Another “Brick” in the Wall? Brazil’s Quest for Relevance in Global Governance

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Introduction

The last decade saw how the BRICS group of Brazil, Russia, India, China and South Africa have made their mark on the global economic landscape. The acronym “BRIC,” without South Africa, originated in a 2001 Goldman Sachs report [O’Neill, 2001]. When South Africa was invited by China to become the fifth member of the group in 2010, the process of the group’s institutionalization accelerated, and the BRICS began to be perceived as a real and alternative power that the West would soon reckon with. The term gained broader recognition thanks to a 2003 paper titled “Dreaming with BRICs: The Path to 2050” by a group of economics at Goldman Sachs [Wilson and Purushothaman, 2003]. The thesis of the report was that the BRIC countries may well eclipse many of the richest countries of the world by 2050 and become the four leading global economies. The Goldman Sachs analysts predicted that China and India would become the dominant global suppliers of manufactured goods and services respectively, and Brazil and Russia would become similarly dominant as suppliers of raw materials. Indeed, the BRIC economies have become the engines of global growth, affecting everything from the price of oil and iron to yields on U.S. Treasury bills. According to the report, these four countries had the potential to be among the world’s seven largest economies by 2050, with the Bra-
zilian economy potentially eclipsing Italy’s by 2025, France’s by 2031, and those of the United Kingdom and Germany by 2036. When Goldman Sachs reassessed the BRIC’s progress in 2005, it found that China could be the world’s largest economy by 2050, India third (behind the United States), Brazil fifth (behind Japan), and Russia seventh (after Mexico) [O’Neill, Wilson, Purushothaman et al., 2005]. The growth potential of the BRICS countries was confirmed in 2012, when the Brazil, Russia, India, China and South Africa accounted for 42% of the world’s population, 18% of the world’s production and 15% of the world’s trade, and their contribution to global economic growth exceeded 50% [Cooper and Thakur, 2013, p. 11]. According to some forecasts, in 2040 the BRICS countries will reach the level of the rich G7 countries in terms of production, and by 2025 there will be a change in the order of the largest economies in the world [U.S. National Intelligence Council, 2008, p. 7].

A broad debate concerning all BRICS members was opened when these countries embarked on a course of fundamental reforms during the 1980s and 1990s that transformed their economies and succeeded in boosting growth, largely by stimulating greater private-sector activity. By the late 1970s and early 1980s, the various economic models had either failed after a relative period of success (Brazil, Russia) or the realization had emerged that the models had never worked in the first place (China, India). Economic or political crises acted as crucial catalysts for reform and allowed political leaders to push through important reforms. It was a combination of economic reforms aimed at “more market” and “less state” that helped lift growth. A closer look at Brazil, as one of the members of BRICS, reveals that its transformation since 1995 has been less dramatic, but its strong economic performance since the turn of the century has been overshadowed by China’s and India’s. Yet Brazil was an excellent place to invest in the first decade of the 21st century. The Bovespa stock market index outperformed the other four BRICS stock markets, as Brazil managed to avoid a major sell-off in 2008. There are, however, questions: How does Brazil measure up against the other BRICS? And what is the key to unlocking its growth potential? Do its deep infrastructure deficiencies and relatively slow rate of economic growth compared with the breakneck growth rates in India and China allow for it to be in the same category as the other members of the BRICS (especially China and India)? Is Brazil doing enough to secure its proper standing in the global governance institutions such as the World Trade Organization (WTO), the International Monetary Fund (IMF) and the G20? The analysis in this article is conducted in the context of the financial crisis, which weakened western control of international societies. Hedley Bull [1984, p. 124], in his old but still relevant analysis, stressed that the economic and political awakening of the most powerful developing countries launched their “revolt against the West” to obtain equality and independence in international society. In that context, can Brazil, pursuing a more active industrial and financial policy, catch up to China and India? Is Brazil economically mature enough to increase its role in the international political economy or is it merely an economically overestimated regional power with high ambitions? Has it any other comparative edge over western and non-western competitors? Is it politically underestimated?

In seeking answers to these questions, this article starts by analyzing the simultaneous economic, external expansion of the Brazilian economy and its internal underinvestment in infrastructure. The next section examines Brazil’s “quest for power” in global governance institutions. Attention is also drawn here to the developments in Brazil’s foreign policy (the case of the European Union—Mercosur negotiations and the interests of Brazil), and its political importance on the global political level. The final section presents the main findings and conclusions. The author uses critical global political economy, focusing on the unevenness of the international system and its consequential structural hierarchies of the distribution of inequalities and injustice in geo-economic and geo-political power [Peterson, 2003, p. 3]. This approach
is particularly useful to explore the boundaries of the state or states in an organized form either as a group or as a more committed organization in its current context, its historical dynamics and the process of social change. It also analyzes these phenomena through empirical evidence and focuses on the interplay of domestic and international agents and structures. Therefore, the analysis here seeks to explain the interrelated variables and the effects of Brazil’s rise, as well as its insertion into global (economic) governance.

An Emerging or Overestimated Economy?

Brazil is the largest country in South America and the fifth largest country in the world in terms of geographical area. It is bounded by the Atlantic Ocean to the east and enjoys a coastline of more than 7,400 kilometres. The country is bordered on the north by Venezuela, Guyana, Suriname and French Guiana, in the northwest by Colombia, on the west by Bolivia and Peru, while Argentina and Paraguay make up the southwest borders. Uruguay borders Brazil to the South. Brazil is the fifth most populous country in the world, being home to more than 190 million [Economy Watch, 2011]. Its economy is still rising, with ambitions to become the world’s fifth largest.

