Why change must come

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THE LOSS OF THE BRAZILIAN political center of gravity—which for decades was underpinned by the tension between the Workers Party (PT) and the Brazilian Social Democracy Party (PSDB)—involved large-scale corruption in the state-oil company involving both politicians and corporations. But it is also part of an international phenomenon that originated in the 2008 financial crisis, which caused great popular dissatisfaction in many countries that led to the growth of political forces outside the traditional system. “We will only know what the new political configuration is when the people vote for new leaders,” says Matias Spektor, coordinator of the Center for International Relations of the Getulio Vargas Foundation (FGV). He believes that foreign policy can help to mitigate the effects of investigations of political corruption if Brazil adopts global best practice anti-corruption standards. In his opinion, “An active role could facilitate and accelerate Brazil’s transformation regarding corruption.”

Your book 18 Days shows how the interest of former President Fernando Henrique Cardoso (PSDB) to preserve the achievements of his administration led him to support elected leftist President Lula (PT) in order to calm international markets and promote an orderly political transition in 2003. Today the situation is the opposite; the country is in a severe fiscal crisis and there are wide fissures between political parties. What do you think will determine the political forces up to the 2018 presidential election? The Brazilian political system has been going through its most intense transformation in over 30 years. The alignment that organized Brazilian
The alignment that organized Brazilian politics, which was the polarization between the PT and the PSDB, is ending because the PT has been chased from power and the PSDB is downsizing. We will not know what the new political configuration is until the people vote for new leaders. Meanwhile, we will have a political system determined by the state of the economy and people’s expectations about it and the investigations of corruption in the state oil company—the great imponderable that is interfering with Acting President Temer’s ability to govern.

Why are the political forces beginning to think about reform? Because they have realized that there is no more space in Brazil to keep everything as it was. Something has to change. So the political forces that are threatened today by the corruption investigation and the economic decline are moving to create a new political formula.

Acting President Michel Temer set up a political cabinet, except for the Finance Minister and Central Bank governor, that has cost him political capital. Is he making mistakes? Temer distributed positions according to the relative weight of the parties in parliament because he knows perfectly well that his great agenda must be a legislative agenda. Without support in Congress, he will not be able to approve the reforms needed to pull the Brazilian economy out of the current quagmire—which is the only thing that will allow him to be a major player in defining what will be his own succession. In this sense, he did what was expected.

Are there international dimensions to the current Brazilian political crisis? There is development in Europe, the United States, and Latin America related to the lagged effects of the 2008-09 financial crisis. The crisis reversed expectations: the world was growing and suddenly stopped. Every reversal of expectations generates societal displacement, and we are seeing heightened dissatisfaction with the ruling political classes around the world. We see this in the reaction of the American public to the succession of Barack Obama; the growth of the candidacy of Donald Trump, who comes from outside the traditional American political elite; the growth of the right in Britain, France, and Germany, and the growth of the left in Spain. All these instances are reactions to the reversal of expectations.

Brazil witnessed a brutal reversal of expectations after the successful Lula administration that also has generated displacement, and for the first time in our democracy the middle class has taken to the street. But the international context is important because it gives a benchmark beyond Brazil. And here we also note two types of political movement: one that is liberal reformist regarding the economy, and one, gaining strength around the world, that is anti-immigration and socially conservative.
when we will see which part of the population will vote for the center-right, the group including centrist Michel Temer, and an eventual candidacy of conservative Senator Ronaldo Caiado (DEM). Whoever the players are, the 2018 presidential election will be a good indication of what takes hold in Brazil. What is important is that we have recently seen the middle class taking to the street with an anti-corruption agenda not seen since the 1950s: the motto of the end of the Vargas government was the “sea of mud.”

How might the anti-corruption agenda influence the profile of voters in 2018?
The main left party, the PT, will probably suffer a setback in both the municipal elections in October and the presidential election in 2018. But it is not yet clear who will win the space lost by the PT. The PSDB has not occupied it, and we do not know which political force will. There are signs that the right has room to grow, but we have to wait for elections to confirm that.

How should the interim government deal with the side effects of the corruption investigations?
The only option for the government is to express support for the investigations; here foreign policy has an important role because in recent years there has emerged a huge regime of international standards, rules of transparency, and weapons against corruption that is very sophisticated, which Brazil has accepted only partially. Foreign policy could take an active stance in welcoming these standards to accelerate Brazil’s development in this regard.

If the Senate confirms the impeachment of Rousseff, it will close the longest leftist period of Brazilian government, 13 years. How did that affect Brazilian foreign policy?
Foreign policy was the most visible playing field for former President Lula, so naturally it was hugely politicized. Today one of the areas where the PT government has been most criticized is foreign policy, because part of Brazil’s economic difficulty is attributed to the significant decrease in Brazil’s productivity, and falling productivity is always correlated with isolation of a country from international trade. The whole recent speech of new Foreign Minister José Serra centered on the idea that the PT isolated Brazil from international trade, which had a huge deleterious effect on the Brazilian economy. The critique of PT’s foreign policy also denounces Brazil’s investment in africa and geopolitics in the Middle East, and demands the return of diplomacy grounded more on economic merits than geopolitical ambitions.

