Online Feature

Brazil and the Bretton Woods Institutions

Learning to Samba

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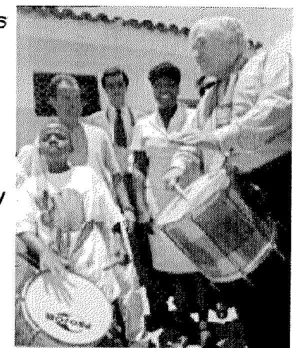
World Bank President James Wolfensohn (R) learns to Samba in Rio de Janeiro, Nov. 20, 2002 (Photo: AFP).

Ask a Latin American business executive to consider the prospects of less debt, less poverty, and the likelihood of increasing his exports to rich countries, and chances are he will respond with a frown and a careful statement that he is "guardedly optimistic" about the future. Such was the mood of some 400 participants at the World Economic Forum's Latin America Business Summit, which concluded in Rio de Janeiro on Nov 22. If one word could sum up the feelings of the forum's participants—mostly Latin American business leaders and politicians—that word would probably be "frustration."

Attendees reserved their harshest critiques for the political elites of their countries, including the banking establishment, which has a long history of relying on outrageous interest rates and government clients to earn its keep. High interest rates hinder mid-market growth and reinvestment, participants said. There was also no shortage of criticism against the neoliberal economic agenda, termed the "Washington Consensus," the United States has urged the region to adopt. Some went as far as to call it "a disaster."

At a packed session titled "Brazil and the Hemisphere at a Crossroads," moderator David Rothkopf, former Deputy Undersecretary of the Commerce Department under the Clinton administration, and current chief executive officer of New York-based business intelligence firm Intellibridge , asked some 55 participants to respond to informal polling questions. It turned out that 73 percent were opposed to the "Washington Consensus" and agreed that the U.S. Treasury Department has had a "negative impact" on Argentine economics. Roughly 70 percent said that Brazil's relations with the United States would deteriorate under left-wing president-elect Luiz Inacio Lula da Silva, while some 90 percent said that Brazil's relations with the European Union would improve.

But while well over half of the respondents said that Brazil's relationship with the International Monetary Fund (IMF) and Wall Street would deteriorate under Lula's leadership, 85 percent believed that the country would not default on its foreign loans. Wealth distribution and a debt-to-GDP ratio that has risen from a projected 40 percent last January to 62 percent today are Brazil's biggest economic challenges, participants said. Interest rates on the loans have increased the debt burden in the country. And with Brazil's low GDP growth, analysts at the World Bank and elsewhere fear that the debt could balloon to 100 percent of GDP by 2009, leading to a default worse than that of Argentina, which defaulted on a $805 million payment to the World Bank on Nov. 14.

"There is a sense in this room that Brazil is going to renegotiate its debts," Rothkopf said, anticipating a lower interest rate to be negotiated between Brazil and its foreign lenders. Regarding the future of Brazil, he said, "The best case scenario is a 'muddle-through' and a deep need for the rest of the world to behave in a stable manner."

Meanwhile, sitting on a stage with U.S. Treasury official Kenneth Dam and others at the Sofitel Rio Palace Hotel in Copacabana, Workers' Party senator Aloizio Mercadante criticized the United States harshly for its trade barriers. He called for an opening of U.S. markets to Brazilian products and firmly asked international bankers to be more flexible in their dealings with Latin America. The room erupted in applause when Mercadante was through speaking, leading Dam to smile and reply, "Now I know why you received 10 million votes. It is hard for me to have a comeback when I agree with everything that's been said."

One of Latin America's biggest business concerns is food. Although the region is agriculturally rich, food exports here are often impeded by subsidized competition from abroad. Dam said that the United States has a subsidy ceiling of $20 billion for agriculture, but has spent far less. The European Union subsidizes its farmers to the tune of $60 billion a year; Japan has an even higher allowance. Dam suggested that the United States and Latin America take their concerns to the World Trade Organization together, but one panelist countered that such a move had already been tried.

"While you guys are off discussing, we are in the crossfire," said panelist Luiz Fernando Furlan, chairman of Brazil's largest meat processing firm, Sadia, S.A. "We receive the bullets and you are in armored cars."

Business leaders said that Latin American nations need to serve broader segments of the population or else they will be unable to grow. "Banks have to rely on the wealthy and that's just a tiny percent of the population," said Jorge Maluf Filho, a vice president of Brazil's branch of the international management consultancy Booz Allen Hamilton. "They only way they can grow is if they find a way to profit in the low and middle markets. This is the growth area, not more consolidation."

The panelists seemed to agree that while Latin America may be full of ideas, and well aware of its problems, putting those ideas into practice is another story altogether.