Table 1: Biggest Economies in the World in 2014 (nominal gross domestic product)

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Economy</th>
<th>U.S. dollars, millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>16.768.100</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>9.240.270</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>4.919.563</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>3.730.261</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>2.806.428</td>
</tr>
<tr>
<td>6</td>
<td>United Kingdom</td>
<td>2.678.455</td>
</tr>
<tr>
<td>7</td>
<td>Brazil</td>
<td>2.245.673</td>
</tr>
<tr>
<td>8</td>
<td>Italy</td>
<td>2.149.485</td>
</tr>
</tbody>
</table>

Source: World Bank [2014b].

Table 1 lists the major world economies, including two members of the BRICS — China and Brazil. Brazil, with a gross domestic product (GDP) of more than $2.245 trillion in 2014, overtook Italy to rank as the world’s seventh-biggest economy [World Bank, 2014a]. Income per capita in Brazil has surpassed that in Mexico. Senior Brazilian officials have expressed good prospects for the future. In 2011 finance minister Guido Mantega, having positioned Brazil in the world economic system, recognized that his country had grown fifth fastest of the G20 countries in recent years, adding that if its GDP were calculated according to purchasing power, it had overtaken Britain and France too [Economist, 2011b]. However, converting currencies by purchasing power, rather than market rates, is useful when comparing living standards in different countries. In these terms Brazil is far from the fifth economy in the world.

In fact, the main risk of negative growth of the Brazilian economy is strong pressure exerted by trade unionists, opposition politicians and even some members of governing coalition. These groups, in opposition to the “overcooling policy” introduced by President Dilma Rousseff, try to discount that Brazil is booming and are demanding a large increase in the minimum
wage. In this context they often refer to the policy of the previous president, Luiz Inácio Lula da Silva, who in the eyes of many Brazilians emerged as *primus inter pares*, as he was born in poverty and, with almost no formal education, worked at a sheet metal plant. On the one hand, during Lula’s eight years in office, minimum wages were boosted by around 60%. On the other hand, as the former president of the metalworkers union, he maintained the sound approach of his predecessor – Fernando Henrique Cardoso – which included a floating exchange rate, budget surpluses (before debt payments), inflation targeting and an independent central bank.\(^1\)

Initially Rousseff decided to get a grip on government spending. In February 2011, she passed the initial test in the Brazilian Congress, preventing a significant increase of the minimum wage. In fact, it has risen from 510 reais a month to just 545 reais, barely outpacing inflation [Economist, 2011a]. Nonetheless, the next years brought significant increases in the minimum wage despite the criticism of many economists who believed the hikes outpaced the levels of productivity and fuelled inflation. The increases reached 14% in 2012, 9% in 2013 and 6.8% in 2014 to 724 reais ($310) per month [Reuters, 2013]. In February 2015, the minimum wage reached an all-time high of 788 reais [Trading Economics, 2015]. This increase added pressure to Brazil’s fiscal accounts, since the government increased public pensions in tandem with the wage increases. However, increasing government spending did not produce cuts in social programs, such as the Bolsa Família, a cash benefit for 12 million poor families, or in infrastructure spending. Those extra expenditures were essential for Brazil to avoid embarrassment before hosting the World Cup in 2014 and the Olympics in 2016 and, more importantly, to sustain economic growth in the long term.

Brazil upgraded its infrastructure, fastened in 2012, when the government launched a range of initiatives to reduce energy costs, restructure oil royalty payments, strengthen investment in infrastructure through foreign participation and reform the value-added tax. The Brazilian government cooperated with many international institutions including the International Bank for Reconstruction and Development (IBRD). In September 2013, the IBRD financed 82 active projects in Brazil, with a total of $9.1 billion in commitments. Another 23 global environmental projects, including carbon finance, guarantees and recipient-executed projects, were also active, totalling $320 million in grants and guarantees [World Bank, 2014b]. However, the Brazilian infrastructure, described by Bernardo Figueiredo of the country’s Planning and Logistics Agency as an “opportunity to unlock growth,” is still in a poor state [Economist, 2013]. A special report in *The Economist* described Brazil’s infrastructure as a “road to hell.” The report said that only “1.5% of Brazil’s GDP goes on infrastructure investment from all sources, both public and private. The long-run global average is 3.8%. The McKinsey Global Institute estimates the total value of Brazil’s infrastructure at 16% of GDP. Other big economies average 71%. To catch up, Brazil would have to triple its annual infrastructure spending for the next 20 years” [Economist, 2013]. In this regard, the country is lagging behind such BRICS members as India and China and behind transition economies such as Poland. Infrastructure, which should be helping the booming Brazilian economy and unlock its potential, is de facto blocking it.

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\(^1\) Brazil’s economic transformation began with the Cardoso’s election in October 1994. As minister of finance he had introduced a plan to curb the hyperinflation that for decades had been the single most destructive force in Brazil’s political economy. In June 1994, he introduced the Plan Real, which pegged the Brazilian real to the U.S. dollar. The success of his financial reforms opened the way to his presidency, and he “continued to fight inflation, reduce public sector spending, reform social security and lower taxes” [Bradley, 2008]. After a constitutional amendment in 1998 to allow for a second presidential term, he was re-elected. He successfully steered his country through the financial crisis of 1997–98 through “painful fiscal discipline, draconian interest rates, a 40% devaluation of the currency and a large loan from the IMF.” Unlike its neighbour Argentina, Brazil did not default on its international debt.
Despite domestic challenges concerning economic growth, Brazil’s economy is the largest in South America and the country boasts well-developed agriculture, mining, manufacturing, and service sectors. Since 2003, it has improved its macroeconomic stability, built foreign reserves, reduced debt, kept inflation rates under control and is committed to fiscal responsibilities. The Brazilian economy flourished under Lula’s leadership. International reserves exceeded $200 billion, and unemployment in September 2008 was at its lowest in ten years, with the jobless rate 7.6% compared to 9% in September 2007 [Foreign Affairs, 2009, p. E1]. Brazil’s total workforce, according to 2009 estimates, was 95.2 million [Economy Watch, 2011]. The unemployment rate dropped from 7.4% in 2009 to 5.5% in 2014 [U.S. Central Intelligence Agency (CIA), 2015]. Per capita GDP increased from $10,300 in 2008 to $12,100 in 2013 [CIA, 2013].