What will be the acting president’s main foreign policy challenge?
During President Dilma Rousseff’s government, Brazil saw its deepest fall from grace in the international community. When Rousseff succeeded Lula, Brazil was seen as a rising power, and she was considered one of the most powerful

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women in the world. When she was suspended from the presidency [by the impeachment process], not only was her political capital non-existent, but more significantly Brazil’s collapse was reflected internationally. Today the situation Acting President Temer faces is very uncomfortable because the implosion of Brazil was so intense that any basic gestures can help the country’s image, which is very negative. A few well-done gestures can have a positive impact at least on future expectations of what Brazil’s restoration process will look like.

What foreign and trade policy goals should the interim government focus on to have a positive impact?

The first thing is to accelerate negotiations of bilateral trade agreements, that is, sign a number of agreements, which the Rousseff administration had already begun negotiations and now, it seems, Foreign Minister Serra can carry out much faster. Another positive gesture would be to open up trade with the United States, which probably will not include an agreement as that is not in the US interest, but which might include specific measures of trade facilitation. For example, presidents Rousseff and Obama in June 2015 signed a global entry agreement, which allows Brazilian businessmen entry into the US without visas but has yet to be implemented. We have an open skies agreement that allows US aviation companies to operate any route in Brazil and vice versa, which was signed in March 2011 and only awaits the approval of the Brazilian Congress. Brazil could also adhere to the TISA (Trade in Services Agreement) that protects investments, which matters a lot to Brazilian multinationals. Regarding trade facilitation, these are fast low-cost measures that would allow the interim government to accelerate a new reversal of expectations.

What international players can influence Brazil’s macroeconomic rebalancing and governance that President Temer has promised to promote?

The main factor by far is not a country but a set of new rules that arose from the negotiation of the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). These two mega-agreements were negotiated by American leadership with a number of countries in order to control China’s rise, creating a series of international trade rules far different from the traditional ones, on such topics as environmental protection, labor laws, transparency, and anti-corruption. With the new rules, things previously unthinkable became conceivable, and very intrusive in the lives of countries.

Why are they important for Brazil? Because from now on, it will be increasingly difficult for a country to participate in international trade without adhering to these rules or negotiating its participation in some way. Brazil is not yet part of this game and it will become ever more costly to stay out of it. This set of rules is the...
most important international factor for the welfare of the Brazilian population today. And the interim government has not even begun to deal with this new agenda.

What is the position of the United States today? The US role in Latin America has been in decline for many years. Today what matters is not so much the country but the international rules that govern global trade flows. And most of these rules were designed by the United States and its allies and evolved mainly from the work of academics, lawyers, and jurists that were educated and practiced their profession in cities like New York, Washington, Chicago, London, Berlin, and Singapore in a network of Anglo-Saxon influence.

What are the risks of Foreign Minister Serra’s hard line toward the populist Latin American countries that supported the PT government? The risk is low. The two main populist countries were Argentina under Cristina Kirchner and Venezuela under Hugo Chavez. Kirchner was not able to get her chosen successor elected and is now entangled in corruption scandals that are far from minor. Kirchnerism has no mobilization capacity. In Venezuela, the regime is imploding; the country is in a social pre-explosion situation with no possibility of recovery. The risk to Serra of criticizing these countries is minimal. Of course, in Ecuador and Bolivia, he will have to use some caution, because Brazil is very exposed there through large investments or gas supply contracts. But this is a relatively minor risk. The populist cycle in Latin America is coming to an end.

The interim government is unpopular president and the situation loaded with imponderables, including the possibility that both President Rousseff and Acting President Temer could be impeached. What is your view on the outlook for 2018? I think no one is confident. There is a lot of uncertainty in the country. Neither the government nor the opposition is thinking on a grand scale, except for a group of PMDB, PSDB, and PT parliamentarians and a group in the Supreme Court who are considering political reform. Justices Gilmar Mendes and Luís Roberto Barroso have both said that they would review their position on the constitutionality of restrictions on political parties that do not reach a certain percentage of votes, which would eliminate tiny parties and consolidate the Brazilian political system in a few parties. Senator Renan Calheiros says there are people thinking about alternative parliamentary systems. These political forces have realized that it is impossible to continue governing Brazil the way it has been done. Something has to change. So the very political forces that are being threatened today by investigations of corruption and the economic decline are beginning to move to create a new political framework. That’s where the solution will come. But it is not yet clear, and we are still far from building consensus. The period until October 2018 gives us time to do that.