Brazil has what the United States hopes one day to achieve: energy independence and by extension energy security. The second largest oil producer in South America after Venezuela, Brazil produces 2.277 million barrels of oil a day (2007 est.), which comes close to meeting the country’s consumption needs. But Brazil doesn’t depend on oil alone to fuel its economy, said Raul De Gouvea in his address to the International Executive Roundtable presented by the Institute for International Business, University of Colorado Denver.

“Brazil is a world leader in biofuels: hydro power and ethanol provide 90 percent of the country’s energy,” said De Gouvea, pointing out that the country has been “smart” in the use and distribution of its natural resources. In 1976 the government jumped way ahead of other nations in pumping up the biofuels sector, making it mandatory to blend ethanol with gasoline. The Brazilian car manufacturing industry responded by producing flexible-fuel vehicles that can run on any combination of ethanol, natural gas and gasoline.

Said De Gouvea, “Ethanol accounts for 40 percent of the fuel used by Brazilian cars.” Gas guzzlers are a relic of the past in Brazil where “ethanol is cheaper than in any other country and cheaper than gasoline.”

A global player?

Brazil is one of the BRICs, an acronym for the emerging economies of Brazil, Russia, India and China combined. The term was first coined by Goldman Sachs in a 2003 report which speculated that by 2050 these four economies would be wealthier than most of the current major economic powers.

So will this prediction pan out, at least for Brazil? First, the good news, according to De Gouvea.

- Brazil is a global trader: exports increased from US$31 billion in 1990 to US$197 billion in 2008; imports in this period increased from US$22.5 billion to US$183 billion.
- Major oil and gas discoveries have been made off the coast of Brazil which when fully developed will boost energy security and foster economic development.
- Brazil is a world leader in the mining industry, ranking first for iron ore exports and ranking among the top producers of bauxite, used to produce aluminum.
- Brazil’s GDP puts it in the world’s top 10 economies, not including the underground economy estimated at 40 percent of the country’s regulated economy.
- Among so many positive aspects, “agriculture stands out as a particularly bright spot,” said De Gouvea.
- Brazil is a world leader in the production of soybeans, sugar cane, animal proteins, cotton, orange juice, tropical fruits, pulp and paper products.
- With 170 million acres of land under cultivation and 150 million acres suited for cultivation still unused, Brazil is the world’s largest agricultural frontier.
- Brazil’s tropical climate lends itself to fertile soil and frequent harvests. Grapes can be harvested twice a year - twice as often as in France. A pine tree plantation in Finland takes 50 years before it can be pulped; in Brazil it takes seven years.

The final frontier

“The Amazon accounts for 60 percent of the Brazilian territory and is home to 27 million of the country’s indigenous population,” said De Gouvea adding “they need a development.” However, by law, only 5 percent of the Amazon can be used for agriculture.”

Water is perhaps the country’s most valuable resource. “Brazil is the wealthiest country for water. In the future there will be a divide between countries with water and countries without water.”

Now the challenges

Poverty, education and infrastructure are challenges for the Brazilian government. “Income distribution is more skewed than in any other big country,” said De Gouvea. The percentage of the population living below the poverty line was 31 percent in 2005 according to the CIA World Factbook.

Access to education is unequal, and those who do have access exhibit poor performance in math and reading. This is troublesome said De Gouvea, because “other emerging countries are out-competing Brazil in education and will out-compete Brazil economically in the near future.”

Ports, airports, railroads, highways, power generation plants, sanitation and hydroways are in disrepair or in need of development. Poor infrastructure is a drag on the economy as “it takes two-three times as long to ship and distribute products as it would if the infrastructure were what it should be.”

Long-term planning and investments in innovation are needed to keep the economy growing, said De Gouvea. “However, government spending on innovation is only 1 percent of Brazil’s GDP, lower than the
embraced free market enterprise, economic interdependence and has taken a leadership role in regional and international issues. “Under Lula, foreign trade and the financial markets have done very well. Lula maintains moderate ties with countries such as Bolivia and Venezuela and fosters stronger relationships with other BRIC countries while not alienating ties with the US, Brazil’s No. 1 trading partner.”

Also under Lula, the Mercosur trade bloc – Brazil, Argentina, Paraguay, Uruguay – has been expanded to include Venezuela, with Bolivia, Chile, Colombia, Ecuador, and Peru named as associate members.