Given the crisis Brazil had recently experienced, the decent performance of its economy was possibly due to the contagion effect of the 1998 Asian financial crisis, a collapse in investor confidence and a mass investment withdrawal followed by the devaluation of the real in January 1999 – “stability rather than high growth has been the economic policy priority” [UK House of Commons, 2007]. In the mid 2000s, the target for annual growth was 4%–4.5%; however, the Brazilian economy underperformed, and grew by 2.9% in 2006. Growth successfully rose above 5% in 2007 (5.7%) and 2008 (5.1%), but the slowdown negated the positive trends in GDP growth, levelling it to −0.7% in 2009 (see Table 2).

Table 2: Economic Output in Selected G20 Countries (annual % change, 2007–09)

<table>
<thead>
<tr>
<th>Country/Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2007–09 slowdown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>5.7</td>
<td>5.1</td>
<td>−0.7</td>
<td>−6.4</td>
</tr>
<tr>
<td>China</td>
<td>13.0</td>
<td>9.0</td>
<td>8.5</td>
<td>−4.5</td>
</tr>
<tr>
<td>France</td>
<td>2.1</td>
<td>0.7</td>
<td>−2.4</td>
<td>−4.5</td>
</tr>
<tr>
<td>Germany</td>
<td>2.5</td>
<td>1.3</td>
<td>−5.3</td>
<td>−7.8</td>
</tr>
<tr>
<td>India</td>
<td>9.3</td>
<td>7.3</td>
<td>5.4</td>
<td>−3.9</td>
</tr>
<tr>
<td>Italy</td>
<td>1.6</td>
<td>−1.0</td>
<td>−5.1</td>
<td>−6.7</td>
</tr>
<tr>
<td>Japan</td>
<td>2.4</td>
<td>−0.6</td>
<td>−5.4</td>
<td>−7.8</td>
</tr>
<tr>
<td>Russia</td>
<td>8.1</td>
<td>5.6</td>
<td>−7.5</td>
<td>−15.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.0</td>
<td>0.7</td>
<td>−4.4</td>
<td>−7.4</td>
</tr>
<tr>
<td>United States</td>
<td>2.0</td>
<td>1.1</td>
<td>−2.7</td>
<td>−4.7</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund [2009].

While Brazil’s growth during the initial years of the financial crisis (2007–09) was higher than in Western Europe, it was consistently below the rate of growth in the dominant BRICS economies of China and India, and comparable to that of Russia and South Africa. This trend continued between 2010 and 2013 (see Table 3).

The economic performance of Brazil and the rest of BRICS, as shown in Tables 2 and 3, exceeded those of developed countries. As observed by Geoffrey Garrett [2010, p. 31], “the emerging world, led by Brazil and India, may one day rise to stand with China as the new powers of the 21st century. But India is at least 15 years behind China and major doubts persist regarding its capacity to match China’s infrastructure miracle of recent decades. Brazil has become a major player, but Chinese demand for Brazilian commodities has been the big story. The distinctly Latin American limitations of the Brazilian economy remain.”
Table 3: Economic Output in Selected G20 Countries (annual % change, 2010–13)

<table>
<thead>
<tr>
<th>Country/Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>7.5</td>
<td>2.7</td>
<td>1.0</td>
<td>2.5</td>
</tr>
<tr>
<td>China</td>
<td>10.4</td>
<td>9.3</td>
<td>7.7</td>
<td>7.7</td>
</tr>
<tr>
<td>France</td>
<td>2.0</td>
<td>2.1</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Germany</td>
<td>4.1</td>
<td>3.6</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td>India</td>
<td>10.3</td>
<td>6.6</td>
<td>4.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Italy</td>
<td>1.7</td>
<td>0.6</td>
<td>–2.3</td>
<td>–1.9</td>
</tr>
<tr>
<td>Japan</td>
<td>4.7</td>
<td>–0.5</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Russia</td>
<td>4.5</td>
<td>4.3</td>
<td>3.4</td>
<td>1.3</td>
</tr>
<tr>
<td>South Africa</td>
<td>3.1</td>
<td>3.6</td>
<td>2.5</td>
<td>1.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.9</td>
<td>1.6</td>
<td>0.7</td>
<td>1.7</td>
</tr>
<tr>
<td>United States</td>
<td>2.5</td>
<td>1.6</td>
<td>2.3</td>
<td>2.2</td>
</tr>
</tbody>
</table>

*Note*: Annual percentage growth rate of GDP at market prices based on constant local currency.

*Source*: World Bank Open Data [2015].

