



# Brazil's messiah

An ultra-conservative, authoritarian firebrand who openly admires Brazil's past military dictatorship is the new president of Brazil.

Despite representing Rio de Janeiro in Congress for the past 27 years, President Jair Messias Bolsonaro (whose middle name means Messiah) painted himself as an anti-establishment outsider. His campaign stoked nostalgia for the simpler times of "50 years ago" when Brazil was ruled by hard-line generals.

Bolsonaro has pledged to clamp down hard on crime, political correctness, indigenous and minority rights, and to open up the Amazon rainforest to cropping and cattle ranching.

Bolsonaro's anti-corruption and tough-on-crime policies won acres of headlines during the election and all but eclipsed his economic policies, which call for radical reforms in Brazil's mixed economy that is still reeling from its worst crisis in history.

Ten years ago Brazil had a fast-growing economy fuelled by China's thirst for commodities such as oil, sugar and soybeans.

In 2014 Brazil's economy shrank by near 8 per cent when growth slowed in China, and despite a tepid recovery unemployment is still stubbornly at 12 per cent and the deficit is over 7 per cent of GDP.

In Congress Bolsonaro opposed any form of privatisation but during the election he had a road to Damascus conversion to the neoliberal diktats of Milton Friedman when he fell under the

thrall of University of Chicago-educated economist and banker, Paulo Guedes.

Bolsonaro has appointed Guedes as a "super minister" in charge of the finance, trade and planning ministries, with a mandate to boost growth.

The University of Chicago produced the economists (the so-called "Chicago Boys") whom General Augusto Pinochet hired to restructure the Chilean economy after he seized power in 1973.

Chile's economic problems in the 1970s were similar to Brazil's today, with a moribund economy, bloated public sector and large fiscal deficit.

Guedes recently told *The Financial Times*, "The Chicago boys saved Chile, fixed Chile, fixed the mess," and said Brazil needs the same Chilean-style reforms.

Pension spending accounts for more than 8 per cent of Brazil's GDP and Guedes intends to raise the age of eligibility and slash entitlements.

State monopolies such as Petrobras (oil), Eletrobras (electricity) and banks such as Banco do Brasil are all slated for privatization.

Guedes says he will reduce taxes and simplify the mind-bogglingly complicated tax code, to spark private investment and create 10 million jobs.

## Trade agreements up in the air

Both Bolsonaro and Guedes are chafing against the "restrictive" rules of the regional free trade bloc Mercosur (Argentina, Brazil,

Paraguay, Uruguay and Venezuela with a collective economy of \$6.42 trillion and 260 million people).

Before attending the Davos World Economic Forum in January and despite Mercosur's rules, which prohibit bloc members from negotiating bilateral trade deals, Bolsonaro announced on Twitter that he wants "bilateral trade with the entire world".

Unless Brazil renegotiates Mercosur's rules to allow it a free hand with trade deals, ignoring the rules will seriously weaken the bloc, if not prove to be its death knell.

The fate of Mercosur is important to New Zealand, as our diplomatic and trade officials have been engaged in productive exploratory talks on a free trade agreement (FTA) with Mercosur since 2017.

New Zealand has assiduously built a close and durable relationship with Brazil during the past two decades by supporting their interests in multilateral forums, as well as with many reciprocal official visits including former Prime Minister Sir John Key visiting Brazil in 2013 and Brazilian state governors and ministers coming to New Zealand.

Although the NZ/Mercosur FTA talks will likely be suspended until Brazil's intentions are clear, the strength of New Zealand's bilateral relationship with Brazil will ultimately bear fruit in the form of an FTA, be it under Mercosur's auspices or directly with Brazil.