



DOLLAR & SENSE: THE BROOKINGS TRADE PODCAST

“What’s next for Brazil and Lula after the January 8 insurrection?”

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Episode Summary:

Ted Piccone, a nonresident senior fellow in Foreign Policy at Brookings and also senior advisor with the World Justice Project, talks with host David Dollar about Brazil’s challenges facing President Lula after the January 8 insurrection in Brasilia by followers of outgoing President Bolsonaro. Discussion topics include economic conditions, protecting the Amazon, regional and global trade dynamics, Brazil’s role in BRICS, and China’s influence in the region.

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DOLLAR: And. Hi, I'm David Dollar, host of the Brookings trade podcast "Dollar and Sense." Today we're going to talk about Brazil, and my guest is Ted Piccone, a senior fellow at Brookings and a senior advisor at the World Justice Project. So, welcome to the show, Ted.

PICCONE: Thanks, David. It's great to be back.

DOLLAR: Let's start with that January 8th incident where we had kind of an insurrection, as I understand it, in Brasilia. Supporters of the outgoing President Bolsonaro protesting the election of Lula to a new term as president. My reaction was, should I be happy that that was put down very quickly, which seemed quite solid? Or, should I be upset that this occurred at all? Is Brazilian democracy on shaky grounds?

PICCONE: Well, I think the answer is that it's all of the above. We have a pretty good picture now—it's been almost a month after the riot—of what happened. It was an unprecedented attack by the pro-Bolsonaro mob on all three branches of government, which happen to be concentrated in an area of Brasilia, the capital. But the Brazilian authorities are conducting a further investigation, so we'll know more in the coming months.

There's good news and bad news. The good news is it was put down quickly. No one was killed. Order was restored. And President Lula used it as an opportunity to bring together many different factions of society and of the different institutions and marched across the Planalto, the area where it took place. And I think that was an important sign of unity against the insurrection. And I think you called it an insurrection, you can call it an attempted coup d'état. Wasn't quite that, I'll explain why.

But the competent legal authorities who were in charge that day, who didn't do their job, were quickly suspended. They were removed from office, both civilian and military. But it seems pretty clear that there was some faction pro-Bolsonaro already still in government positions who abetted or just simply looked the other way when the mob showed up.

Now, the context for this is that the longer term trends, the historical trends in the last, say, three or four decades, have been quite positive. You have a return of democratic civilian rule. Adoption of one of the more progressive constitutions in the world in 1988. And it had look like Brazil had consolidated most elements of a liberal democracy. The media and civil society are well-organized and independent. There are vocal watchdogs and critics. And importantly, in this case, the judiciary and the prosecution services have become more professional and more independent. Some would even say maybe too independent and even politicized. But they clearly played a proactive and constructive role during this crisis, which was building up months before the actual insurrection. And I think they did their job in ensuring that free and fair elections were held.

So, the bad news, as you suggest, is that it happened at all, and despite these more positive historical trends. And I think much of the blame does go to President Bolsonaro. He's a hardline conservative, former military officer, elected president in 2018, under the same system that he's been complaining about. He's now hanging out in Florida to avoid prosecution back in Brazil. But during his time in office, Brazil experienced significant backsliding in democratic governance, in fundamental rights, and rule of law according to the World Justice Project Rule of Law Index that we deploy, but also several other independent reports.

So, Bolsonaro, a lot like Donald Trump, complained without evidence that the system was rigged, that his reelection campaign never had a fair shot. Problems with fake news and election fraud. Their system is 100% digital, so there is always that sense of, Wait, where's the paper ballot to confirm? And they have a very sophisticated system which years ago I learned about when I was monitoring elections in Paraguay, which had adopted the Brazilian system. So, I think it works. But Bolsonaro used this to persuade his core constituency, which is composed of what we call the "God, Guns, and Green Coalition," kind of the inner belt of the country, that this was all a fraud and that he deserved to stay in power. And oh, by the way, he and his family, his sons, are also quite involved in politics, are also facing their own raft of corruption allegations. So, they're in hot water and we'll see what happens. A lot of similarities to the United States.

So, I want to talk about two other more chronic problems that Brazil faces. Bolsonaro is one piece of the story. But first of all, you have a military that is still quite powerful, never fully held accountable for the abuses during their time in power. And when Bolsonaro came into office, he placed dozens of active and retired military officers in key positions across the entire government. So, that was different, that was a change from these last few decades. And some of these units, including the military police, were the ones responsible for looking the other way or maybe underhandedly supporting the coup.

The most important element, though, that prevented the coup was the judiciary allowed the military to do their own audit, so to speak, of the election system leading up to the vote and then after the vote took place. And that calmed them and gave them confidence that there was no evidence of fraud. And so as an institution, the armed forces stayed out of it. But some units sided with Bolsonaro, and that was the spark that really caused a big problem.