Indeed, despite decent economic performance, Brazil’s GDP fluctuates rapidly. Having recorded growth of 7.5%, Brazil achieved the third highest rate of growth after China and India in 2010. However, it slowed down in December of the same year. In 2011, the Brazilian GDP growth halved to 2.7%. The low level of economic growth was attributed, inter alia, to the lack of public investment. In a comparison of total business spending on fixed assets such as factories, machinery, equipment, dwellings and inventories of raw materials, Brazil ranked 115th with an investment of 18.1% of GDP in 2012 [CIA, 2012]. This structural obstacle to economic growth became evident when compared to other emerging economies. Russia (ranked 66th) accounted for an investment rate of 22% of GDP, India (ranked 23rd) at 29.9%, China (ranked third) at 46.1%, South Africa (ranked 104th) at 19.2%, Mexico, Chile and Brazil’s regional archrival Argentina reinvested more than Brazil [CIA, 2012].

This lack of public investment impedes Brazil’s international competitiveness. The country’s share in world trade fell from 2.2% in 1950 to 1% in 2012. In 2013, its shares in world total exports and imports stood relatively low at 1.29% and 1.33% respectively [WTO, 2014]. The country exported mostly agricultural products (37%) and fuel and mining products (24.2%), with 35.1% of the exports in manufactured goods. The main destinations included the European Union (19.7% of total exports), China (19%) and the United States (10.3%). The declining international markets of Brazilian companies was largely caused by firm, ruthless competition from Chinese competition. On the import side, the bulk of goods were manufactures (72.3%). Again the main import partners were the EU (21.2%), China (15.6%) and United States (15.1%) [WTO, 2014]. Poor competitiveness and lack of public investments are linked with regressive trends in labour productivity. According to World Bank between 1980 and 2012 Brazilian GDP per person employed (in constant 1990 PPP$) increased only by 8.45%, while in a given time it increased in China by 821.45%. Better performance recorded also Brazilian neighbours such as Chile and Argentina, who achieved gains by 61.83% and 24% [World Bank, 2014c]. Low labour efficiency is linked to the poor quality of the Brazilian education system, which does not provide the majority of workers with adequate skills for the labour market. According to the 2006
National Household Sample Survey (Pesquisa Nacional por Amostra de Domicílios), which collected data on current and past school attendance for all household members, regardless of age, only one fifth of Brazilians born around 1980 had attended a university or other institution of higher education [Instituto Brasileiro de Geografia e Estatística, 2006].

With regard to the limitations of Brazil’s economy, the most serious challenge is under-investment in infrastructure. Less than 25% of Brazil’s roads could be considered good, its railways need modernization and investments are necessary in ports, electricity production and transmission. In 2007, Brazil was investing 1%–1.5% of GDP in infrastructure, but it needed to invest 3.2% to prevent further deterioration in structures and services [Wheatley, 2007a]. At less than 3% of GDP, Brazil’s capital investment levels were “well below the commitments being made by more rapidly growing countries in Asia,” namely China and India [Lapper and Wheatley, 2007]. Meanwhile, this country suffers from “Stockholm syndrome, a love for a state that holds the economy hostage” [Economist, 2006b].

Observers have recommended reducing the size of the state, increasing investment, improving education services, ensuring formal independence for the central bank, reducing import tariffs and simplifying the tax system [Economist, 2006a, 2011a]. One report produced by McKinsey suggested the growth rate of the Asian BRICS members and Brazil could be levelled and Brazil’s growth could rise 7% with a long-term commitment to address the size of its informal economy, reduce government consumption, reform the judicial and public services, and develop its infrastructure [Elstrodt, Laboissière and Pietracci, 2007; see also UK House of Commons, 2007].

On 22 January 2007, Lula announced the Growth Acceleration Program (known as the PAC) [Kingstone, 2007]. It included an investment 504 billion reais on infrastructure including roads, ports, electricity generation and housing from 2007 to 2010. The PAC also included tax incentives for investment, with tax cuts targeted at construction, infrastructure and small businesses; simplified business registration procedures; streamlined issuing of environment licenses; limits on the growth of public spending through a cap on the minimum wage [Economist, 2007; see also Kingstone, 2007; Wheatley, 2007b]. The Brazilian economic stimulus package, based on accelerated growth, rested mainly on monetary policies such as rebates and tax deductions amounting to $3.1 billion in 2007, set to increase to $5.05 billion in 2011 [Economy Watch, 2010]. It was intertwined with building up the infrastructure. An investment of $221.4 billion focused on the transport system and energy sector. However, most of the public transport and communication services in Brazil have been privatized, with prices set by regulatory agencies. For example, the National Petroleum Agency determines the price of airfares and oil processing, which lowers Brazil’s competitiveness with India and China.

Given these deficiencies in the Brazilian economy, despite being significantly developed, it cannot be viewed as the same as the Chinese and Indian economies. The Goldman Sachs hypothesis of the dominance of China and India as global suppliers of manufactured goods and services respectively and the dominance of Brazil and Russia as suppliers of raw materials seems valid. Brazil, in some areas, can be treated as an emerging world economic power, but it lacks quality and decelerates in comparison to China and India. Full of capabilities but over-stretched, Brazil’s economy seeks to improve its political standing in global governance, using the BRICS as a vehicle to voice its interests.

Brazil, the BRICS and Global Governance

The growing strength of Brazil, Russia, India, China, South Africa and other powerful emerging economies now at the table raises the question of whether the world is facing more multilat-
eral era of governance. In other words, has a new multilateralism been launched? A quick glance may suggest it has. Brazil, participating in the WTO and G20 and pushing for governance reforms and new financing in the IMF, is at the centre of possible changes of the international political order.