"All we talk about it is the model. We all agree that the model doesn't work," said Nicolas Checa, president of Medley Emerging Markets, a New York-based financial analysis firm. "Argentina followed the IMF rules, and what happened?" asked Checa. "The rules of the game have changed. There is no clear American strategy for financial diplomacy. The IMF has lost its credibility."

Just six days prior to the forum, 21 presidents from the region met in the Dominican Republic for a different summit. The summit's ostensible topic was tourism and the environment, but according to the newswire transcripts of the presidents' remarks, everyone was talking about Washington's economic policy for Latin America.

Chile's president, Ricardo Lagos, said, "Since the 1980s, all of our countries have followed the 'Washington Consensus.' We reformed our economies and balanced them, opened our markets to increase competition, we recognized that an efficient private sector and expansion was the principal motor to economic progress." But while Latin America realized notable efforts to modernize and participate in globalization, said Lagos, today's social and economic balance is far from positive. "With each passing day, frustration shows on the face of our people on the continent. These political and economic changes haven't advanced the wellbeing of the masses, inequality continues to grow. This unhealthy economic and social state threatens the legitimacy of the democracies on the continent."

In an interview in Rio de Janeiro's conservative *O Globo* (Nov. 24), Lagos told reporter Janaina Figueiredo that "Lula inspires confidence. His victory is a light of hope for Latin America."

On the same day, Rio's conservative *Jornal do Brasil* published a story about democracy and quoted Murilo Aragão, a political consultant who attended the forum. Aragão said in the paper that Latin America needed a "new consensus," though he did not feel that Brazilian democracy was under threat.

On the contrary, said Aragão, Brazilian democracy—as demonstrated in the recent elections and the transition of power from the Social Democrats to the Workers Party—serves as an example to neighboring countries.

The left-wing magazine *Caros Amigos* dedicated a special edition to democracy in this week's issue titled, "Where Is Democracy Headed?" Journalists and social scientists wrote essays on the topic. "It is becoming harder and harder for democracy and the free markets to co-exist," said Francisco de Oliveira, a popular sociologist from the University of São Paulo said in an interview.

On Nov. 18, in São Paolo's conservative business daily *Gazeta Mercantil*, former U.S. Ambassador Abraham Lincoln Gordon said that the United States should have helped Brazil in the same way that it helped Europe after World War II with the Marshall Plan.

Despite its military support for the United States during World War II, Gordon said, Brazil had been sidelined by the superpower in the postwar period. "A modest economic and technological assistance program, organized together with the Marshall Plan in the 1950s, could have avoided the anti-Americanism in the region. Not doing so was a big mistake," he said. Gordon's book, *Brazil's Second Chance: En route toward the first world* (Brookings Institution Press, 2001) was recently translated into Portuguese and has received rave reviews in Brazil.

Just as forum participants were packing their bags and getting ready to leave Rio on Nov. 23, the news the investment community had been waiting for finally arrived. President-elect Lula da Silva announced that Antonio Palocci would likely be his Finance Minister. It was the first significant cabinet-level post named by the transition government.

A former hard leftist, Palocci has already received the IMF's blessings. There are indications, however, that other Workers' Party leaders like Mercadante and José Dirceu, the party's president, are not entirely pleased with Palocci, who has said that he may lobby Lula to keep Arminio Fraga as president of the Central Bank for a few months into Lula's presidency. In a Nov. 25 story in the conservative *O Estado de São Paulo* Mercadante and Dirceu said that keeping Fraga at the helm of the bank once Lula takes over would be a blow to the Party, and would make the administration look too much like that of outgoing President Fernando Henrique Cardoso.

Palocci also said that he would have preferred to have been chosen as Planning Minister, indicating that there may be a rift in the Workers' Party and that Palocci's appointment as Finance Minister is not a certainty.

Palocci is the cover story of the current edition of São Paolo's centrist *Epoca*. In a story by Thomas Traumann, Palocci says that Lula's political economy will look nothing like that of reigning Finance Minister Pedro Malan. In the same magazine, World Bank president James Wolfensohn told *Epoca* journalists that he was optimistic about Brazil's future. "I think it would be a mistake for investors to abandon Latin America at this moment," he said. "If I was still working in the financial markets, I would invest in the region." Wolfensohn's recent visit to Brazil has demonstrated the Bank's commitment to social programs and development in Brazil. While the terms of their loans have not been reported, the confidence the Bank and IMF has shown in Brazil has been a positive sign for the incoming administration.

Brazilians, as well as Brazil's neighbors, are counting on Lula not only to improve the lot of the population, but to convince international lending institutions to learn to play "soccer, and not baseball," as Mercadante described it at the Forum. Starting Jan. 1, when Lula is inaugurated, the pressure will be on. ■

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