1 Introduction: The New Brazil

An unpredictable process of economic and social reform that began with the election of Fernando Henrique Cardoso in 1994 will reach a plateau in 2010 with the successful conclusion of the presidency of Luiz Inácio (Lula) da Silva. Both presidencies deserve credit for taking the difficult decision to modernize the country and create the conditions for the emergence of the new Brazil. After the return to democracy in 1985, Brazil lost a decade with three mediocre, if well-meaning, presidents before Cardoso and a new team of economists were able to restart the economy and provide the framework for stable growth, social reform, and institutional stability.

The modernization process in Brazil has not been seamless. Mistakes have been made. Politics often have slowed the process of change, and indeed, as this book illustrates, while there has been real progress in the social and economic arenas, the political system is a long way from being classified as transparent and accountable. But, in part, the story of the new Brazil is that it has happened without—or in spite of—the "old" politics of patronage and corruption. While that too is changing slowly, a great deal of catch-up is needed in the twenty-first century.

After an introduction to the history of Brazil, which is essential to understanding what has transpired since 2004, this book analyzes the complex path to sustained growth that the country has taken. In part the success is due to external factors such as the high demand for Brazilian exports, particularly in China and the rest of Asia. But it also reflects

sophisticated policy choices, including inflation targeting and maintenance of an autonomous central bank.

Brazil was one of the last of the emerging-market economies to be affected by the 2008–09 world financial and economic crisis. It was also one of the first to emerge relatively unscathed. That was as much due to careful management of the crisis by the Lula government as to the institutional reform process that began in 2004, which allowed the country to pursue countercyclical policies. It is now predicted that growth in Brazil and many of the emerging-market economies will outdistance that in the United States and the European Union in the immediate future. Brazil's GDP will probably grow more than 6 percent in 2010, compared to an average of 4.6 percent for Latin America, and it will benefit from a rebound in world commodity prices, recovering from a significant decline in late 2008.

Foreign direct investment (FDI) is also predicted to support Brazil's robust growth in 2010 and thereafter. It is estimated that Brazil will attract $35 billion in new investment in 2010, with sustained flows in the following years.[1] The national unemployment rate is heading to historic lows given the rapid recovery of the economy after the crisis and the increase in consumer demand. With rapid growth, the authorities will need to monitor inflation carefully, but the innovative program of inflation targeting, in place for some years, should obviate any serious concern about out-of-control inflation.

The international image of Brazil has been enhanced by impressive oil and natural gas discoveries off the southeast coast, which will propel the country to become an important energy exporter within six to eight years. Brazil today is not only self-sufficient in oil production, but also the second largest producer of sugar-based ethanol, a biofuel that further enhances Brazil's position as an important player in the energy field worldwide.

The pragmatic management of the largest economy in Latin America has allowed the government to target poverty—if not inequality. The first poverty reduction programs were begun under the Cardoso administration and deepened under the Lula government. After some administrative difficulties, the Bolsa Família (Family Basket) program of conditional cash transfers has resulted in tens of millions of Brazilians moving out of absolute poverty and into the consumer market and the lower middle class for the first time since the discovery of the country in 1500. Although for some the Bolsa Família program is just another set of

handouts, the majority of observers believe that the conditionality and the methodology employed ensure transparency and accountability. No matter the opinion of the analysts, the program has become extraordinarily popular and probably accounted for Lula's second-term election victory in 2006, as millions of Brazilians in the underdeveloped north and northeast regions voted for Lula, in some cases against entrenched, conservative interests. Given that reality, the new government, no matter which coalition is successful in the late 2010 election, will find it difficult, if not impossible, to tamper with Bolsa Família and will probably seek to expand its scope.

The successful economic reform program that has allowed the governments of Fernando Henrique Cardoso and Lula to address long-pending social issues has helped to consolidate the national political system. Although far from perfect, the political process works in Brazil. While at times somewhat populist in nature in the post-1985 era, since the election of President Cardoso in 1994 the dynamics of the political process have been impressive. Nationwide elections are carefully monitored. Up-to-date technology precludes doubts about the outcome. There are few, if any, serious challenges to the process at any level of government—national, state, or municipal. This says little about the quality of the candidates elected, but it does emphasize the capacity of the state to manage elections peacefully in a country of 190 million inhabitants.

