A recent increase in intra-BRICS trade and increased investment appetite among BRICS members offer an ideal opportunity to strengthen economic relations in the bloc. Rethinking approaches to FTAs – such as a sectoral or modular approach – could strengthen intra-BRICS economic relations.

It is critical for the BRICS to present a united front against increased divestment and withdrawal from multilateralism. Global and regional outreaches on the sidelines of BRICS meetings could build broader consensus and buy-in from the bloc and the Global South.
The vested interests of all the BRICS countries in Venezuela will make it hard for them to ignore the current situation in Caracas. A collective resolve would be of paramount importance to the people of Venezuela. For the bloc it could prove to be a watershed moment in its maturing.

Responding to the national development agendas of the individual BRICS members is critical for the financial sustainability of the NDB. Discussions on how better to align development loans with the respective domestic needs of members are vital.

Executive summary

Jair Bolsonaro – Brazil’s new president – has drawn the ire of many on the basis of his often-controversial utterances. Under his new conservative administration, there will be a clear priority shift in Brazil’s domestic and foreign policies. These changes are not expected to cause a schism within the BRICS. Nevertheless, understanding Brazil’s domestic socio-economic and political environment will shed light on the policy priorities Brasilia will bring to the BRICS chair in 2019. This policy briefing identifies three areas in the upcoming BRICS calendar that could ensure that complementarities between the BRICS are fully leveraged: enhancing intra-BRICS economic cooperation, consolidating positions on global governance reform and challenges, and aligning the New Development Bank’s (NDB) efforts with national development agendas.

Introduction

Bolsonaro’s election as Brazil’s new president has caused great controversy. His demagoguery and pejorative statements – especially against minority groups – made throughout his political career and exposed during his presidential campaign drew the ire of many within and outside Brazil. Nevertheless, the former military captain campaigning under the Social Liberal Party won 47% in the first round of votes, and 55% in the final presidential run-off. He was elected on 28 October 2018 and inaugurated as Brazil’s 38th president on 1 January 2019.

Brazil is hosting BRICS this year, with its presidency culminating in the annual BRICS summit in November 2019. From the outset, the BRICS’ interests have converged on addressing global governance challenges, enhancing intra-BRICS relations, and promoting economic development. Will the confluence of Bolsonaro’s personality and domestic politics in Brazil derail the BRICS during Brazil’s chairing of the grouping? This briefing suggests that Bolsonaro will not be the proverbial bull in a china shop during his turn at the helm of the BRICS: cooperation will continue to serve the national interests of Brasilia and those of its BRICS counterparts.
Nonetheless, understanding Bolsonaro’s domestic support base, the composition of his cabinet and the policy priorities of his administration could shed light on Brazil’s external engagements and its approach to the BRICS presidency. This briefing outlines the domestic context and suggests policy priorities for the South African government and other BRICS countries in upcoming meetings towards strengthening the bloc.

**Bolsonaro and Brazil:**
**Economic deregulation, moral re-regulation**

Brazil has undergone dramatic political and economic turmoil over the past decade. Since the BRICS’ first summit in 2009 Brazil has had four presidents. Operação Lava Jato (Operation Car Wash), a corruption scandal that exposed endemic corruption among the political and business elites of Brazil, rocked the political system. This, combined with years of sluggish growth and economic decline (-3.5% gross domestic product [GDP] growth in 2015 and 2016),¹ significant budget deficits and growing national debt (73.5% of GDP in 2017),² unemployment (nearly doubling between 2011 and 2017 to 12.8%),³ and endemic crime (a nearly 30% increase in homicides between 2010 and 2016),⁴ has left many Brazilians disenchanted.

Economic decline (-3.5% gross domestic product [GDP] growth in 2015 and 2016), significant budget deficits and growing national debt (73.5% of GDP in 2017), unemployment (nearly doubling between 2011 and 2017 to 12.8%), and endemic crime (a nearly 30% increase in homicides between 2010 and 2016), has left many Brazilians disenchanted.

² Ibid.
³ Ibid.
⁴ Ibid.
many Brazilians disenchanted. The Workers’ Party (Partido dos Trabalhadores, or PT) that governed Brazil from 2003 to 2016 has borne the brunt of the blame for Brazil’s status quo.

