

1-16-2004

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Recommended Citation

LADB Staff. "President Lula Begins Second Year." (2004). <https://digitalrepository.unm.edu/notisur/13220>

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President Lula Begins Second Year

by LADB Staff

Category/Department: Brazil

Published: 2004-01-16

In his first year in office, Brazilian President Luiz Inacio Lula da Silva has won over many of those who predicted disaster for the country if he were elected, and he has maintained strong public approval among Brazilians. The coming year may test whether he can keep their support and use his image as a strong national and international leader to make a difference in the lives of Brazil's poor majority.

Lula has displayed a pragmatism few expected, and he has become an acknowledged leader among developing countries. The unpolished trade unionist has become a statesman whose moderate economic policies pleased the financial markets as well as the International Monetary Fund (IMF) even as they brought criticism from some members of his own party. Nevertheless, Lula remains very popular, with ratings holding steady at 70%, nearly 10 points higher than his share of the vote in October 2002.

"People don't just admire his biography or respect his political trajectory, they genuinely like and trust Lula in a way that has no precedent for a Brazilian president," said Marcos Coimbra, director of Brazilian polling firm Vox Populi. "Despite everything, he ends the year with more credibility and political capital than he started with, because he has shown that someone with his background is capable of running the government."

The turmoil that analysts predicted if Lula won the elections did not occur. In 2003, his administration's conservative economic policies, involving even tighter fiscal and monetary adjustments than those demanded by the IMF, were successful in reducing inflation, stabilizing the exchange rate, and balancing current external accounts.

Lula promises better future in end-of-year speech

On Dec. 18, 2003, in a nationally televised address, Lula defended the pro-market policies, saying the sacrifices Brazilians had made in 2003 would be repaid with sustained economic growth. "Many believed, and with reason, that Brazil would not survive the crisis," said Lula. But now, "the time of uncertainty has passed."

Listing his government's achievements falling interest rates, expanding exports, a stable currency, he added, "We have reversed the worst expectations. We have won back confidence in our economy and in the capacity of this country to grow....Brazil has found its path 2004 will be much better than 2003." Explaining to Brazilians why their economic sacrifices were needed, Lula said, "The bitter decisions were taken consciously and with an eye on the future."

Economic indicators good, social indicators less so

Brazil had an unprecedented trade surplus in 2003 of more than US\$24 billion, as exports grew 20% to more than US\$72 billion. That enabled the country to achieve a US\$3 billion surplus in its current accounts. Inflation also dropped from 12.4% in 2002 to 8.5% for 2003. Six months ago, Lula said Brazil was about to witness a "spectacle of economic growth," but that did not happen.

The year ended with GDP growth at just 0.2%, which meant a drop in per capita GDP, since the population is growing at a rate of 1.4% a year. GDP growth of 3.5% is projected for 2004. But economists on the left say that level of growth is unlikely if the government does not modify its economic policies, while others say that even 3.5% growth would be insufficient to bring down unemployment. During the year, the chronic unemployment rose by about one percentage point to 12%, and poverty still engulfs 30% of the population.

Lula's Zero Hunger (Fome Cero) assistance program, the centerpiece of his social platform, reaches 1.3 million families, but it should reach 50 million (see NotiSur, 2003-02-21). The agrarian reform demanded by millions of landless campesinos has been stalled because the administration has considered other reforms more urgent. Despite setbacks, Lula's first year has had its triumphs.

A UN study released Dec. 1 found that, while new AIDS cases rose worldwide in 2003, the number had stabilized at roughly 22,000 in Brazil. The UN chose Brazil as one of the three nations it considers a global example of how to contain the spread of the disease, along with France and England. The UN's Food and Agriculture Organization (FAO) also praised Brazil for lowering the number of people at risk of famine through the Fome Cero program. Requirements for the government subsidy include that a family's children must remain in school and be vaccinated and that pregnant women must get prenatal care.

Lula wins legislative victory

One of Lula's major successes, with the support of the center and the right, was to get congressional approval for a new pension law and a tax reform. On Dec. 12, the Senate voted 51-24 to pass the pension-reform bill, which cuts benefits for retiring government employees and raises the retirement age (see NotiSur, 2003-08-29). On the same day, the IMF, which Lula and the Partido dos Trabalhadores (PT) once criticized as the source of the country's woes, approved a new US\$14.8 billion loan for Brazil.

On Dec. 16, IMF managing director Horst Koehler called Lula's economic management team an example and congratulated them on their economic policies. A sector of the PT opposed the pension reform, which resulted in the party expelling four members Sen. Heloisa Helena and Deputies Joao Fontes, Joao Batista Oliveira, and Luciana Genro who voted against it. The four accused the president of betraying the principles that until recently were sacrosanct in the PT. However, polls indicated the measure had the support of between 75% and 80% of Brazilians.