DOLLAR: So, Lula comes in with this pretty complicated political situation. Obviously, a certain amount of polarization in Brazil—as you say, there's some striking parallels with the U.S. Let's talk a little bit about what he's likely to do or try to do as president. What's his program? Because as a non-Brazilian expert, my sense is he was quite successful in his first stint as president from 2003 to 2011. That's certainly the reputation he has among a lot of economists, that quite a bit was accomplished. So, what do you see as his accomplishments? And I guess more important, forward looking, what do you see as his program?

PICCONE: Well, one of the things he inherits and just to finish off the systemic problem of entrenched corruption, which is one of the main problems in Brazil for decades. And so, he's going to have to figure out a way to get business done with a

very fragmented coalition politically which doesn't fall back into the old way of doing things, which is a lot of vote buying and vote trading that sometimes crosses the line when it comes to the law. And he and his party have gotten into trouble on this before. So, he's going to need to decide what kind of legacy he wants to leave when it comes to stronger democratic institutions that fight this corruption. Sixty-eight percent of Brazilians refer to corruption as the number one problem in the country. So, that's part of the challenge he has to face.

And there's a huge economic cost associated with that. Some estimates of 2.3% of GDP is lost to corruption. So, when he was in office, he ran as a leftist, but he governed much more as a pragmatist. And that's part of the system in Brazil. You have to negotiate with many different parties because of the fragmented political party system. He inherited when he came into office in 2003 fairly benevolent economic conditions from Fernando Cardoso, who had been president and before that the finance minister, and had really put hyperinflation under control, and even adopted some really important fiscal controls that were negotiated with the IMF. And so, Lula more or less kept within those boundaries, but also came in at a time of a commodities boom and mostly fueled by China's demand for Brazil's raw goods. And prices were strong and a really important economic growth spurt that he then, his administration, translated into some really important results, both economic and social, but also in terms of Brazil's role in the world and using its soft power.

So, he's most famous for launching this conditional cash transfer program called Bolsa Familia, which requires families to ensure their kids are going to school in order to receive this financial support. And it was highly successful. It reached about 25% of Brazil's population, mostly women, and it's credited with cutting extreme poverty in half. And he also worked hard at addressing hunger, which has been one of his signature concerns over the years. And you hear of such a wealthy country in terms of food, and yet you have this big problem with poverty and hunger. So, he developed a program to address that. And he also worked on delivering electricity to rural areas of the country.

So, all that was quite good. Brazil's economy grew to become one of the biggest in the world, and not only for its agricultural and energy assets, but also as a manufacturing engine. And this helped underwrite these social programs. The middle class grew and inequality fell. So, when he left office, he had over 80% approval ratings.

DOLLAR: Yeah, that's a very clear explanation. I appreciate that. And what you've got there is combination of good macro management—getting hyperinflation under control, the fiscal controls, the agreement with the IMF. And then that was a golden age of global growth. I mean, that was really the golden age of globalization. So, the world economy was growing very rapidly, as you say, driven by China. And so, Brazil was growing well. And then you had all those innovative micro programs. And in my field, development economics, there's a lot of argument about the relative importance. But I look at a success story like Brazil in that period, and I see the interaction. You need the growth. You can't afford these programs if the economy is not growing, and if you don't have decent fiscal management—if you just have the micro programs in a non-growing economy, it's not going to work very well and you're going to have a lot of conflict because you're just redividing the pie, basically.

Whereas if you have a growing economy and you have the micro programs that actually reach people and get them involved, that's a great recipe for success.

PICCONE: Just to add another point to that, which is on the macroeconomic side, they also reduced debt significantly as a percentage of GDP from 76% to 53% in 2010 when he left, and foreign reserves grew substantially. So, I think it's just further evidence of this macro condition. When you say micro, I mean, these were big programs. So, I mean, these weren't just little pilot things. These were big programs.

DOLLAR: Yeah, I'm just making the distinction between, you know, we usually think of macro policy as being your budget deficit, what you implied and what you were saying, you know, they were paying down debt, no inflation. And then by micro, I mean things that are actually reaching—

PICCONE: —on the ground—

DOLLAR: —households, yeah.

PICCONE: But, then when the commodity boom petered out and you had the financial crisis in 2008, Brazil was able to rely on its reserves to weather that crisis.

DOLLAR: Looking ahead, obviously a lot of things have changed and the world economy is growing more slowly back then, China has slowed down. China's a little bit off cycle in that it had a terrible 2022. It actually grew less rapidly than the world economy for the first time in 40-plus years. But now China's bouncing back a little bit while the rest of the world is slowing down. But China is not going to bounce back to where it was in that golden age period we're talking about. World economy is probably not going to be growing as well as it was, and it's going to be a little bit harder for Brazil to generate growth unless it tackles some of these problems you mentioned, like the deep seated corruption.