As the reform program advanced after 1993–94, observers noted that changes in the international system were providing space for new emerging-market actors. One acronym—BRIC—came to characterize the rise of Brazil, Russia, India, and China as new players with expanding economic potential. The BRICs have slowly gained greater influence over the international decisionmaking process, which had been dominated by the major industrial countries—the G-7—since the end of World War II. The new group of international actors has strong differences—Brazil and India are vibrant democracies, Russia is considered a soft authoritarian state, and China remains a full-fledged communist state, but with an interesting market orientation. Since the start of the twenty-first century, there have been important points of convergence on broad issues such as a new global trade regime, a new financial architecture, and an expanded role of the BRIC countries in the workings of the multilateral financial institutions in Washington, such as the International Monetary Fund (IMF) and the World Bank.

Brazil's emergence as a new player in world affairs could not have been predicted just two decades ago. The historical context is highly relevant, of course. The cold war ended in 1989. The administration of President George H. W. Bush prudently and successfully faced down an aggressive dictator in Iraq to restore a modicum of stability in the Middle East. The United States stood as the only superpower in the world. And as many analysts have pointed out, the world was on the verge of the phenomenon of globalization. Thomas Friedman, for example, stated, "Globalization is not just a trend, not just a phenomenon, not just an economic fad. It is the international system that has replaced the cold-war system."[2] Around that time, Michael Mandelbaum argued that a certain set of ideas had conquered the world in the twenty-first century: peace, democracy, and free markets.[3] The Clinton administration, which took office in January 1993, embodied this new reality. For the new Democratic White House, technology was the key to managing and dominating the new era. While reluctant to call it an "American era," U.S. policymakers clearly believed that the country "owned" globalization.[4] And if technology and knowledge were the drivers of the new era, it was clear to the White House that the United States would be the preeminent player on the field. It was widely believed that the American model had trumped all others.

The first report identifying Brazil, Russia, India, and China as the BRICs was published in 2001 by Goldman Sachs.[5] Subsequent papers refined the concept and research on the BRICs. Although the Goldman Sachs analysis did not address the geopolitical and foreign policy aspects of the post-1989 world, it gave us another side of the prism. While the United States appeared to be the unqualified "winner" from the fall of communism, the new economic order that was emerging in the 1990s had profound political, social, and cultural implications. Although in an immediate sense it was about profit (particularly for U.S. multinationals and banks), as Bacevich states, globalization was ultimately about power: "On the surface it promised a new economic order that would benefit all. Beneath the surface it implied a reconfiguring of the international political order as well."[6] This did not resonate with American political leaders who saw little, if any, obstacle to the spread of the American dream around the globe.

While there might have been other candidates for assuming the leadership of the rapidly developing economies, in coining the term BRICs, Goldman Sachs captured the imagination of analysts, investors, and ulti-

mately journalists and policymakers. As the old order slowly evolved, the new order was not going to be as predictable as some analysts thought in the early years of the new century. This was the genius of the Goldman Sachs analysis. New players were emerging; as important, a new generation of leaders appeared in each of the four countries that embodied the shifting sands of the era. They were not, and could not be, members of the traditional G-7.[7] But they were going to gain influence and international presence for two reasons. The first was the pace of internal institutional reform; in different ways, each of the BRIC countries began to think about fiscal discipline, competitiveness, and the insertion of their economies into the international order. The second was external. An extraordinary period of economic growth and financial diversification characterized most of the years of the first decade of the new century.