Brazilians have lost trust in the country’s political institutions. Instead, confidence and trust have grown in its traditional institutions and structures – the family, church and military. This sentiment, together with the socio-economic trends outlined above, led to the emergence of the trifecta that secured Bolsonaro’s victory: ‘the pro-Trump anti-globalist and religious forces, the military faction, and the neoliberal economists’. The first group values conservative social norms; the military faction is nostalgic for the safer and more secure times under dictatorship from 1964–1985; and the business and finance elites support less regulation and more growth.

Bolsonaro’s newly appointed cabinet reflects the interests of his domestic support base. Of the 22 cabinet members, three are staunch Christians, seven are former military officers and four hold ultra-libertarian, pro-business values.

Bolsonaro’s newly appointed cabinet reflects the interests of this trifecta. Of the 22 cabinet members, three are staunch Christians, seven are former military officers and four hold ultra-libertarian, pro-business values. Bolsonaro’s cabinet also includes three members who have served under former PT governments, as well as members such as Costa Lima, the energy minister, who is supported by the left. At the core of his cabinet are Justice Minister Sergio Moro and Economic Minister Paulo Guedes.

Moro is a former federal judge who successfully led prosecutions against some of Brazil’s most corrupt business people and politicians in the ‘Lava Jato’ bribery scheme that enabled Brazil’s main political parties to siphon money from Petrobras, the national oil company. Moro also managed to successfully prosecute former president Luiz Inácio Lula da Silva, who is now serving a 12-year jail term for corruption. Moro’s tough stance on corruption, together with the discipline signalled by the military officials serving in Bolsonaro’s cabinet, is expected to win significant public support for Bolsonaro. Given that he is a relative newcomer to national politics, this support is crucial to ensure his re-election in four years’ time.

school libertarians, spearheaded by the likes of Milton Friedman.\(^7\) Market liberalisation, privatisation, tax cuts, less regulation and bureaucracy, and reduced public spending lie at the core of this philosophy. The amalgamation of the finance, planning and trade ministries into one ‘super ministry’ headed by Guedes means that it will have significant influence on Brazil’s domestic and foreign policies. This influence is likely to be strengthened by Bolsonaro’s apparent ineptness in the economic realm throughout his campaign. Hence he is expected to strongly rely on Guedes to steer the economy. Marcos Troyjo is Guedes’s Deputy Minister for Foreign Trade and International Affairs. Troyjo formerly headed up the BRICLab at Columbia University, a unit that was dedicated to studying the BRICS’s growing influence on global affairs, and he thus has an appreciation of the bloc’s potential.\(^8\)

While Brazil’s incumbent cabinet has been praised for including Moro and Guedes, Bolsonaro’s choice of Foreign Minister, Ernesto Araújo, has been heavily criticised. Critics point at Araújo’s lack of ambassadorial experience – he had only recently been made an ambassador. In addition, critics have painted him as a Christian-fanatic, an anti-globalist, climate-change denialist and conspiracy theorist with an overtly pro-US stance.\(^9\)

The confluence of domestic politics, personalities and ideologies in Brazil and Bolsonaro’s cabinet will require skilful navigation by the incumbent president. For example, Guedes will have little interest in antagonising China – unlike Bolsonaro, who is expected to take a different view. Yet, while some policy shifts are expected in Brasilia’s external engagements, the following section emphasises that expectations of radical change must be tempered.

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\(^7\) For more information, see Hetzel RL, ‘The contributions of Milton Friedman to economics,’ \textit{FRB Richmond Economic Quarterly}, 93, 1, Winter 2007, pp. 1-30.


Brazil’s foreign policy: BRICS in a shifting paradigm

Brazil’s external engagements have long been dominated by its regional dynamics – it is a regional powerhouse and shares borders with 10 countries in South America. However, geopolitics in the form of its engagement with the US (a close neighbour and global hegemon) and, more recently, China (given Beijing’s growing economic footprint in Brazil and the region) have also determined its engagement. This focus is unlikely to change. But the priorities within the framework in which Brazil engages will change in three ways:

- **Domestic prioritisation** – Under Bolsonaro, foreign engagements will likely be subordinate to domestic policy priorities as he looks to address urgent domestic socio-economic and institutional issues to secure re-election in 2022. In the final run-off election, he secured victory by a small margin (10%), admitting ‘[that] if I make a mistake, the PT returns’. His administration – at the behest of Guedes – will look to leverage foreign engagement to address domestic challenges.

