

Brazil and the US: Broadened Partnerships *

*Mario Garnero***

July 31, 2008 – If Presidents Bush and Lula had not enjoyed an excellent personal relationship, born soon after the election of Brazil's president, both countries would have faced greater hardships not only in relating to each other, but also to steer through this period of sharp political and ideological changes that have swept across the continent.

In all these ups and downs, Brazil's role has been to settle conflicts, to keep dialogs going and it has been fortunate enough to see a strategy of leadership without imposition, of guiding without hegemonic aspirations; to be like the cotton wool that is wrapped around crystal glasses in this difficult brotherhood of the Americas.

We are now entering into the period preceding the changing of the guard at the White House. I believe that whichever candidate is elected - Obama or McCain - will have to turn even greater attention to this continent which is self-sufficient and this Planet's major grain provider and big player on both the traditional and renewable energy market.

A comparison with how Brazil stood eight years ago when President Bush was inaugurated president shows that Brazil has had a real facelift. The change started during FHC's administration and was, with all merit, taken to a higher level and consolidated during President Lula's term of office. Here are some interesting figures:

"In economic terms, Brazil produced the equivalent of USD1.09 trillion in 2000, and at the end of this year, this figure is expected to reach USD1.82 trillion. The United States will likely report total revenues of USD14.0 trillion, up from USD11.5 trillion in 2000" Brazil has managed to turn around a foreign debt of USD190 billion in 2000 into a surplus of around USD10 billion, and its public debt has dropped from 57% to 38% of GDP this year. This year's inflation is approximately 5.6% as compared to a 9.81% annualized inflation in 2000. Oil reserves in Brazil rose to over 80 billion this year, up from 7.367 billion in 2000. Exports have also increased from USD50 billion to a current USD190 billion, and the trade balance debt of USD697 million in 2000 is now expected to be USD 30 billion in 2008. Lastly, the exchange rate, which was R\$ 1.97 to USD1.00 is currently R\$1.57. I believe that these results show how solid the Brazilian economy has become, and that inflation has been altogether eradicated. Economic indicators show a rising curve that is ranking our country the seventh largest economy in the world, reflecting what was published by the Financial Times Special Supplement that our country is on the verge of a superpower status.

Still suffering from bottlenecks in its outdated legislation, which dates back to pre-World War II, and from a very deficient infrastructure, but an increasingly greater accumulation of domestic capital, fostered by some USD40 billion in direct investments, Brazil has all it takes to, in ten years' time, be on an equal standing with the more developed countries in occupying its territory in a conscious and sustainable manner. But our country will be reporting some USD300 billion in exports in five years. This is all to say that the so-called US crisis had and has specific characteristics that are different to those of a recession and more like a strong and

ongoing economic retraction that will be overcome after a fairly long period of adjustments. We will likely see that there will be another two long hard years to face after the new US president's inauguration.

Early this year, a wave of panic took hold of economists, financial market investors, businessmen and politicians regarding the possibility of a deep recession in the US. But, together with Marcelle Chauvet, we were among the few that remained calm. On analyzing the statistical model that she developed, which generates, on real time, the probabilities of economic recession in the US, it pointed to a slowing down of the economy rather than a serious recession. After reaching a peak in the first quarter, the probability of a recession in the US started to decrease to reach 25% in May, and this downward trend should continue.

However, this is still a delicate time. US history has registered several periods of economic slowdown that were followed, months later, by a recession. The economy of the United States has been weakened. But the FED has been efficient in placing the economy back on an even keel and reestablishing the credibility of the financial system. Free from an overpowering inflationary pressure that will trigger a precipitated rise in the interest rate, the US economy may yet avert actual recession in the next few months.

And Brazil may benefit from this passing ailment and build up its strength in the agricultural and traditional energy industries, with its new oil reserves, expected to exceed 80 billion barrels.

I wish to point out that ever since the first serial production of alcohol-fueled cars started back in 1980, Brazil has risen to the position of rising star among the world's leading ethanol producers outside the food chain. The efforts currently being made by President Lula, whom I fully support, to transform ethanol into a commodity and do away with prejudiced backlashes against the production of ethanol and biodiesel in our country, which most certainly have deeper connotations than those currently claimed, are most praiseworthy. We have to take a strong stand and face the challenge of expanding Brazilian output to beyond 50 million cubic meters over the next ten years and create a high-capacity biodiesel industry made from such raw material as *Jatropha Curcas* or Barbados nut, or even other algae or natural products that do not compete with food. This is an opportunity in the energy industry Brazil cannot afford to miss.

It is important to remember that the United States and Brazil are now two heavyweights in world geopolitics, economy and social and environmental development, which are seeking a more balanced and dynamic partnership.

Therefore, we can see that United States' future administration – which must have been well impressed by Brazil's poise and greatness both in conducting its international policy and in the consistency of its actions in the economic environment – will always have a loyal friend but also a powerful adversary in Brazil, as John F. Kennedy used to say, which will support all that fosters progress and peace and frankly say no to all that is not in its national interest.

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