Obstacles along the Road

The road to "BRIC-dom" was not without challenges. The 1990s saw the rise of the Asian Tigers, in particular the apparently inexorable rise of Japan, and much was made of a new model of economic growth and development.[8] This first phase of rapid growth collapsed in 1997 with the financial crisis that erupted in Thailand in July of that year. The contagion spread across Asia and into 1998 (bringing down Japan in the process), it hit Russia in mid-1998, and it finally ended with the collapse of the Brazilian currency in January 1999.[9] The IMF stepped in with a series of draconian conditions that drove most economies into a freefall. The crisis also opened a wide-ranging debate about the role of the multilateral institutions, their misunderstanding of the crisis, and their politically inept day-to-day handling of the situation on the ground.[10]

While Brazil was the Latin American country most affected by the 1997–98 Asian crisis, the region had its own causes for malaise. Formulated in the late 1980s and early 1990s, the so-called "Washington consensus" provided a blueprint of market-oriented reforms that should have led to increased competitiveness, greater job growth, and poverty reduction. But it did not work out that way. By the time of the July 1997 crisis in Thailand, the consensus had been rejected by many in the region. It had indeed led to the privatization of public assets, increased the flow of FDI, and addressed many of the necessary, but insufficient, technical aspects of economic management. However, overall most Latin Americans deemed it a failure because the reforms did little to improve their

daily existence.[11] The first ominous sign of the depth of that rejection came with the democratic election of Colonel Hugo Chávez as president of Venezuela in 1998. A key component of his campaign was a rejection of the Washington consensus and the "savage capitalism" imposed on developing countries by the industrial states.

The various crises created a legitimacy issue for the G-7 and their institutions. A series of books challenged the assumptions of the development models of recent years and called for a complete rethinking of both ideas and institutions.[12] The developing economies became increasingly dubious about the leadership of the West, its multilateral financial institutions, holdovers from the end of World War II, and the argument of "raw," market-driven development. Many developing countries viewed with growing skepticism the mantra that peace, democracy, and free markets would dominate the century. As a global recovery began in the first years of the twenty-first century, old assumptions were cast aside, and recovering countries looked to their own models for growth. Among those taking the lead were Brazil, China, India, and Russia.

After a severe financial crisis in the early 1990s, then finance minister Manmohan Singh of India opened a process of reform and liberalization that continues today.[13] His reelection in 2009 as prime minister should further consolidate the reform process. Deng Xiaoping in China began to allow market forces into agriculture in the late 1970s. That decision unleashed the phenomenon that is China today. The take-off took place under the leadership of Hu Jintao, the paramount leader of the People's Republic of China. His fourth generation of leaders rose to power in 2002 when Hu was chosen as the general secretary of the Communist Party of China.[14] Vladimir Putin became president of Russia in May 2002. The collapse of the Soviet Union in 1991 buried the old communist state but began a decade-long phase of chaos and drift. Putin created a new semi-authoritarian state that restored the country's confidence and opened a period of relative economic stability.[15]

In Brazil, after decades of poor economic management and feckless governance, a turning point took place in 1993–94. Finance Minister Fernando Henrique Cardoso and a team of young reformers introduced a new economic and financial program that promised to control inflation and prepare the country for economic growth. The *Real* Plan—and the name for the new currency—stunned the country, and the world, with its immediate success. It also provided the political platform for the election of Cardoso as Brazil's president at the end of 1994. When his second term

ended in 2003, much progress had been made, while many opportunities had been overlooked or missed.

The Goldman Sachs analysis clearly reflected the new trends. As the 2003 Goldman Sachs report pointed out, India's economy could be larger than Japan's by 2032, and China's could be larger than the U.S. economy by 2041 (and larger than everyone else's as early as 2016). The BRICs' economies taken together could be larger than that of the G-6 in 2039. The key assumption of the analysis was that the BRICs would maintain growth-supportive policies that included sound macroeconomic policies and a stable macroeconomic background, strong and stable political institutions, openness, and high levels of education.[16]

But even in 2003, there was caution regarding Brazil's prospects. Compared to China and the other Asian economies, Brazil was much less open to trade, investment and savings were lower, and public and foreign debt were much higher. On the trade question, the tradable goods sector in China was almost eight times larger than that in Brazil, when measured by imports plus exports. Brazilian savings and investment ratios were about 18–19 percent of GDP, at that time, compared to an investment rate of 36 percent of GDP in China and an Asian average of around 30 percent.[17] Goldman Sachs made clear that without a deeper fiscal adjustment and lower ratio of debt to GDP, the private sector was almost completely crowded out from credit markets. China's net foreign debt and public debt were both significantly smaller. Also, 2003 was the first year of the government of President Lula. As we shall see, the transition from Cardoso to the Workers Party government in late 2002 was precarious, with international markets deeply concerned about the possibility of "socialist" antimarket policies in Lula's Brazil. Although he quickly neutralized those fears, in 2003 Lula was still in the process of consolidating his fiscally conservative regime and his support for outward growth strategies.