The international financial crisis that began in 2007 caused much economic turmoil in various areas, including trade. One question on the minds of trade negotiation specialists is whether this economic slowdown will have a destructive effect on the Doha Round of negotiations that had been slowly moving forward. Brazil’s position was both reactive and proactive, increasingly privileging South-South cooperation [da Conceição-Heldt, 2013, p. 182]. This approach resulted in conflicts between the North and the South. Brazil’s main achievement in the Doha Round has been to require access to the EU and U.S. markets and to reduce agricultural protection, such as tariffs, subsidies and quotas for products in which Brazil is highly competitive [Van Loon, 2015]. On the other hand, Brazil aims to maintain the status quo by rejecting further reductions of tariff rates on industrial products and services in order to protect infant industries in the software and manufacturing sectors [da Conceição-Heldt, 2013, p. 182].

Brazil has focused on agriculture and industry in the Doha negotiations, similar to the other BRICS members. The stance of the BRICS in the WTO (crafted mostly by Brazil, India and South Africa) has been based on a very specific agriculture coalition formed during the Doha Round [Draper, 2012]. The group has declared its support for an open world economy with efficient allocation of resources, the free flow of goods, and fair and orderly competition. Examples of such commitments can be easily found in each of the BRICS summits documents. At the sixth summit, hosted by Brazil at Fortaleza in July 2014, the leaders committed to “support for an open, inclusive, non-discriminatory, transparent and rule-based multilateral trading system, ... the successful conclusion of the Doha Round ... following the positive results of the Ninth Ministerial Conference (MC9), held in Bali, Indonesia, in December 2013” [BRICS, 2014a].

With the appointment of Brazil’s Roberto Azevêdo as director general of the WTO since September 2013, the interests of BRICS members are louder than ever. The success in choosing a first ever candidate from a BRICS country could consolidate the positive perception of the group in the long run, and enhance its position in global affairs and help fulfill the desire of the BRICS countries to see a reform of global economic governance with greater voice and increased representation of emerging countries. With past agricultural coalitions of developing countries, under the leadership of Brazil, and the choice of a WTO director general from this country, Brazil has taken on an increasingly influential global role in both economic and political matters, on a wide range of international issues [Schirm, 2009, p. 197]. On trade, for example, a coalition of developing countries was established at the WTO’s 2003 Cancún ministerial meeting “in order to strengthen the negotiating power of the developing world vis-a-vis the developed countries” [Schirm, 2009, p. 209]. That group opposed U.S.–EU trade initiatives, which resulted in the collapse of the negotiations and a North-South divide on agricultural issues. With regard to trade, Brazil has taken the lead in several multilateral forums. Apart from its position in the G20, Brazil maintains close relations with the Cairns Group and other emerging powers such as India and South Africa in the IBSA (India-Brazil-South Africa) Dialogue Forum. It also signed a currency swap agreement with China in order to smooth Brazil-China trade relations [BBC News, 2013]. Moreover, Azevêdo’s role at the helm of the WTO was subsequently acknowledged by other trade actors following the conclusion of the Bali package at the ninth WTO ministerial meeting in December 2013. As part of the Doha Round, the Trade Facilitation Agreement was the first global agreement reached by the WTO. It established trust among members and the credibility of multilateral trade negotiations. The successful conclu-
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The implementation of the Bali package illustrates Brazil’s inclusive leadership within this organization and its triumph over Mexico in the race to lead the WTO.

With regard to trade at the regional level, Brazil presents itself as a “regional superpower” [da Conceição-Heldt, 2013, p. 183]. It instrumentalizes Mercosur as a vehicle for strengthening its own regional power base. Within Mercosur, Brazil is trying to strengthen its position in the negotiations on non-agricultural market access, defending some of Argentina’s demands, such as more flexibility for cutting customs union tariffs [Ministério da Receita Federal, 2009]. However, the Brazilian position is likely to change after certain measures adopted in industry have been considered protectionist acts by developed countries and China. These measures include new anti-dumping and countervailing procedures, greater control of imports in order to avoid the illegal smuggling of products and additional bureaucratic steps in the import procedures.

China’s policy is an especially serious concern. The growing industrial Chinese imports have caused many worries in Brazilian national industries and there have been numerous requests to analyze possible dumping practices or illegal import measures. The responses that have been considered include applying anti-dumping measures and increasing control over Chinese containers arriving at the main ports. In addition, the so-called “currency war,” a term first coined in 2010 in reaction to U.S. and Chinese monetary policies that led to an alarming appreciation of the real, has added further tension. Since the beginning of 2009, the value of the real has increased by more than 40% against the U.S. dollar. The stronger national currency became a growing concern for national exporters.

Accordingly, the government adopted some regulatory measures. At the national level, in 2009, Brazil introduced a 2% tax on foreign transactions, repeated twice in October 2010, and a 6% tax on collateral issued by foreign investors was imposed [Menkes and Znojek, 2011, p. 413]. Furthermore, the Central Bank of Brasil intervened by buying U.S. dollars. At the G20 summit in Seoul in November 2010, Rousseff pressed her colleagues to compel China and the U.S. to renounce their monetary measures and seek a coordinated approach to international capital flow regulations. This issue of regulations stands as high on the agenda of subsequent BRICS summits. Brazil is trying to balance the odds against China and the U.S. by inviting the IMF to a debate about national capital control. However, China’s economic dominance limits the strength of Brazil’s demands. China has become not only the top foreign investor in Brazil but also its principal trading partner thanks to growing imports of Brazilian primary resources. The currency war and the global predominance of China and U.S. leads to the question of what alternatives are possible for Brazil, as an emerging market and regional power, in order to expand its significance in the global economic environment.