PICCONE: Right. So, what he's inheriting now in this what we might call Lula 3.0, because he had two terms before then a very rocky period out of office. His chief of staff, Dilma Rousseff, became president after him. That didn't go well, and the economy did peter out. She ended up getting impeached because of some allegations of budget manipulation. Her successor was an interim president who did okay on the economic growth and macroeconomic stability. But then Bolsonaro comes in and starts undermining some of the basic institutional frameworks and the fiscal frameworks. He did address pension reform, which he apparently gets some credit for that, which was a big liability for Brazil. But overall, the economy had very mixed performance. The pandemic hit, of course, and during his term, and estimates of 700,000 to 1 million Brazilians died, which is the second highest in the world after the United States. Of course, this had a big economic effect as well. So, economic growth, they recovered a bit after that in 2021, and now it's going down again. And projections for 2023 are about just 1% growth. So, I think he's got a real challenge ahead of him.

DOLLAR: One thing he suggested is developing a common currency with Argentina. And I'll weigh in as an economist in a moment, but let's start with what was your reaction to that idea?

PICCONE: Well, like so much in Latin America, there are all these big dreams, but it never quite is realized. And particularly when you look at regional integration, there are various attempts to unify around a common tariff or common currencies—one of the hardest things to do. But Mercosur, the Common Market of the Southern Cone, is probably the most functional regional scheme, its common external tariff. But even there, there's always tension among the four countries that are part of it, particularly between Argentina and Brazil.

But now Uruguay is talking about negotiating a free trade agreement with China, and the Brazilians are very upset about that. And the new foreign minister has already come out publicly criticizing Uruguay for this, that this would just undermine the common external tariff because it would be a lower tariff than what Mercosur tariff is, and it would mean the seeping of goods at lower prices across borders. So, that's not going to go anywhere.

You also have, under Lula's big campaign to build up the Global South and more south-to-south institutions—you have BRICS, of course, it's funny that it's considered Global South because Russia is in there—but BRICS is really something that Lula and his team are very proud of. And he has said, We want to reinvest in BRICS and its institutions, the new development bank and the contingent reserve arrangement, which you might know more about than I do as to whether it really has legs. But that's something we're going to hear more of in this next few years. See if that goes anywhere with limited resources and limited economic growth.

The third regional piece of this, I would mention, is more of a political effort to build consensus for regional integration. It's called CELAC, the Community of Latin American States, and it's designed in part to exclude the United States and Canada, very specifically, unlike the Organization of American States, which the U.S. dominates here in Washington. CELAC just met, they just had a big summit in Buenos Aires a couple of weeks ago, and so it was Lula's first foreign policy act. And it was like some heads of state didn't show up, but for the first time, the U.S. was invited and Senator Dodd went as Biden's envoy.

But of course, the Chinese were there and they get the bigger welcome mat in this environment. They've created a special cooperation channel between this entity and China. China is no doubt the rising power in the region, even though it's having this slower economic growth, mostly a buyer of raw goods, minerals, soy, et cetera, beef. But the problem is it's come at a cost. There have been various cases of corruption, of shoddy infrastructure, and particularly in the case of Brazil, an undermining of Brazilian industrial and manufacturing sector coming in with these cheap goods. So, that's been a real source of tension.

So, I've written before for Brookings that this initial honeymoon period with China between Latin America and China, we're past that. And there's a lot more skepticism on the part of Latins toward China. But I think with Lula back in office, you're going to see a warming of that relationship, particularly on the economic front. And we'll see if it's more than that.

DOLLAR: Yeah, I agree with you about the common currency. I think greater integration among these economies is a good idea, primarily involving tariffs and trade policy, investment policy. Common currency does make trade easier, but for two very different countries like Argentina and Brazil to share a currency is probably not a good idea. What you're doing is you're giving up your monetary independence, and they typically have different shocks in different phases in their economies. And the big one would normally be calling the shots, which here would be Brazil. So, for Argentina, there might be some benefit. But first time they really have a negative economic shock and they need to depreciate their currency, then they're going to be fighting politically with Brazil. And so, as an economist, I don't expect that to happen.

PICCONE: I don't think anyone expects it to happen. And even the proposal itself has been, I think, misinterpreted and blown up into something maybe it's not. It's actually a fairly modest proposal. It wouldn't replace the two national currencies. It would just be a way for them to transact.

DOLLAR: Yeah, but that's kind of bizarre. I don't think it's interesting enough to get into the technical details, but it'd be hard for them each to have their own currency and then some kind of common currency they only use in trade. That's just going to be administratively very awkward.

PICCONE: So, I think it's a nonstarter. Yeah.