Between 2003 and 2005, Goldman Sachs noted that updated forecasts suggested that the BRICs' economies could realize the "dream" more quickly than thought in 2003.[18] The case for including this group directly and systematically in global economic policymaking is now overwhelming. The analysis continued:

> We see the BRICs as much more than a new emerging-market theme. The BRICs are a key aspect of the modern globalized era. What distinguishes the BRICs from any other story of EM [emerging-market]

> growth is their ability to influence, and be influenced by, the global economy and global markets in a broad fashion. The current and prospective outlook for globalization has the BRIC nations at its core, and the interplay between the BRICs' economies and the G-7 is a critical aspect of globalization and interdependence. The varied composition among the BRICs, the balance between resource abundance and resource dependence within the BRICs, and the global demographic tilt towards the BRICs allows these economies the chance to participate in an integral way in the world economy.[19]

The 2005 Goldman Sachs report commented that between 2000 and 2005, the BRICs contributed roughly 28 percent of global growth in U.S. dollar terms and 55 percent in purchasing power parity terms. Their share of global trade continued to climb at a rapid rate. At close to 15 percent in 2005, the group had doubled its 2001 level of global trade. According to Goldman Sachs, trade among the BRICs had accelerated, with intra-BRICs trade reaching nearly 8 percent of their total trade in 2005 compared with 5 percent in 2000. By the end of 2005, the BRICs were clearly playing an important role in global financial developments. More recent estimates indicate that the BRICs hold more than 30 percent of world currency reserves, and despite the reserve accumulation, real exchange rates in each country have appreciated over the last few years. Real exchange rate appreciation continues to strengthen their financial position and will account for a significant proportion of their capital accumulation over the next few decades.[20]

The BRICs' current accounts, at the end of 2005, continued to be in surplus and to contribute substantively to the supply of global savings. Goldman Sachs estimated that the BRICs' current accounts would likely be around $240 billion or close to 6 percent of their GDP by the end of 2005. The BRICs' favorable balance of payments is in large part what has allowed the United States to run its current account deficit. The BRICs are increasingly important counterparts to the U.S. current account deficit. Their percentage of total global FDI inflows continued to rise as of 2005 (then about 15 percent of the global total, nearly three times higher than in 2000). At the same time, an even more promising sign of their growing economic relevance was the increase in FDI *outflows* to more than 3 percent of the global total, a sixfold increase since 2000, as BRICs' companies expanded their own global presence.[21]

The BRICs Consolidate

As a consequence of this favorable set of trends, and in the context of rising global growth and demand, the BRICs began to identify issues on which they could coordinate policy. This had little to do with historical or cultural similarities. It had nothing to do with the nature of the political regime in power in each country. Two were dynamic democracies, one was a semiauthoritarian state, and the fourth, China, was a full-fledged communist regime. There was no geographic proximity to unite the four countries. But what drove the convergence of interests, as pointed out by Goldman Sachs, was their simultaneous growth and development in the context of the world economy. As they became more important traders, investors, and interlocutors with the G-7, they began to expect greater respect and higher levels of inclusion in the international policymaking process. An underlying theme of the BRICs' approach to world affairs was a healthy skepticism about the rigidities of the postcommunist world order.

There is not unanimity on every issue. One or more of the BRICs have key issues that drive their search for like-minded allies in the developing world. But by and large, in the first years of the twenty-first century, the four BRICs have become the bellwether for confronting the industrial countries on a wide range of issues, in particular challenging the "old" postcommunist sense that Western-style globalization is inevitable.