“Brazil’s banking industry is modern and well capitalized. In November 2008, Banco Itau Holding and Unibanco agreed to merge, creating Brazil’s biggest bank and one of the 20 largest in the world.”

Most important, the country is stable with low inflation, a respectable GDP growth rate and an Investment Grade rating on its sovereign debt. “In 2007, Brazilian companies raised US$27 billion on the Bovespa, Brazil’s public equity market. The only countries that raised more were China (US$52.6 billion) and the US (US$38.7 billion),” said Sorge.

**Is Brazil rising?**

**BRYAN SORGE** agreed that “significant investments in infrastructure are needed.” Sorge, whose address to the International Executive Roundtable followed De Gouvea’s, is the president of Lat Am Consulting Corp., Greenwood Village, Colorado, specializing in Latin American media and telecommunications.

“The government did a nice job of distributing wealth to the poor but sacrificed infrastructure to do it,” said Sorge. On the necessity for tax reform he said, “Brazil is one of the highest taxed countries in the world and consequently requires significant tax litigation.”

And he added one more challenge: “Corruption, both at the political and business levels, is widespread. More progress is needed to combat it.”

Sorge credits the Cardoso Administration (1995-2002) and the current Lula Administration (2003-) for addressing problems and setting the country on track to where it is today: the 9th largest economy in the world and one with a growing middle class.

“The economy today is well diversified – food independent, energy independent and a leading supplier of hydroelectric power, supporting 80 percent of the country’s needs.”

Poverty has been reduced under Lula. “The Bolsa Familia program, in conjunction with the World Bank, has been very successful in helping 40 million of the poorest Brazilians exit poverty,” said Sorge. “The program requires parents to send their children to school and take them for regular doctor visits.”

Most of the world thought Lula’s election marked the end of Brazil’s growth. But the opposite is true, said Sorge. “Lula has embraced free market enterprise, economic and commodity boom over the past three years has helped reduce unemployment,” Sorge questions why it has not helped more.

**Global crisis**

“The crisis came late to Brazil but it has arrived,” said De Gouvea, noting that “2009 will be worse than 2008 which had the lowest trade surplus since 2002.” Numbers, more than words, describe the impact of the crisis on Brazil. Said De Gouvea...

- Foreign investors withdrew US$24.1 billion from the Brazilian stock market which caused it to drop by nearly 50 percent. Commodity prices have also dropped.
  - Brazil lost 654,000 jobs in Dec. ’08.
  - Export-led growth companies such as Embraer, one of the largest aircraft manufacturers in the world, laid off 4000 employees in Feb. 2009.
  - In 2008 Brazil received US$45 billion in FDI; Jan. 2009 saw a 60 percent drop from the same month in 2008.
  - Thus far, 65 projects totaling US$30 billion have been canceled or postponed.
  - GDP growth in 2009-10 is projected to be 1.5-2.5 percent, down from 6.38 percent in 2008.

“The hemispheric crisis demands hemispheric solutions. Latin American countries should work together to address the current economic crisis,” said De Gouvea.

So is Brazil rising? “Yes,” agreed De Gouvea and Sorge, adding a caveat: “How Brazil handles the global crisis will have a significant impact on its growth over the next 10 years.”

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Brazil and the importance of China

- Brazil’s iron ore exports reached US$10 billion in 2007 from US$2.9 billion in 2001, most of this demand coming from China
- CVRD (Vale), the world’s second largest mining company, recently announced they anticipate shipping a record 30 million tons of ore to China
- Bilateral trade with China reached US$36.4 billion in 2008, up from US$1.5 billion in 1999
- Brazil is the leading exporter of soybeans to China and demand is expected to remain strong. China recently opened its market to Brazil’s chickens. China’s land shortages will continue to drive China to import agricultural products from Brazil
- Recently, China and Brazil signed a US$10 billion agreement whereby Brazil will supply China with up to 160,000 barrels of oil a day and China will help Brazilian oil producer Petrobrás finance exploration of a newly discovered oil field in Tupi off the coast of Brazil.
- Trade relationship with China is still very immature with lots of room for growth
- Also...Brazil’s trade with India has increased to US$3.1 billion in 2007 from US$488 million in 2000