- **From South to North** – There is a shift in Brazil’s foreign policy alignment, away from the South–South cooperation approach espoused under the Lula and subsequent PT administrations and a stronger alignment with the US. During Bolsonaro’s first official state visit to the US in March 2019 he noted that he aimed to improve Brazil–US ties ‘after decades on end of anti-US presidents in Brazil’. Some of Bolsonaro’s policy proposals – such as moving Brazil’s embassy in Israel to Jerusalem, an initial announcement on withdrawal from the Paris Agreement on climate change, and rejecting the Maduro regime – closely emulate the positions of the Trump administration.

- **Recalibrated moral diplomacy** – There is an expectation that, on the back of significant ideological influence, Brazil’s foreign engagement will have a different moral grounding. Araújo best captures this divergence from past administrations by noting that ‘the main [threat] comes from non-democratic regimes that export crime, instability and oppression’, and asserting that ‘a much more assertive Brazil, a country speaking with its own voice and not just dubbing in someone else’s, will be a much better [global] partner’.

Several important observations can be drawn from these changes. First, despite Bolsonaro’s dislike of extreme forms of globalisation and multilateralism and his emulation of Trump, this will not translate into a ‘Brazil first’ foreign policy. Within his cabinet, there remains a

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clear appreciation of Brazil’s interconnectedness with the world and the need to leverage external relations to enhance domestic objectives.

Brazil’s foreign policy alignment towards the US should not be overstated. A closer relationship with the US is conditional on reciprocity. Beyond the shared fundamental beliefs and ideology of Bolsonaro and Trump, Trump’s transactional nature dictates that Bolsonaro will have to make a convincing case for stronger US–Brazil ties. Bolsonaro’s visit to the US confirmed this. While the US will contemplate supporting Brazil’s membership of the North Atlantic Treaty Organization and the Organisation for Economic Co-operation and Development (OECD), the US wants Brazil to relinquish its ‘developing country’ status at the World Trade Organization (WTO). Guedes’s call for greater market access in the US was met with reciprocal requests from US counterparts.\(^\text{14}\)

Third, it would be simplistic to ascribe Brasilia’s shift towards Washington and its Western allies solely to Bolsonaro and his cabinet. Of the three former Brazilian presidents, Lula and Dilma Rousseff were major BRICS supporters. However, president Michel Temer (2016–2018) hinted at a shift towards closer cooperation with OECD countries, while taming relations with the BRICS.\(^\text{15}\) This shift is less ideological and more pragmatic: economic growth in OECD markets has recovered nearly a decade after the financial crisis, driving demand for Brazilian goods in major markets. In addition, China’s approach to business, trade and lending has resulted in significant backlash in Brazil. Bolsonaro’s notion that ‘China isn’t buying in Brazil, China is buying Brazil’\(^\text{16}\) has resonated across the political spectrum.\(^\text{17}\)

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17 Based on interviews with various academic and business stakeholders in Sao Paulo, 18–25 January 2019.
Finally, despite Bolsonaro’s rhetoric regarding China during his campaign, since his inauguration his position has been more nuanced. Ahead of his inaugural trip to the US in March 2019 he noted ‘[that] the United States can certainly be a great partner. [Yet] our big economic partner is China, second in the United States (translated from Portuguese)’,18 signifying a pragmatic approach to foreign engagements.

Bolsonaro and the BRICS

Despite these policy shifts, there are considerable complementarities between the interests of Brazil and the BRICS. The final BRICS Sherpa meeting chaired by South Africa in December 2018 pointed to five likely pillars of Brazil’s BRICS presidency: energy; peace and security; science, technology and innovation; digital and traditional economic promotion; and development finance.19 Brazil’s domestic agenda dictates that three of these issues will feature prominently in BRICS discussions: enhancing Brazil’s trade and investment ties with the BRICS; addressing regional cooperation and the Venezuelan crisis; and promoting development finance.