Perhaps the first critical issue was that of world trade. A new round of trade discussions began in 2001 in Doha, Qatar. The goal was to launch talks on development, to open markets in agriculture, manufacturing, and services, and to finish the Doha Development Round of negotiations by January 2005. The first two years of talks went relatively well. But in September 2003, in a ministerial meeting in Cancún, Mexico, the developing countries denounced the U.S.–European Union (EU) agricultural proposal as demeaning and created the Bloc of G-20 countries.[22]

The BRIC countries, in particular Brazil, emerged as the key spokesmen and alternative policy formulators for the developing world. Efforts to revive the talks were made in 2005 and 2006, but in July 2006 agricultural subsidies again led to a failure to negotiate a compromise. In June 2007 talks between the United States, the EU, Brazil, and India failed to break the impasse. On July 29, 2008, the Doha round talks failed because of an impasse on farm policies. The United States, India, and China were

unable to find a common position. Brazil attempted to broker a compromise, but the positions on both sides became polarized—the United States versus India and China. It would have been difficult, probably impossible, to imagine at a similar meeting ten years ago that two rapidly developing emerging-market states—India and China—would dare to challenge the G-7. It is clear that the fate of any future trade talks will require pragmatic and open negotiations between the BRICs and their allies and not with the United States and the EU.[23]

A similar confrontation took place in L'Aquila, Italy, in July 2009, when the biggest developing nations, again led by the BRICs, refused to commit to specific goals for slashing heat-trapping gases by 2050, undercutting the drive to build a global consensus by the end of 2009 to reverse the threat of climate change. But as reported, "The impasse over the 2050 targets demonstrated again the most vexing problem in reaching a consensus on climate change: the long-standing divisions between developed countries like the United States, Europe, and Japan, on one side, and developing nations like China, India, Brazil, and Mexico, on the other."[24] The L'Aquila standoff was repeated at the December 2009 United Nations climate change talks in Copenhagen. Brazil, China, and India defended the position of the developing countries. They had a major role in drafting the final communiqué, along with the United States and South Africa.

The impasse is a classic standoff between the two groups. While the richest countries have produced the bulk of the pollution blamed for climate change, developing countries are producing increasing volumes of gases. But developing countries say that their path out of poverty should not be halted to fix damage done by the industrial countries. The tensions between the BRICs and other developing states led the United States and the EU to abandon the conference goal of cutting worldwide emissions 50 percent by 2050, with industrial countries cutting theirs 80 percent. But the emerging powers refused to agree because they wanted industrial countries to commit to midterm goals in the next decade and to follow through on promises of financial and technological help for poorer nations.

The L'Aquila summit again opened the door for debate about the appropriate composition of world leadership. Indeed, the G-7 leaders acknowledged that their format was looking outdated in the twenty-first century. The French president, Nicholas Sarkozy, and the Italian prime minister, Silvio Berlusconi, were among those calling for the G-7 to be turned formally into the G-14—taking in Brazil, China, India, Mexico,

South Africa, and Egypt—by the time France takes the chair in 2011. As the meeting in Italy ended, President Sarkozy commented, "It seems unreasonable that the most important international issues are dealt with without Africa, Latin America, and China."[25]

The Financial Crisis

The failures in Geneva in 2008 and in Italy and Denmark in 2009 paralleled the increasing concern of the BRICs with the financial meltdown that began in the United States in 2007–08. There has been an ongoing debate as to whether the developing countries were "coupled" or "decoupled" from the developed world's financial crisis. But as of 2010 it would appear that mild decoupling is the order of the day. A mid-year report commented, "Developing nations shine amid the crisis gloom."[26] The article included a report on the positive stock market performance of the BRICs. It also became clear that the resilient domestic demand of emerging markets, and especially the BRICs, would become a key driver of the export-driven economic recovery of industrial countries over the next few years. It was beginning to look as though the economic balance of power was shifting, especially with forecasts that the BRICs would contribute nearly half of the growth in global consumption by 2010.