Lula responded to his critics citing the huge deficit in the social security system and the need to bring order to the system by raising the minimum age for retirement by seven years and capping the benefits. Some workers have been able to retire and continue to collect their entire salary, with

some magistrates collecting as much as US\$9,000 a month. At the PT's national convention in mid-December, a majority of delegates voted to support the economic policies of the Lula administration.

Lula gains international stature

"Lula is popular because he represents a kind of Latin American dream, the idea that a working person can become a president," said Guillermo Holzmann Perez, a professor at the Universidad de Chile in Santiago. With the war in Iraq continuing, that popularity has spread because Brazil is seen as one of the few nations in the region strong enough to offset the overwhelming power of the US, Holzmann Perez said.

In his first year, Lula helped lead a successful revolt against US and European Union (EU) trade policies at World Trade Organization (WTO) talks in Cancun, Mexico (see NotiSur, 2003-10-10), provided key backing to the troubled government of Venezuelan President Hugo Chavez, and was one of the harshest critics in the Americas of the US-led war against Iraq.

"Brazil wants to see the internationalization of peace efforts, not the internationalization of military interventions," said Lula advisor Marco Aurelio Garcia. Lula has strong popularity among the Latin American public, and that has helped him advance Brazil's foreign policy agenda.

A regional survey by the US polling firm Zogby International found him to be Latin America's most popular leader, with a 69% approval rating. In the same poll, US President George W. Bush, by contrast, had a 12% approval rating among Latin Americans. In his latest effort to promote his international agenda, Lula headed for the Middle East in early December, following trips around South America and then to five countries of Sub-Saharan Africa (see NotiSur, 2003-11-14). Lula began his tour in Syria, followed by a first-ever visit by a Brazilian president to Lebanon and Egypt, then to the United Arab Emirates and Egypt.

Besides being an effort to expand trade, it was an endeavor to continue building solidarity among the developing South, centered on the alliance between Brazil, India, and South Africa launched in June. Lula's aim is to involve all of South America with the Arab world, and he invited along former Argentine President Eduardo Duhalde (2002-2003), who heads the Comision de Representantes Permanentes of the Southern Cone Common Market (MERCOSUR), with Argentina, Brazil, Paraguay, and Uruguay.

"Brazil has a global ambition, to work on the creation of an Arab-Latin American bloc allied to third world countries that is treated the same as the northern countries and in particular the US," Lula said in a speech to lawmakers in Lebanon. "We need to unite our forces, and that's why we are calling for an Arab-Latin American summit in 2004 that will allow us to strengthen relations among developing countries."

While improving relations with countries around the world, Brazil has had frequent clashes with the Bush administration. The disagreements have resulted in a possible delay in the establishment of the Free Trade Area of the Americas (FTAA) by next year.

When Brazil led developing nations in insisting that US farm subsidies and steel protections be included in trade negotiations, US Trade Representative Robert Zoellick criticized what he called "won't do" nations. But Brazil held its ground, and the two nations settled on a watered-down agreement that set aside the most sensitive issues. Lula's diplomatic strategy, aimed at strengthening South American unity and building a broad coalition of developing countries, has not been seen as positive in Washington, nor was Lula's trip to the Arab countries.

On security, Brazil has been equally independent. When the Bush administration began requiring photos and fingerprints of foreign visitors from countries that require visas to the US, a Brazilian judge ordered the same treatment for US visitors to Brazil. Despite complaints from US officials including Secretary of State Colin Powell, the measure remains in place.

Coming year important for Lula's plans

Having finished his first year and seen the passage of tough economic reforms, Lula will now concentrate on creating jobs and expanding the Fome Zero program as he tackles his main priority of improving the lives of Brazil's poor. "Today we can have loftier dreams," he said in his Dec. 18 speech. Those dreams hinge on his pledge to close the huge gap between rich and poor. To do that, officials say he will boost state spending, above all on infrastructure projects, to bring down unemployment.

"What the PT will introduce that is new in 2004 is more government, more government, more government," said Walder de Goes, a political analyst in Brasilia. "That entails mass public spending in areas like housing, sanitation, big public works, above all construction, which uses lots of cheap labor and distributes money immediately. I would call it a small New Deal." The New Deal refers to US President Franklin Roosevelt's spending on public works in the 1930s to take the US out of the Great Depression.

Lula is counting on paying for these public-works projects with revenues generated by higher growth. But some say many of the projects may never take place because of budget constraints.

"The plan is just a letter of intent and will remain so," said political analyst Carlos Lopes. Lula's first year ended with economists and the public recognizing his government's achievements on the economic front, although critics complained that Lula had moved too far to the center and too far away from the hopes raised by the PT's taking power.

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