The answer may be hidden within the walls of the “green rooms” where the EU negotiates with Mercosur. Free trade talks between the EU and Mercosur began in 1999 but between 2004 and 2010 were at a standstill. They resumed in 2010 under strong pressure from the Spanish Presidency of the Council of the European Union [Spanish Presidency of the Council of the European Union, 2010].

2 The currency war is de facto waged between China and the United States. China consistently undervalues the renminbi in order to support its exports. This policy has a negative impact on other economies, which lose competitiveness as a result. In the meantime, China’s principal trading partner, the U.S., faces the risk of deflation and is struggling to boost consumption. The U.S. Federal Reserve is forced to restrain its monetary policy, which floods the market with cheap money and leads to lower long-term interest rates for treasury bonds. Unfortunately, stimulation investments in the U.S. have grave consequences for the global economy: lower interest rates encourage investors to look for higher profits abroad, which increases speculation on emerging markets and leads to the depreciation of the dollar, which in turn has adverse effects on the competitiveness of other countries’ exports. As a result, the distress in the financial markets and inclination for protectionist measures increase [see Menkes and Znojek, 2011, p. 412].
European Union, 2010, p. 21]. If the talks succeed, supporters of the association arrangement expect it will not only bring long-term economic benefits to both regions but will also be a viable alternative to the traditionally dominant position of the U.S. and to China’s increasing commercial role in Latin America. However, the process is being undermined by growing fears of the potential negative outcome of bi-regional trade liberalization. Conflicting interests in the field of agriculture remain the main obstacle [Znojek, 2011, p. 464]. Mercosur is not ranked high as a trading partner for the EU (eighth in importance). However, with a 3% share in its external trade and the EU’s share around 20% of trade in this South American bloc, working out an agreement means bringing new opportunities for both parties. A possible EU-Mercosur agreement is a chance for the rapid trading development of Brazil, which generates 75% of Mercosur’s trade with the EU and 2.2% of the total EU trade.

The benefits from any Mercosur-EU free trade agreement recognize both parties. During the Brazil-EU summit in February 2014, Rousseff said that the Europeans seemed very committed to completing the agreement, which was very important for both parties, and seemed very close to completion [Presidency of the Republic of Brazil, 2014]. The most important reason for Brazil’s interest in concluding the agreement may lie between the economic and political realms, as Mercosur countries (with Brazil at the helm) are now high-middle income countries no longer benefitting from the EU’s Generalized System of Preferences, which ran out in January 2014. The free trade agreement offers a way out of this awkward situation.

In the near future, to strengthen its international position Brazil will have to participate actively in the reform of IMF governance, paying special attention to shifting decision-making powers toward emerging and developing economies. The need for IMF reform has been acknowledged by virtually all member states. Indeed, it gained importance after the Asian financial crisis of 1997–98, with the shift in power in the direction of the BRICS. The financial fallout, which affected mostly East Asian economies, also weakened the IMF. Its big fee-paying clients such as Korea, Russia, Brazil and Argentina had deserted it, preferring more expensive loans from elsewhere. The IMF’s income plummeted, leaving the institution with an estimated shortfall of $400 million a year by 2010 and forcing the once-powerful institution to lay off as many as 400 staff (of a total of 2,600). When Dominique Strauss-Kahn assumed the role of managing director in 2007, he immediately announced that the institution’s governance, mandate and financial structure needed overhauling to enhance the institution’s relevance, legitimacy and effectiveness. The U.S. showed strong support for reform, which called for serious reordering of the IMF’s work and governance to reflect the growing weight of dynamic, emerging markets in the global economy. Three main forces have driven the management and members of the IMF toward reform:

- the IMF’s own financial crisis and the need to find new borrowers or a new way to generate income to pay for itself;
- the need win back legitimacy and the confidence of key members after the Asian financial crisis;
- the necessity to adapt to a major power shift exemplified by the transformation of the U.S. from the world’s largest creditor at the time of the IMF’s creation to the world’s largest debtor in 2009, and by the rise of China and other emerging economies [Woods, 2010, p. 53].

Most important, however, seems to be fact that the IMF, between the subsequent waves of the financial crisis, has noticed that three emerging economies — China, India and Brazil — have weathered the storm fairly well. The three were immune from the crisis in the world economy, however. The impact on some sectors, particularly those depending on exports, was devastating in the short run, but their economic recovery was also significantly faster for three reasons.
First, these countries adopted expansionary, countercyclical, macroeconomic policies, which were almost Keynesian and most unusual in the developing world. Deepak Nayyar [2011, p. 23] points to a massive fiscal stimulus in China, a significant expansion in the India’s National Rural Employment Guarantee program, and large increases in salaries for government employees as well as expansionary fiscal and monetary policies introduced in Brazil. Second, the size of the home markets of China, India and Brazil eased their fast economic recovery. The increase in aggregate demand, and thus domestic consumption, drove recovery and sustained growth. Third, their financial sectors, which were less fragile and more regulated than elsewhere, did not absorb scarce resources from stimulus packages in recapitalization or bailouts, so that easier monetary policies meant lending for investment to the real sector in these economies, rather than the creation of any financial asset bubbles [Nayyar, 2011].

