

Change of Guard in Brazil

On 12 May, as Rio de Janeiro prepared for the prestigious Olympics in August, **President Dilma Rousseff stepped down from her post. Vice President Michel Temer took over as President.** Earlier that morning the 81-member Senate voted 55-22 to impeach her. If she is exonerated, or not convicted by a two-thirds majority of the Senate within 180 days, she can return to office.

Rousseff's fate is collateral damage from **Operation Car Wash**, a judicial investigation implicating several political and business leaders who colluded to inflate construction contracts worth billions of dollars in Brazil's national oil company Petrobras. Several are already imprisoned or on trial. Rousseff, elected for a second term in October 2014, by the narrowest margin in recent Brazilian history, has not been accused of corruption.

On 17 April the lower house of Brazil's Congress had voted to impeach Rousseff for the 'crime of responsibility': concealing the size of the deficit, in the budget leading up to the 2014 elections, through loans from state-owned banks and other fiscal maneuvers. Though technically a violation of the constitution and Brazil's Fiscal Responsibility Law, it is not an uncommon practice. Rousseff condemned this as a parliamentary coup engineered by her erstwhile principal ally, the PMDB party and has vowed to fight on.

On 5 May lower house Speaker Eduardo Cunha, who presided over the April vote, was removed from his post by the Supreme Court, the first Brazilian lawmaker - third in line to succeed President Rousseff - to be sentenced in connection with the Petrobras scandal. Senate leader Renan Calheiros, of the same (PMDB) party, who presided over the 12 May vote, next in the succession line-up, is also under investigation. 75 year old President Temer, who heads the PMDB, faces charges of exceeding campaign donation limits in 2014 and allegations of corruption.

Rousseff's Worker's Party (PT) has lost most of its coalition support in Congress. Even its leading light, former President Lula da Silva, has been shackled with corruption charges. Many among its 500,000 members are disillusioned the party compromised principles for power since its reign began in 2003 under Lula. More than 130 PT mayors have switched parties. Several parliamentarians might do the same.

Beneficiaries for now are the opposition centre-right Social Democrats (PSDB), who have extended conditional support to Temer, and the PMDB. Marina Silva, a left-wing conservationist and former PT Minister, who broke early from Lula, and was a candidate in the 2014 election, is drawing attention in a country disgusted with political machinations and corruption.

The political turmoil is partly cause and partly effect of the **economic crisis** in Brazil. The economy will contract 3.5 percent in 2016 with 6.6 percent inflation (Brazil Central Bank - 31 March), having shrunk 3.8 percent in 2015, the worst economic downturn in the past 25 years. The fiscal deficit stands at 10.8 percent and public debt close to 70 percent of GDP. Sovereign debt ratings of the world's eighth largest economy have been downgraded further.

Majority owned and controlled by the government, Petrobras was worth \$310 billion in 2008, one of the world's largest companies. Discoveries of around 60 billion barrels of light oil deep offshore in 2006 boosted it further. A combination of low oil prices and the devaluation of Brazil's currency, the *real* have left it with about \$130 billion in debt. Production has fallen, targets and investment plans drastically revised. Congress is moving to reduce or eliminate its monopoly as operator in the bountiful Brazilian offshore. This year the company has taken Chinese loans of \$11 billion to service its debt.

India's **ONGC (Videsh) Ltd. and Bharat Petroleum** (partner with Videocon) have invested over \$3 billion in Brazil, with more in the pipeline, for significant participating interest in several oil blocks. India's crude oil imports from, and diesel exports to, Brazil constituted up to fifty percent of total bilateral trade but have fallen in value and volume. Exports fell to well below \$3 billion in 2015-16 (\$6 billion 2014-15) because of a steep fall in export of petro-products.

Several leading Indian companies – Tatas, Aditya Birla, Mahindras, UPL, Renuka Sugars, Torrent, Cipla – have extensive investments and business presence in Brazil, as do important Brazilian companies in India. Not all have done well. Renuka Sugars invested around \$600 million in Brazilian sugar plantations a decade ago but filed for bankruptcy protection in September 2015. Currency volatility has further impacted trade and investment.

The relationship has acquired strategic dimensions. India's defence establishment plans to mount airborne warning and control systems on Brazilian Embraer aircraft. Cooperation in space, science and technology, climate change is ongoing. There has been active cooperation in agro-technology and animal husbandry for decades.

Brazil has to repair its badly damaged political system. A congressional majority has now deposed a legitimate president who many see as less corrupt than her successor or accusers. Without constitutional recourse to the option of fresh elections, power has passed to a politician who would never have been directly elected to the presidency. Widespread outrage is being expressed by PT supporters over the impeachment.

Temer called for the ‘unity of Brazil...a government of national salvation’. His ideas were outlined in a document titled ‘A Bridge to the Future’ in October 2015. It advocated austerity, “structural reforms” avoiding tax increases, except in emergencies. It referred to ‘excesses (by the Rousseff government), in creating new programs and expanding existing ones,’ though Temer has stated publicly he will not cut back on existing social programs.

His choice of Henrique Meirelles, a former banker, and head of Central Bank under Lula, as Finance Minister should boost investor confidence. The economy seems to have touched bottom and is expected to do better. The real has begun to strengthen and the stock exchange is expected to follow suit.

The reverberations of this event will be felt in the region. There has been political resistance to the PT government’s closeness to Venezuela and Cuba. Both countries received concessional loans and political support in exchange for contracts. They support Brazil’s regional primacy, as do left-wing regimes in Ecuador, Bolivia, Nicaragua, all of which have criticised the impeachment. There have been muted reactions from regional organisations, most leaders preferring to treat this as Brazil’s internal affair. The new Foreign Minister, Jose Serra (PSDB) visited India as Health Minister in 1999 and was instrumental in boosting India’s extensive presence in Brazil’s pharmaceutical sector.

Brazil is a regional power, member of the BRICS grouping and vies for a permanent seat on the UN Security Council alongside India. It has demonstrated institutional strength. It came back from the economic precipice in 2000 to grow at 4.5 percent annually for over a decade and bring almost forty million out of poverty.

India has considerable stake in Brazil’s stability and prosperity and will watch closely as it struggles to recover.

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(*The views expressed are personal!*)