The growing concern of the BRICs over the financial crisis led to a series of demands in 2008–09 that they be included in discussions about possible solutions and new policies. The George W. Bush administration, pressured by its EU allies, decided to expand the decisionmaking framework from the traditional G-7 to the G-20, to include the largest economies in the world.[27] Brazil quickly emerged as a prolocutor for the emerging-market economies that would be included in the G-20. The BRICs played an active role in the first meeting in November 2008 in Washington and the second one in London in April 2009. The declaration of the "Summit on Financial Markets and the World Economy, November 15, 2008," clearly reflects the sense of urgency of the BRICs in calling for strengthening transparency and accountability, enhancing sound regulation, promoting integrity in financial markets, reinforcing international cooperation, and reforming international financial institutions.[28] The declaration addressed directly the criticism of the BRIC states when it commented, "Major underlying factors to the current situation were, among others, inconsistent and insufficiently coordinated macroeconomic policies [and] inadequate structural reforms, which led to unsustainable

global macroeconomic outcomes. These developments, together, contributed to excesses and ultimately resulted in severe market disruption."[29]

The London meeting on April 2, 2009, produced the "Global Plan for Recovery and Reform."[30] It emphasized restoring growth and jobs, strengthening financial supervision and regulation, strengthening global financial institutions, resisting protectionism, promoting global trade and investment, and ensuring a fair and sustainable recovery for all. Prior to the April 2009 summit in London, the countries' finance ministers had convened outside of London for preliminary talks. At the conclave, the four BRIC states issued a separate, joint declaration outlining their vision for how world leaders should respond to the crisis. They called for reform of the IMF as well as additional funding for the institution; they stated that the current system of choosing the leaders of the World Bank and the IMF must change (the United States chooses the head of the World Bank and the Europeans choose the managing director of the IMF), and they called for improved information sharing from the industrial countries.

In September 2009 a third G-20 meeting took place in Pittsburgh, Pennsylvania. It was clear that the BRIC countries had become prominent interlocutors with the G-7 in preparing the agenda for the meetings and in reviewing the action to date on the communiqués from prior summits in Washington and London and from consequent consultations. Moreover, the successful interventions of the London summit in halting worldwide economic decline reinforced the relative power of this body. The Pittsburgh summit addressed key issues such as global stimulus packages, financial market regulations, compensation, and energy security, resolving to work together to establish "internationally agreed" financial regulations.[31] For the first time, each country agreed to undergo a "peer review" from other member countries as well as monitoring by the International Monetary Fund.[32]

One of the most important outcomes for the BRIC countries was the agreement to modernize the infrastructure of global economic cooperation. This would shift at least 5 percent of IMF quotas from "overrepresented" countries to "underrepresented" ones, in order to reflect the relative weights of emerging markets in the world economy.[33] Similarly, there would be a 3 percent increase in voting power of developing and transition countries within the World Bank, "reflecting countries' evolving economic weight and the World Bank's development mission."[34] It thus appeared that the economic strength of the BRICs would be matched with decisionmaking power in global institutions. Finally, the

group resolved to convene annual meetings of member countries starting in 2009. The G-20 would become the principal instrument for worldwide economic cooperation, replacing the G-7.

The BRIC Summit

The first summits of the BRIC countries were held in Yekaterinburg, Russia, in May 2008 and June 2009. The meetings were a logical follow-up to the increasing consultation among the four countries on policy issues of common concern. The four countries constitute about 15 percent of global output and, perhaps more important, about 40 percent of global currency reserves.[35] The summits were in part a symbol of the growing frustration with the U.S. dollar's status as the world's reserve currency, which enables Washington to run budget deficits without risking the kind of budgetary day of reckoning that other countries risk.[36]

While there have been periodic complaints about the dollar through the years, the criticisms from the BRIC countries have become more frequent and more acerbic lately, including calls for a supranational currency to replace the dollar. In March 2009 the prime minister of China, Wen Jiabao, expressed concerns about U.S. budget deficits, suggesting that they might lead to inflation and a weaker dollar, either of which would hurt China's $1 trillion investment in American government debt.[37] Later that month, the head of China's central bank called for a new international currency to replace the dollar.[38]