DOLLAR: Yeah, while we still have time I want to ask you quickly about the Amazon, because it seems to me there's a lot of controversy about development of the Amazon versus preservation of the rainforest. And this is an important issue for the whole world in a lot of ways. One of the easiest things the world can do is to really support Brazil to preserve the Amazon in terms of preventing climate change.

PICCONE: Yeah, I mean, it's important, of course, globally, but also nationally. So, the pace of deforestation under Bolsonaro increased 60%. And we've all seen the pictures, and it's a lot of illegal logging and illegal mining and land grabs for cattle grazing and palm oil plantations and other crops, a lot of degraded land as well once it's being deforested. So, this is a major threat and including to indigenous cultures in that part of Brazil. And one tribe in particular, the Yanomami, are under tremendous threat right now. There's estimates of up to 20,000 illegal gold miners who have invaded their land, and indigenous groups are very sick and Lula is now responding. He has re-empowered key ministries to get involved, appointed people who really know what they're doing with this experience.

And I think you're going to see not only a lot of economic but also environmental and security presence to address this problem. He is now talking about sending in a military force to evict these illegal gold miners.

And then internationally, you have something called the Amazon Fund, which Norway and Germany support. And Chancellor Schulz was just in Brazil and renewed their support. They put it on hold under Bolsonaro because of how badly things were going in the Amazon. So, that's going to bring in hundreds of millions of new dollars, which will help get that back on track. Their goal is zero deforestation

and also revitalize some of this degraded land before allowing any new crops to be planted.

And then the final point of that is the foreign minister, Vieira, who had been foreign minister previously, they've made a commitment to host a major international climate conference and have it as a summit meeting on the Amazon during his term. So, we'll hear more about that as well.

DOLLAR: Yeah, so that all sounds quite positive. So, last topic, Ted, is foreign policy. President Lula is meeting with Biden, I believe, on February 10th. You'd think that Brazil might be a good candidate to be working with Biden on this alliance of democracies, but it seems to me he's actually leaning more toward, I don't know if alliance is the right word, but a little bit simpatico with China and Russia. So, help us understand Brazil's foreign policy.

PICCONE: Yeah, Brazil has a very bipart or multi-partisan consensus around the concept of strategic autonomy. They want independence. They don't want to be aligned with one power or the other. So, you're going to see a Brazil more so than under Bolsonaro that is asserting Brazil's influence and soft power in a way that it's almost like a third way, right?

It's looking for ways, first of all, high regard for international law and non-use of violence and force. And so they will criticize Russia as they have done on Ukraine, but they won't join the alliance to send weapons. And they've made that clear. And I think they would prefer to be a mediator or provide some kind of diplomatic support to a negotiated solution. So, I think you're going to see that under Lula's leadership.

You're also going to see, vis-à-vis the United States, a friendly tone. Lula got along well with both George Bush and with Obama. And this is a good start to have him come to Washington and get that relationship going. In terms of the Summit for Democracy, which is happening at the end of March, I think Brazil will be not hostile, but not particularly active or friendly about it either. They don't like anything that smells like U.S. hegemonic democracy promotion, and they're going to not get too involved in my view.

DOLLAR: You mentioned along the way that Lula and a lot of Brazilians take the BRICS very seriously. And it strikes me as interesting that you've got two very authoritarian countries, Russia and China, and then South Africa, Brazil, and India are all pretty vibrant democracies. India has had some backsliding, of course, But but still, you've got a mix of authoritarians and democracies there.

PICCONE: So, what they say is this is not an ideological grouping. This is about economic growth and making sure that our citizens benefit from globalization and making sure that the Global North doesn't dominate all these institutions and as a counterweight kind of approach. That argument, I think we're in different circumstances now. So, I'm not sure it has quite the same sway, particularly with Russia's actions in Ukraine.

The other piece of that, though, is Africa. So, Lula is very committed to increasing Brazil's role in Africa, as he did during his first terms. So, I think that's another area

we can pay attention to in the future, as well as the various efforts to make more of a regional integration schemes in Latin America. And by the way, there is more of a simpatico center-left set of governments that I think there would potentially be some movement in that direction. But I'm not holding my breath.

DOLLAR: I'm David Dollar and I've been talking to my colleague Ted Piccone about Brazil, our big important hemispheric neighbor, and we're going to have President Lula in Washington. So, this is an opportune time to talk about Brazil's economy and its politics and I really appreciate Ted's insights into a complicated situation.

PICCONE: My pleasure. Thanks, David.

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DOLLAR: Thank you all for listening. We release new episodes of Dollar and Sense every other week. So, if you haven't already, follow us wherever you get your podcasts and stay tuned.

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Until next time, I'm David Dollar and this has been "Dollar and Sense."