Trade and investment

Improved trade and investment ties will form the cornerstone of Guedes’s economic strategy. His investment-driven focus will look to bring money into Brazil to reignite the country’s dormant factories. He plans to privatise up to 30% of Brazil’s state-owned enterprises in various sectors, including healthcare, education and energy, thereby freeing up an estimated BRL\textsuperscript{20} 1.25 trillion ($330 billion) for the fiscus.21 Liberal reforms in the financial, retail and construction sectors are aimed at attracting investors and igniting growth.\textsuperscript{22}

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\textsuperscript{20} Currency code for the Brazilian real.
\textsuperscript{22} Garcia RT, op. cit.
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Inequitable trade and investment ties have long dominated intra-BRICS economics.

China typically exports manufactured goods to its BRICS counterparts while importing largely primary commodities for further processing in China. At the same time, Beijing maintains large trade surpluses with all its BRICS counterparts, except India. Discussions on how to address this inequitable relationship will be at the forefront of Guedes’s focus. His proposed privatisation drive will be an opportunity for Brazil to attract investment and diversify its investment base among BRICS members, while helping the grouping to strengthen economic ties. None of the BRICS countries is among Brazil’s top 10 investors. China in particular has indicated a keen interest to invest in Brazilian sectors such as mining, oil, construction, banking and utilities.

As in Brazil, sentiment on Chinese manufacturing dominating domestic industries is a key challenge for other BRICS members as well. Most of the BRICS rejected Xi Jinping’s suggestion of a BRICS free trade agreement (FTA) during the Xiamen Summit. However, an alternative approach to FTAs could be considered to address trade imbalances among the bloc. Partial scope agreements (PSAs) allow shared preferences between countries on a limited number of goods or sectors.

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Like FTAs, preferences in PSAs do not have to be zero-rated and can be phased in over time. PSAs can also include provisions in areas such as investment, joint ventures and the facilitation of permits, licences and contracts for technical, commercial or administrative assistance between the parties. Existing areas of intra-BRICS cooperation – such as areas related to the Fourth Industrial Revolution or renewable energy cooperation – could be suited to such agreements. PSAs could serve as building blocks for broader agreements at later stages.

An alternative approach to FTAs could be considered to address trade imbalances among the bloc. Partial scope agreements (PSAs) allow shared preferences between countries on a limited number of goods or sectors.

A recent increase in intra-BRICS trade, driven by strong demand from China, makes this an ideal moment to consider this mechanism to improve trade and investment ties among members. This will, however, require Beijing to take a less mercantilist position and appreciate the development needs of the BRICS countries (and by extension their respective customs unions).
BRICS Plus, BRICS + Neighbourhood and Venezuela

Brazil is unlikely to break with the BRICS tradition of hosting regional and global outreaches alongside the BRICS summit. Discussions during these outreaches are vital in consolidating positions on its global governance reform agenda and addressing conflicting positions on Venezuela.

It is critical for the BRICS to present a united front against increasing divestment from global governance institutions and multilateralism, as unilateralism and actions outside the post-1945 rules-based order grow. The normative power of the BRICS – arguably its biggest global public service offering – has long been a beacon of hope for developing countries. It is also a source of power and legitimacy for the BRICS to engage in global governance forums. Failure to consider broader consent on this agenda will diminish this power and legitimacy. Outreach opportunities are important in building consensus on the global norms, values and rules of both the existing and the alternative/parallel order (eg, the NDB, Contingent Reserve Arrangement, Asian Infrastructure Investment Bank) spearheaded by the BRICS.

The regional outreach is also an important opportunity for Moscow, Delhi, Beijing and Pretoria to demonstrate to Brasilia the collective resolve on global engagement and reform, against the backdrop of a possibility of wavering commitment in Brazil to multilateralism. Bolsonaro’s earlier indication that Brazil would withdraw from the Paris Agreement (since rescinded) would have unsettled many within the bloc who are champions of the agreement. At the same time, leveraging these engagements to discuss potential candidates for the International Monetary Fund managing director position ahead of the next election in 2021 – or earlier if the opportunity arises – will be prudent. The unexpected resignation of Jim Yong Kim, the World Bank’s president, left a vacuum with no clear consensus from developing countries or the BRICS on suitable candidates from the Global South.

