

Brazil's Olympic champion

A PROFILE OF LUIZ INÁCIO LULA DA SILVA

PRESIDENT OF THE FEDERATIVE REPUBLIC OF BRAZIL

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The celebrations that erupted on the streets of Rio de Janeiro on October 2 after the city was awarded the 2016 Olympic Games were rightly seen by the world as an expression of the pride felt by all Brazilians that, at last, their country had arrived.

Brazil's successful Olympic bid can also be seen as the crowning moment in the remarkable ascendancy of the country's President, Luiz Inácio Lula da Silva, who will hand over power at the end of next year after two terms in office. But when Lula, of the Workers' Party (PT), was first elected President by an overwhelming majority of Brazilians in November 2002, the financial markets and Western economic media were at best apprehensive, at worst fearful, that the former trades union leader would implement policies that would frighten away foreign investors and worsen the South American giant's cycle of instability.

Looking back over his mandate, Lula's remarkable achievement has been to marry his leftist politics and desire to address Brazil's extreme income inequality to market-based economics. His blend of policies may have caused a split within his own party, but they have reduced poverty, while making Brazil, now the world's

tenth economy, a safe haven for foreign investment (US\$45 billion (bn) in 2008 alone) in these chaotic financial times. Average daily volumes at the Bovespa Stock Exchange, the world's fourth-largest securities exchange operator by market value, have returned to near pre-crisis levels and should rise further this year, says the bourse's management. The IMF has raised its GDP growth projections for the country to 2.6 per cent, while Merrill Lynch predicts a whopping 5.3 per cent.

Brazil's economic clout has made Lula a familiar face at global gatherings. The expansion of the G20, which now includes Brazil, as well as the reforming of the IMF and the World Bank, also reflect the changed status of a country that is about to lend the IMF US\$10 bn, something unthinkable when Lula took office.

Prior to his official visit to the United States in March, where he held talks with newly installed President Barack Obama, Lula was already on familiar terms with the rest of the world's leaders, and got on surprisingly well with former US president George W. Bush. But the visit was still highly symbolic. Obama's welcome to Lula indicated both the importance of Brazil as a trading partner (and in certain sectors competitor) and the kind of Latin American leadership



Lula (far right) at the outset of his career as a trades unionist

Washington favours and will seek to encourage.

For the Brazilian leader, it was another opportunity to affirm the increasing importance of his country on the regional and global stage, and to list its priorities on key bilateral concerns at the start of a new phase in the relationship between Brazil and the US. And for both sides it was a chance before the April G20 Summit in London for pre-positioning to test how far these two giants of the Americas would be able to collaborate in the global arena too.

Lula's continued support of the Free Trade Association of the Americas (FTAA), stronger American regional integration through trading associations such as Mercosur, which – as South America's largest economy – Brazil dominates, and greater dialogue between the northern and southern hemispheres mean that his sympathies for Cuba and friendship with Venezuela's anti-US President, Hugo Chávez, is more than tolerated. Washington needs Lula to counterbalance the leftist Venezuelan strongman, as well as his counterparts in Cuba, Bolivia, Ecuador and Nicaragua.

Since the country was founded 187 years ago, non-intervention in other countries' internal affairs has been considered a central tenet of Brazilian foreign policy, and Lula has managed to be friends with the United States and Europe as well as with its fellow BRIC members Russia, India, and China, while maintaining links with African, Asian and Middle Eastern states (although he has still not visited Israel). Brazil also enjoys good relations with Cuba, Iran, Libya, and Sudan, but, as he said during his recent visit to the United Nations in New York (he has set his sights on getting Brazil a permanent place on the UN Security Council), he is not obliged to shun Iran's president, Mahmoud Ahmadinejad, because some other states do.

On the domestic front, Lula has even managed to benefit from the international financial crisis. Brazil was fortunate in having not only domestic advantages such as a solid and tightly regulated banking system, little household debt, and controlled inflation, but also huge foreign currency reserves and a healthy trade balance, funded not by the developed countries, but by China, the world's new economic superpower.

The stability and economic orthodoxy of his seven-year presidency have brought tangible change to significant numbers of the population, as well as improving Brazil's Standard & Poor's investment rating up to AAA developed-nation status. In February of 2008, the country became a net creditor for the first time, and now has US\$232 bn in foreign currency reserves.