It is not surprising, then, that IMF management started to perceive BRICS global ambitions as a chance to carry out financial reforms, aimed at giving the institution an independent source of income. However, everything has its price. Financial reforms were matched with governance reforms, the latter aimed at enhancing the credibility and legitimacy of the institution by giving more voice to emerging and developing countries. The return of power to emerging economies started in April 2008. In 2009, the developing members of the G20 began to crumble the seniority rule of the triad of countries and its auxiliaries. Ngaire Woods [2010, p. 56] has given a clear account of those gains, noting that the largest “winners” from the reforms were Korea, Singapore, Turkey, China, India, Brazil and Mexico, although, from their perspective, the changes were small. The IMF quota shares of China, India, Russia and Brazil increased from 3.996%, 2.442%, 2.494% and 1.783% in 2008 to 6.394%, 2.751%, 2.706% and 2.316% in 2009 respectively [Niu, 2012, p. 5]. These changes were hard won and took endless negotiations among the G7 powers. The emerging economies considered these reforms to be the beginning and demanded more substantial changes to reflect their role as creditors of the world economy. Brazil and other BRICS members noted that Europe was overrepresented in terms of the weighted voting power and the number of representatives on the IMF’s Executive Board, but no country was prepared to surrender its privileged position. After long debates, the ministers of finance and central bank governors met on 23 October 2010 in Gyeongju, Korea, to prepare for the G20 summit in Seoul the following month. They reached an agreement on institutional reform proposal that followed up on the arrangements of the 2009 G20 summits in Pittsburgh and London. The proposal included:

- a minimum 6% quota shift to underrepresented countries (while protecting the voting share of the poorest), which shifts the balance in the weighted voting system toward Brazil, China, India and Russia, to be formally accomplished by the IMF-World Bank meetings in October 2012;
- enhanced representation of emerging and developing economies through a comprehensive review of weighted voting by January 2013, and a subsequent review of quotas by January 2014;
- surrender of two European chairs to underrepresented states and possibly a second alternative for all multi-country constituencies;
- an all-elected board, along with the commitment to maintain its 24-seat composition;

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3 At the London Summit, G20 members decided to pursue a huge financial program to restore credit, growth and jobs in the world economy. They pledged an additional $1.1 trillion to institutions including the IMF ($500 billion in new resources available for lending plus $250 billion for new allocations of special drawing rights) and multilateral development banks ($100 billion for emerging markets and developing countries plus $250 billion to support trade finance). These resources would be available through more flexible mechanisms to countries in need [see G20, 2009].
prolongation of the board’s term from two to eight years, after the 14th General Review [Menkes, 2010, p. 379].

Responding to these developments, at the G20 summit in Mexico in June 2012 the BRICS states decided to pledge large amounts to the IMF firewall fund designed to prevent any contagion from the eurozone crisis into the global market. China pledged $43 billion, Brazil and Russia each pledged $10 billion, and South Africa pledged $2 billion [AFP, 2012]. This contribution was considered an investment, anticipating in return some reform of quota shares and voting power in the IMF. However, as of January 2015, the voice and vote reforms had still not been implemented. This concern was expressed during the informal meeting of BRICS leaders at the G20 Brisbane Summit in November 2014, where leaders from emerging countries exchanged views and shared perspectives on the main issues on the G20 agenda, as well as the expected outcomes [BRICS, 2014c]. They explicitly criticized the G20’s efforts to support global demand in the short run, especially by advanced economies, as well as the non-implementation of the 2010 IMF reforms agreed in 2009, and pointed out the negative impact on the IMF’s legitimacy and credibility. Because the United States had not ratified these reforms, they called on the G20 to schedule a discussion of options for the next steps that the IMF committed to present in January 2015 [BRICS, 2014c].

It is the difficulties regarding the reform of the IMF and other international finance institutions that brought about the institutionalization of the BRICS and the development of its financial architecture. At the G20 St. Petersburg Summit in September 2013, the BRICS leaders agreed to create a $100 billion pool of currency reserves in order to ease short-term liquidity pressure and safeguard the stability of emerging economies [Li, 2014, p. 13]. This decision was further developed at the BRICS summit held in Fortaleza. Members of BRICS concluded the Treaty for the Establishment of a BRICS Contingent Reserve Arrangement, with the initial total committed resources of $100 billion, designed as “a self-managed contingent reserve arrangement to forestall short-term balance of payments pressures, provide mutual support and further strengthen financial stability” (China committed $41 billion, Brazil $18 billion, Russia $18 billion, India $18 billion and South Africa $5 billion) [BRICS, 2014d]. At the same meeting, the BRICS leaders concluded the Agreement on the New Development Bank (with initial capital of $100 billion), as a tool for financing infrastructure and sustainable development projects in the BRICS countries and other emerging economies and developing countries [BRICS, 2014b]. The formation of the New Development Bank – if effective – may constitute a big challenge for the important structures of global governance, namely the IMF and the World Bank. This very ambitious initiative goes far beyond the existing forms of capital impact of BRICS states on developing countries.4

The level of turbulence in global governance has grown since the outbreak of the financial crisis in autumn 2008, which is relevant to the quest of Brazil and other emerging markets for relevance in international relations. The crisis-powered winds of change have transformed existing forms of global governance, with the importance of the G20 rising from a “lower class” forum of finance ministers and central bank governors to a “champions league” gathering of heads of state. The G20 – comprising 10 industrialized economies (the G7 members, Australia and the European Union) and 10 emerging markets (Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Saudi Arabia, South Africa and Turkey) – is more geographically and

4 This refers, inter alia, of the Bank of the South, a regional banking institution that could be considered equivalent to a global system of financial aid or development based on the IMF and World Bank. It was established in September 2009 in order to provide financial assistance to South American countries and started with $20 billion. It had to provide coverage for the financial needs of South American countries that had decided to undertake programs of social and economic reform. The founders included Argentina, Bolivia, Brazil, Ecuador Paraguay, Uruguay and Venezuela [MercoPress, 2009].
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economically diverse than the G7, and its members jointly represent close to 90% of the world’s GDP and 75% of the global population [Gradziuk, 2009, p. 99]. The G20 has smoothly taken over the role of the main body for consultations and decision-making in terms of crisis response and was informally called “global economic governance,” which should be more efficient in regulating trade and investment than the G7, the WTO, the Organisation for Economic Co-operation and Development, and the United Nations Conference on Trade and Development [Gradziuk, 2011, p. 1].

