%. Furthermore, the UNDP announced in 2007 that Brazil was ranked among the top countries in the “Human Development Index” (HDI) for the first time in the past 30 years since Brazil was included in the calculation. Furthermore, the affirmative action introduced in the early 2000s that gives preferential treatment to those of African origin and public school graduates contributed to correcting the educational and economic disparities based on social hierarchies, and is worth noting for raising public awareness on social issues.

The “Decade of Society” is also characterized by the change and expression in public awareness of social inequality and injustice. For example, as a counterpoint to the World Economic Forum, the World Social Forum was held in the city of Porto Alegre in southern Brazil beginning in 2001. Every year the number of participants has increased, and the World Social Forum began to be held around the world, showing that it’s spreading not just in Brazil but worldwide. In Brazil in recent years, there have been large public meetings and marches with more than one million people, representing a growing public awareness and participation in social issues. Moreover, the government has been building a participatory style and a partnership with civil organizations, so that the actual voice of the people can be reflected in political activities.

In Brazil in the early 2000s, some changes could be seen, such as the active and ongoing government policy initiatives, the consequent improvement of social indicators and the redress of inequality, as well as the enhancement of people’s awareness of social issues and participation in their own democracy. And so this era may be perceived as the “Decade of Society,” but this became realized only because the fundamental institutions had been built in the preceding political and economic decades.

Japan-Brazil Relations Not Weighed Down by Past Boom or Trauma

In the past, Brazil was derided as the “Forever Potential Superpower” because, despite its abundant resources, it suffered from political and economic turmoil and serious social problems. But since the 1980’s, Brazil has been constructing and maintaining the institutions of politics, economics, and society, and has increased the possibility of sustaining the development as a nation. “The Economist” magazine, introduced at the beginning of this paper, also evaluated The New Brazil positively. Unlike China, Brazil has a political democracy. Unlike India, Brazil has no religious or ethnic conflicts or disputes with neighboring countries. Unlike Russia, Brazil does not only export oil and weapons but respects foreign investors.

However, for Brazil to achieve ongoing sustainable development, it will be necessary to improve the structural problem called “The Brazil Cost.” This cost is the rampant corruption, issues of public security that remain unameliorated, the complex and unfair tax system with high rates, costs of ensuring favorable working conditions for workers and its high employment cost for employers, procedural and service inefficiencies caused by the bureaucracy, delays in transportation, problems with the infrastructure of goods distribution, and so on. Furthermore, “The Economist” pointed out that the biggest concern for The New Brazil is “hubris,” which is also an important factor affecting the possibility of sustainable development.

And so we can understand that The New Brazil is struggling to attain and embody sustainable development. What will become of the Japan-Brazil relationship? What should its future be? In my opinion, it is important to build a relationship that is not mired in either the boom or the trauma of the past.

Both Japan and Brazil have experienced bitterness regarding each other. During the 1970’s era of the “Brazilian Miracle,” Brazil cut short its own development into a transitory “boom” instead of a sustainable one, and Japan did likewise with its relationship with Brazil. Japan sustained large losses during Brazil’s “Lost Decade” in the 1980’s, while Brazil experienced the trauma of Japan fleeing from



Favela, a slum in Rio de Janeiro

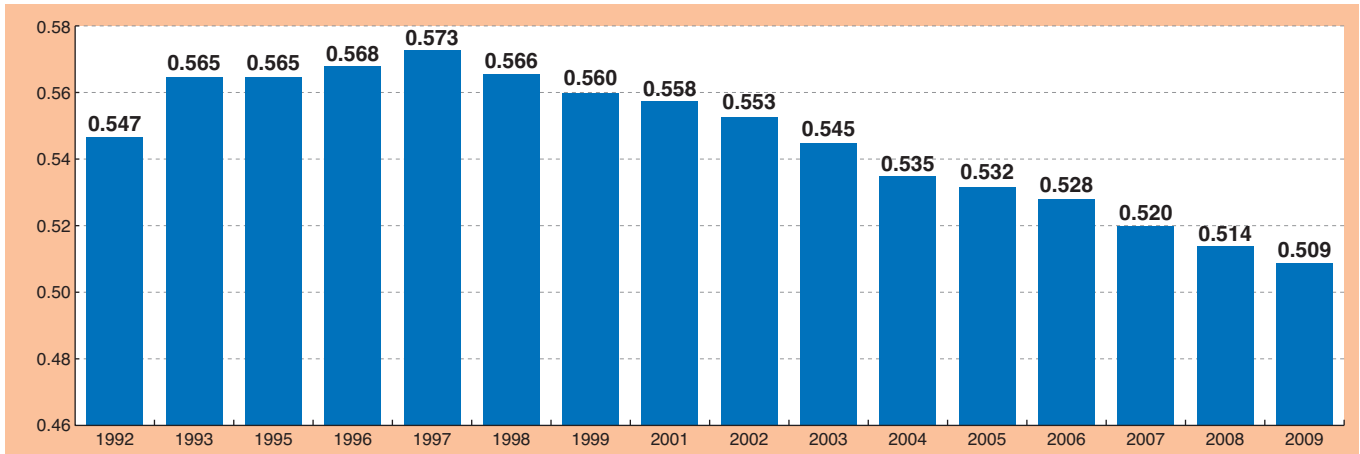
them. Participating in the gathering of entrepreneurs during a visit to Brazil in February this year, I heard criticisms like, “With respect to expansion and investment in Brazil, Japan is dragging its feet.” People who worked in a Japanese company during the Brazilian economic boom expressed opinions such as, “Even if you come to Brazil now, I can’t forget that at that time Japan withdrew.”

Brazil has the largest overseas Japanese community of roughly 1.5 million, and is a very pro-Japanese country. Although many challenges remain, The New Brazil can become “a distant but better neighbor” for Japan, which now has a reduced presence in the world and is at a crossroads because of the disasters caused by the earthquake. Overcoming the aftereffects of both boom and trauma is something applicable to both countries, but from now on Japan should actively work to develop a relationship with Brazil. JS

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CHART 2

Changes in Gini coefficient of households with income, 1992 –



Note: Excluding rural villages in northern states (Rondônia, Acre, Amazonas, Roraima, Pará, Amapá); PNAD was not executed in the years 1994 and 2000. Source: IBGE’s National Household Budget Survey (PNAD)