For Russia, undermining the dollar as the prevailing medium of exchange reflects a broader Russian belief that the United States exercises a dominance in global affairs that exceeds its diminishing power. Representing nationalist sentiment in Brazil, former strategic affairs minister Roberto Mangabeira Unger commented, "The world economy should not remain entangled, so directly and unnecessarily, in the vicissitudes of a single great world power. The developing countries should not have to see painfully accumulated hard-currency reserves fall under the shadow of major devaluations."[39]

But the realities were clear as the summits convened. China, whose economy dwarfs those of the other three BRIC countries, depends on the export of manufactured goods to the United States and Europe. Russia sells oil, natural gas, and other natural resources abroad. Brazil focuses on agricultural exports, while India's growth has been based largely on its domestic market. The four countries do not necessarily do much business

with one another. Only 2 percent of China's trade last year was with Russia. At the same time, Brazil announced this year that China had surpassed the United States as its largest trading partner and said in May 2009 that the government would look for ways to finance Brazilian trade without the dollar.

At the summit in Russia in June 2009, the four leaders issued a joint statement: "The emerging and developing economies must have greater voice and representation in international financial institutions. There is a strong need for a stable, predictable, and more diversified international monetary system."[40] The leaders issued a final communiqué that again called for greater participation for the developing economies in global decisionmaking. They also called for comprehensive reform of the United Nations to deal with global challenges more effectively and give Brazil and India a greater role. The BRIC leaders also discussed global food and energy security and measures to prevent climate change. The group will meet formally in Brazil in 2010, after informal consultations made during the September 2009 G-20 summit in Pittsburgh.

The BRICs in Context

The BRIC acronym appears to be here to stay. The world order is changing, but very slowly. Adjustments will need to be made, but probably with great caution and patience. The four BRIC countries are not an entirely coherent group, but they have come to embody twenty-first-century skepticism with markets and with institutions that date from the 1940s. As a recent *Financial Times* editorial stated,

> It would be wrong to be cynical. Other groups, too, are riddled with contradictions and competing objectives. The global financial crisis does provide an opportunity to challenge a world order too long dominated by rich countries often serving their own interests. The BRICs are right to demand a greater say in bodies where Europe is overrepresented such as the United Nations and the International Monetary Fund. They are right, too, to suggest alternatives to the world's overdependence on dollars.[41]

The *Financial Times* editorial concludes that the BRIC bloc "is, indeed, an acronym in search of a purpose. But it is also a bit like God. If Jim O'Neill had not invented it, someone else would have had to."[42]

Just twenty years ago, it would have been very difficult to imagine that Brazil would emerge as a BRIC. The following chapters provide the background and context for Brazil's achievement of that status. Brazil's ascension to the international scene is even more surprising considering its late-comer status and relative lack of importance within the far-flung Portuguese empire in the sixteenth century. Its prominence, over the centuries, has been due to its ability to provide raw materials and commodities for the world markets. Sugar, chocolate, gold, diamonds, rubber, and coffee dominated, at various times, the economic profile of the country. But compared to some of its neighbors in Spanish America, Brazil was a sprawling, decentralized colony. Institutions emerged late and were weak. Slowly between 1500, the year of discovery, and 1750, the date of the Treaty of Madrid, Brazil's boundaries expanded to occupy half of the South American continent. But the nation occupied the coast; the interior was not "opened" until well into the twentieth century. Socially, Brazil could not be more different from its neighbors. While the Spaniards found large indigenous populations that they exploited for cheap labor, the Portuguese imported slaves from Africa to work the plantations. This led, over time, to a mulatto population formed through miscegenation.