Public debt still accounts for around 40 per cent of GDP, but this is a significant decrease from previous years, and the OECD says it will likely fall to around 35 per cent. Lula's macro-economic reforms have brought sustained economic growth of, on average,

2.8 per cent a year over the last six years, which in turn has bumped up the value of the real on the currency markets by 35 per cent, making exports harder, but foreign investment in Brazil more attractive, as well as alleviating the debt burden in dollars. Although Brazilian bank profits have also doubled in that time, Lula prefers to emphasise that for the first time in thirty years, manufacturing in the country has earned more than the banking sector. It is that sector that has created the jobs he promised his voters.

As Lula pointed out at the June 2009 inaugural BRIC Summit in Russia – when he clearly enjoyed chiding the developed world for its “reckless” economic policies of the past two decades – Brazil's continued macro-economic success despite the world recession is due in part to the continued role of the state, as well as the continued demand for Brazilian goods.

Lula can also take credit for an economic success story that is not just founded on the back of the inflated prices commanded by the exportation of primary materials, most notably iron ore – it is the world's largest exporter – and soya, which has seen a doubling of export income in the last seven years.

Previously unheard-of Brazilian companies such as aircraft manufacturer Embraer have found new export markets. The 1997 privatised company Vale (Companhia Vale do Rio Doce) is now the second largest mining concern in the world. One of the largest, most diversified industrial sectors in the world is losing its fear of the market. Brazil is now the six-largest car manufacturer in the world, and market leaders such as Fiat and Volkswagen have relocated much of their

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Man of the people: Lula is borne aloft by supporters at a union meeting in São Bernardo do Campo



The number of Brazilians that could be classified as middle-class rose by around eight million families in the period 2000–2005

regional production there. New consumer electronics, computer and software companies, as well as traditional heavy industries, make up the rest of Brazil's burgeoning manufacturing sectors. But if Russia is the gas field, China the workshop and India the sweatshop, then Brazil is the farmer within the BRIC hierarchy.

Agriculture continues to be the main industry in Brazil and a large contributor to the country's economy with meat and cereals forming the bulk of the business. In total, agri-business represents more than a quarter of the country's total US\$1.3 trillion GDP. Brazil is the world's biggest exporter of beef, chicken, sugar and coffee, and may even emerge to challenge Russia as the superpower of fuel and energy. Brazil now possesses the second largest oil reserves in South America as well as being a net oil exporter. Last year, Petrobras announced the offshore discovery of the country's largest oil and gas fields to date. Ethanol is another industry that has brought Brazil international markets as the world's largest producer and exporter, and production is expected to continue to increase rapidly. Unlike the corn-based ethanol produced in the US, Brazilian sugar cane-based products are economically and environmentally efficient.

For all his courting of the world's business and political elites, Lula still remains hugely popular with Brazil's masses, and his popularity rating remains around 80 per cent. Increased wages, better job prospects, as well as the tight fiscal hold on inflation, have all increased the real purchasing power of the poorest sectors by some 8 per cent (even if the richest 10 per cent also saw their real earnings rise by 3.7 per cent). It has been estimated that the real purchasing

power of the minimum legal salary is at its highest level in over twenty-six years. The UN has highlighted the "dramatic" improvements made by Lula's social policies in helping the extreme poor of the country, even if the number still remains stubbornly high. According to US financial assessors McKinsey, the number of Brazilians that could be classified as middle-class rose by around eight million families in the period 2000–2005.

For decades Brazilians joked darkly that theirs was the country of the future, and always would be. Now there is a feeling of renewed confidence in the country, that a line has been drawn with the past, and that things have changed and will continue to change.

Lula's achievements are many, and he will bequeath an invaluable legacy, but it wouldn't be true to say that he won Brazil the Olympics; nor would it be fair to the Rio organisers, who did an impressive job of marketing the city – including taking Lula to Copenhagen for the final announcement of the host city. But Lula did push the bid as a political issue and forced the developed world to accept that there was no good reason why a developing country could not take on this task.

What's more, Lula knows the Games will give the economy a massive boost: Credit Suisse analysts in São Paulo say the long-term impact could be worth US\$50 bn to the Brazilian economy. And when the Olympic torch is lit in Rio in seven years' time there is even a possibility that Lula will be watching the ceremony not as a sports fan but as the re-elected President. He is not allowed to stand in next year's election but could run again for office in 2014, just in time to oversee the final touches to the Games that he helped bring to Brazil. **P**



Cometh the hour: Lula takes to the streets in 2002's election campaign