The socio-economic and political crises in Venezuela should also be a key consideration on the BRICS agenda. The BRICS has always been a forum of consent – issues and areas of convergence have dictated engagement, with areas of divergence relegated to other forums (eg, the UN, WTO, etc.). Yet the BRICS members’ vested interests in Venezuela will make it hard for them – whether officially or unofficially – to ignore the current situation in Caracas.
China and Russia are both major creditors of Venezuela (Chinese loans are estimated at $60 billion and Russia’s at $17 billion; 45% of Venezuelan oil proceeds are tied to Chinese and Russian debt) and ideological backers of Maduro. In February 2019 India became the biggest importer of Venezuelan oil after an oil-import ban by the US. At the same time, the policy shift under the Bolsonaro administration has put it at odds with the Maduro regime. South Africa maintains that the humanitarian situation in Venezuela needs to be addressed urgently, while ‘supporting the people of Venezuela in finding a solution to the crisis’. South Africa has often acted as a bridge builder in contentious issues among the BRICS members and it will serve the group well if Pretoria plays a guiding role in this discussion. However, in siding with Russia and China at the UN Security Council vote in February 2019 Pretoria’s perceived neutrality on the issue may have been affected.

Nevertheless, a collective resolve from the BRICS on the issue will be of paramount importance to the people of Venezuela and could help to relieve the humanitarian crisis that is unfolding in the country and across the region. For the bloc it could also prove to be a watershed moment in the nature of the grouping and the maturing relationship between its members.

Enhancing development finance

Enhancing the role of the NDB in Brazil will receive special focus during Brazil’s chairing, as it (together with South Africa) accounts for the lowest amount of NDB loan approvals (Figure 4). This status will hopefully be addressed once the bank has established its regional headquarters in Brazil.

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26 Ibid.
29 Malcomson D, op. cit.
Most of the NDB’s loan approvals have been for transport (29%), energy (26%) and water/sanitation/flood protection (22%) projects (Figure 4). Yet, considering the economic agenda of Guedes, there might be a greater push towards investing in manufacturing sectors to reinvigorate the Brazilian economy and create jobs. Other BRICS members would welcome this, especially South Africa, which follows a similar economic policy.

Aligning the bank’s priorities with the national development agendas of its members is critical for the NDB to ensure its relevance to and buy-in from members. The NDB, like other multilateral development banks, relies on interest from loans to cover operational expenses, hence reduced lending from its clientele threatens its financial sustainability. In the case of Brazil and South Africa, it is also important for the NDB to increase its loan approvals to diversify its portfolio of borrowers and minimise its exposure risk.

While the NDB remains primarily a large-scale infrastructure development bank, it has the scope to scale up activities in manufacturing. It can do this via on-lending to national development banks, for example to the Brazilian Development Bank or the Development Bank of Southern Africa. In keeping with the sustainability agenda of the NDB, specific clusters within manufacturing – such as renewable energy manufacturing – could be considered.
Conclusion

Bolsonaro’s administration has already embarked on a new domestic and foreign agenda for Brazil. Yet, within this changing paradigm, there is still significant scope for cooperation between Brasilia and the BRICS.

In the upcoming BRICS calendar, it will serve the bloc well to focus on common issues – enhancing intra-BRICS economic ties, converging on global governance challenges alongside other developing countries, and aligning the development agenda of the NDB with national development plans. There are specific activities that can move BRICS cooperation forward and strengthen the bloc.

• A recent increase in intra-BRICS trade and increased investment appetite among the BRICS countries offer an ideal opportunity to strengthen the economic relations of the bloc. Rethinking approaches to FTAs – such as a sectoral or a modular approach – could strengthen intra-BRICS economic relations.

• It is critical for the BRICS to present a united front against the increasing withdrawal from multilateralism. Global and regional outreaches on the sidelines of BRICS meetings will build broader consensus and buy-in from the bloc and the Global South on the importance of a global rules-based system and institutions.

• The BRICS members’ vested interests in Venezuela will make it hard for the bloc to ignore the current situation in Caracas. A collective resolve on how to solve the country’s challenges are of paramount importance to the people of Venezuela. For the grouping it could also prove to be a watershed moment in terms of the nature of the bloc and maturing relations between its members.

• Responding to the national development agenda of each BRICS member is critical for the financial sustainability of the NDB. Discussions on how better to align development loans with the respective domestic needs of individual countries are important – especially to address the trade imbalance that most members have with China and the need for investment and development of manufacturing in these countries.
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