Again, in contrast to its neighbors, Brazil achieved independence in 1822 as an empire, not a republic. It avoided the civil wars that divided Spanish America for decades after rejecting Spanish rule. The empire was dominated by landed elites who maintained social and political control under the umbrella of the imperial family based in Rio de Janeiro. The empire ended, without conflict, in 1889. Slavery had been legally abolished in 1888. For many wealthy Brazilians the institution of slavery and the imperial order were linked, and the empire made little sense without that linkage to a colonial past. The old republic (1889–1930) was a highly decentralized state dominated by local political clans. Key was federal support for coffee grown primarily in the booming southern state of São Paulo. Internal conflicts led to the collapse of the republic in 1930, again peacefully, and the arrival in power of the dominant figure in Brazilian politics in the first half of the twentieth century, Getúlio Vargas.

Vargas, from the southern state of Rio Grande do Sul, centralized political power in the hands of the federal government in Rio de Janeiro. He presided over a new elite of public sector servants, middle-class professionals, and coffee entrepreneurs. Refusing to cede power, he closed the political system, with the support of the armed forces, in 1937. His government also took the decision to support the United States and its allies

in World War II. Brazil was the only country in the hemisphere to send a fighting force to Europe to join the Allied war effort. Vargas was removed, without incident, from office in 1945. The first “modern” general elections, with competitive political parties, were held in that year, with the new government taking office in 1946. The next eighteen years witnessed a rapid process of import substitution industrialization, which was very successful in some industries, but not in others. The program, combined with the building of a new capital city in the interior, Brasília, led to hyperinflation, mismanagement, and political polarization. The confrontation between radical reformers and the country’s establishment ended with the overthrow of the weak, democratic regime in 1964.

The military and its civilian supporters governed Brazil from 1964 to 1985. The import substitution industrialization program was deepened. A national highway system was constructed. Brasília became the de jure capital of the country. But security forces were responsible for widespread human rights abuses, and the authoritarian system came under growing pressure in the early 1980s to plan a return to democratic government; it took place in 1985. The new president, Tancredo Neves, took ill and died before his inauguration, to be replaced by his ill-prepared and unpopular vice president. The next decade was one of failed efforts to control fiscal spending. It saw various unsuccessful adjustment programs. Only with the decision to introduce a new currency and an orthodox adjustment program in 1993–94, under the leadership of Finance Minister Fernando Henrique Cardoso, did the Brazilian economy stop the freefall of the previous decades. As a result of the *Real* Plan, the first signs of a new Brazil became visible. Cardoso undertook important reforms, but the government was hit by the contagion from the financial crises of 1997–98 and was forced to devalue the currency in January 1999. With further reforms supported by Congress, the economy returned to sluggish growth in the last years of the president’s second term of office.

The critical turning point came with the election in 2002 of Lula. Headed by the leader and co-founder of the Workers Party, the Lula administration confounded international markets with a straight-forward orthodox fiscal program. As Goldman Sachs was creating the BRIC acronym, Lula and his financial team were laying the groundwork for the impressive macroeconomic management that has characterized the country since his inauguration. Inflation targeting, responsible fiscal federalism, important progress in reducing poverty, export diversification, and myriad other innovations have characterized the Lula years. Recent

petroleum discoveries indicate that the country will be an energy giant within a decade, and the sugar-based ethanol program provides another important energy resource. A robust partnership with China has provided an important market for Brazil's exports. China's impressive levels of economic growth required the commodities and raw materials that Brazil possesses in abundance, and high international prices for exports such as iron ore and soybeans benefited Brazil's reserve levels. The relationship was complementary: China had the capacity to pay for what it needed, and Brazil was a reliable source of the inputs for China's growth. And as a result of the performance of Lula's government, all of the rating agencies have given Brazil an investment-grade rating.[43]

The ensuing chapters lay out the long and often "stop-go" history of Brazil's modernization. The impressive turnaround after 1994 often astounds analysts—and Brazilians. The decisions taken since 1994, and consolidated since 2002, have provided the sound underpinnings that give this vibrant democracy the right to take its place next to China, India, and Russia as the twenty-first-century BRIC nation-states. While the BRIC countries have great levels of disparity, diplomatically they have come to represent a defining moment as old institutions adapt to the new century and greater "space" is opened for new players. That process will be complex and will take longer than many now suspect. But the debates surrounding changes in the global system—economic and political—will inevitably include the BRICs.