Brazil’s inclusion in the G20 and the BRICS has substantially altered its role in global affairs, as well as the perception of its own role in the world [Schläger, 2007]. Brazil is no longer perceived as a peripheral player but is shifting toward the global centre. The most likely reasons for this shift are its relatively high economic growth between 2003 and 2010 and its unsuccessful campaign for a permanent seat on UN Security Council. That campaign pushed Brazil to enhance its position in new, informal bodies, which alter its power “at the heart of the new global order” [Stuenkel, 2012, p. 6]. The desire to reform international structures, believed to be biased toward the West and unjust, have made Brazil a natural ally of South Africa and India (as in the WTO), which, contrary to China and Russia, had been looking for a place in international institutions.

These differences in experience and interests render it barely possible for the BRICS members to align their positions at G20 summits. Since the G20 leaders began meeting in 2008, it has become clear that the BRICS countries act as individual agenda setters focusing on diverse interests. Brazil supports liberalizing agricultural trade, Russia and India oppose any financial transaction tax, and China defends its monetary policy. Referring specifically to Brazil, Oliver Stuenkel [2012, p. 7] noted that “Brazil cannot be said to have consistently pursued a clear strategy in the G-20. There was no evidence in 2010, for example, that Brazil was aligned with any particular bloc — neither the Group of Seven (G-7) nor the BRICS. This may partially be explained by the fact that Brazil’s foreign policy strategy, its objectives and principles are changing.” Indeed, Brazil’s foreign policy is in flux. It has not always had a clear vision of which strategy to be pursued in global institutions. This emerging power meets emerging challenges, but certainly its political importance on the global stage is not largely disregarded. Brazil is, in fact, a rare phenomenon: having overestimated the economy and serious domestic deficiencies, possessing no significant hard power and depending on multilateral outfits, this country is still on the rise.

Conclusions

The analysis here shows that the recent economic performance of Brazil and the rest of BRICS members surpassed the performance of developed countries. Brazil has become a major player, but the distinctly Latin American limitations of the its economy remained. However, despite shortcomings in various areas, Brazil will continue to play a major role in the global economy. Examples such as the agricultural coalition of developing countries led by Brazil, the choice of a Brazilian director general of the WTO, even the successful trade negotiation at Bali may indicate that Brazil has taken on an increasingly influential global role not only in economic issues but also in political matters.

However, this is only part of the picture. Brazil’s role in global governance has still not crystallized. Its foreign policy strategy, objectives and principles are in flux. The surge in international significance has not been paired with understanding of a role for this giant on the global political scene. While Brazil gradually gains experience and independence and runs self-assured foreign policy, that foreign policy is not always coherent or well crafted. WTO negotiations, a
success story for Brazil, were accompanied by the lack of a consistent strategy in the G20. This incoherence seems to be the weakest link in the Brazilian quest for relevance in global governance. Improving its consistency in G20, increasing the institutionalization of the BRICS, developing its coalition capabilities in the WTO, and being a voice at the IMF should be among the most important objectives of a country that depends on being included in multilateral arrangements as it possesses no significant hard power. This focus on developing South-South cooperation, forging strategic partnerships, and building bridges between developing, emerging and industrialized countries may not only increase Brazil’s influence in global governance institutions, but could also to some degree reverse the current debate in international relations, which has focused on China and India, rather than on Brazil, Russia or South Africa.

For some, the emergence of China and India brings “a real shift in the power balance,” while Russia, South Africa and Brazil “are marginal economies propped up by high commodity prices” and undermined by a lack of long-term investment [Lloyd and Turkeltaub, 2006]. In other words, according to this point of view, India and China are the only real “bricks” in the wall. In fact, the members of the BRICS are very different from each other. According to Michael Kahn [2011], the BRICS forum brings together one of the world’s most prominent agricultural products’ providers (Brazil), the top global gas station (Russia), the back-office king of the international economy (India), the world’s biggest factory (China) and the “jeweller of the world” (South Africa). In the common view, Brazil supplies raw materials to the world and has an expanding population. Russia’s energy reserves are vital to the world’s energy markets. South Africa is reported to be the world’s richest country in terms of mineral reserves. However, the two elite BRICS members of China and India are the most significantly transformed not only concerning “the dynamics of the world economy, but also the balance of power” and are both “poised to be the drivers of a potential new centre of economic gravity, covering the whole of Asia” [City of London, 2006, p. 13].

Brazil’s relatively slow rate of economic growth, compared with the high growth rates in India and China, has led to questions as to whether it has the right to be a member of the same club as China and India. Certainly, these Asian powers are beyond Brazil’s reach in terms of economic power, despite its recent rising growth, falling interest rates, more manageable public debt, and reduced income inequality and poverty. However, Brazil has some advantages: it is the steadiest of the BRICS members, with democracy and no serious disputes with its neighbours. Its slower growth could be explained by being richer and more urbanized than the other members. Brazil is not India or China in terms of economic growth, but geopolitically it is a major player in Latin America, and is treated as such by the World Bank, the IMF, stock exchanges and big investors around the world. Even if Brazil is not meeting the challenge of globalization in a manner comparable to China and India, it should not lose its perspective about its place in the world.

References


