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FEATURED Q&A

Can Bolsonaro Shrink Brazil's Government?

Brazilian President Jair Bolsonaro has vowed to reduce the size of the country's government. // File Photo: Brazilian Government.

Q Brazilian President Jair Bolsonaro told reporters Jan. 6 in Brasília that he intends to shrink the size of the country's government as part of his administration's efforts to reduce public expenditures. Among the changes, Bolsonaro wants to cut spending on social, cultural and labor programs. Which programs are facing cutbacks, and what effect will the budget reductions have on Brazil? Which reforms in order to rein in the budget should be prioritized, and how will the stakeholders and interest groups respond? How much of Bolsonaro's plans are subject to legislative approval, and will Bolsonaro succeed in pushing through the reforms?

A Monica de Bolle, senior fellow at the Peterson Institute for International Economics: "Talk of reducing the size of the government has been plentiful, but details have been scarce. It is not yet clear which social, cultural and labor programs would be on the chopping block, and it is therefore hard to say whether cuts would need legislative approval—some likely would, especially on the social and labor fronts. Since taking office a year ago, Bolsonaro has been on a crusade to radically change many programs that previous governments initiated or enhanced. Lately, he has taken to attacking previous education policies and public universities to the astonishment of many in Brazil's academic community. As for reducing the size of government, this is likely to create a lot of political noise with little action. More important than reducing the size of the government—which, granted, is bloated in Brazil—it would be best to focus on the efficiency of public spending. Two years ago, the World Bank conducted a thorough audit of Brazil's

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TODAY'S NEWS

ECONOMIC

U.S. Senate Passes USMCA, Sends to Trump's Desk

The U.S. Senate approved the United States-Mexico-Canada Agreement, following the same action last month by the House of Representatives, and sent the accord to replace NAFTA to President Donald Trump for his signature.

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BUSINESS

GIP, Brazil's Raízen Planning Bid for Petrobras Refineries

Global Infrastructure Partners and Brazilian fuel distribution company Raízen plan a bid for refineries put up for auction by Petrobras.

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POLITICAL

Guatemala Cuts Diplomatic Ties With Venezuela

New Guatemalan President Alejandro Giammattei followed through on a promise to break ties with the government of Venezuelan President Nicolás Maduro.

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Giammattei // File Photo: Facebook page of Alejandro Giammattei.

ECONOMIC NEWS

U.S. Congress Passes USMCA, Sends to Trump for Signature

The U.S. Senate on Thursday overwhelmingly approved the United States-Mexico-Canada Agreement on a vote of 89-10, sending the new North American trade deal to President Donald Trump for his signature. The House of Representatives gave its approval last month to the accord, which is to replace the North American Free Trade Agreement, or NAFTA. That 25-year-old trade deal tore down most barriers to trade among the three countries, but Trump and other critics of it blamed it for leading U.S. companies to move operations to Mexico to take advantage of lower-paid workers there, the Associated Press reported. The Senate's approval of the USMCA came a day after Trump and Chinese officials signed an initial trade deal with China, easing trade tensions between the two giant economies. "Quite a week of substantive accomplishments for the nation, for the president and for our international trade," Senate Majority Leader Mitch McConnell (R-Ky.) said shortly before Thursday's vote, the AP reported. Trump has suggested he will sign the USMCA next week, The Washington Post reported. Among the few members of Congress criticizing the USMCA on Thursday was Senator Pat Toomey (R-Pa.). "It will mean higher prices for American consumers, who will have to pay more money for a car and therefore will have less money available for any of the other things they would like to consume," said Toomey. "It will probably lead to an increase or acceleration in the shift to automation." The USMCA aims to increase automobile production in the United States, where auto workers earn an average of $16 an hour. In addition, it led to requirements that Mexico change its laws to make it easier for workers to form independent unions, with the goal of increasing wages and labor conditions and lowering incentives for U.S. companies to move operations there. Environmental groups continue opposing the deal, saying it fails to address climate change and will contribute to global warming. "Despite the fact that it includes very good labor provisions, I am voting against USMCA because it does not address climate change, the greatest threat facing the planet," said Senate Minority Leader Chuck Schumer (D-N.Y.), the AP reported. Mexico has already approved the accord, and Canada is expected to do so within the coming months. The Senate's approval of the USMCA came as the Senate was poised to open an impeachment trial against Trump. The House delivered to the Senate articles of impeachment against the president on Wednesday. Trump complained Thursday about the impeachment proceedings overshadowing the week's advancement of the trade deals. "I did the biggest deal ever done in the history of our country yesterday in terms of trade," Trump said, referring to the deal with China. "And that was the second story to a total hoax," he said, The New York Times reported. "Today we just had passed the USMCA. It's going to take the place of NAFTA, which was a terrible deal, and the USMCA will probably be second to this witch-hunt hoax, which hopefully everyone knows is not going anywhere. There was nothing done wrong."

SUBSCRIBER NOTICE

The Latin America Advisor will not be published on Monday, Jan. 20 in observance of the Birthday of Martin Luther King, Jr. holiday in the United States. We will resume publishing on Tuesday, Jan. 21.

POLITICAL NEWS

Guatemalan, U.S. Agents Return Honduran Migrants

Guatemalan police and U.S. Immigration and Customs Enforcement agents on Thursday rounded up some 300 migrants in Guatemala and sent them to the Honduran border on buses, cutting short migrants' plans to travel

NEWS BRIEFS

Trump Approves Disaster Declaration for Puerto Rico Following Quakes

U.S. President Donald Trump on Thursday approved a disaster declaration for Puerto Rico, making federal funding available to individuals in municipalities affected by a series of earthquakes over the past week, The White House said, The Hill reported. Available aid includes grants for temporary housing and home repairs, as well as low-cost loans to cover uninsured property losses. The U.S. House of Representatives on Thursday introduced a $3.35 billion emergency aid package for Puerto Rico. Lawmakers are expected to take up the legislation next week.

Guatemala Cuts Diplomatic Ties With Maduro Gov't in Venezuela

Guatemalan President Alejandro Giammattei on Thursday cut diplomatic ties with Venezuelan President Nicolás Maduro's government and ordered the shutdown of Guatemala's embassy in Caracas, Reuters reported. Giammattei, who took office on Tuesday, previously indicated he would break ties with Maduro when he assumed power. In response to the move, Venezuelan Foreign Minister Jorge Rodríguez accused Giammattei of succumbing to the administration of U.S. President Donald Trump.

Brazilian Government to Create Department to Speed Entry Into OECD

Brazil's government will create a new department in an effort to speed its entry into the Organization for Economic Cooperation and Development, Chief of Staff Onyx Lorenzoni said Thursday, Reuters reported. The announcement followed reports earlier this week that the United States would back Brazil's bid for joining the OECD ahead of Argentina.

as a caravan toward the United States, the Associated Press reported. At another border point, a different group of nearly 600 migrants remained at a shelter after crossing the border earlier in the day and encountering no resistance from police. Other, smaller groups have been traveling highways near the border in unorganized gatherings that look very different in nature from previous caravans. The group of 300 migrants, which included adults, teens and young children, after six hours of walking on Thursday took a break in the town of Morales, where police challenged them, asking for entry documents. Nearly all migrants had crossed into Guatemala without documentation. The migrants were put on buses and told they needed to register properly at the border under rules governing freedom of travel in Central America.

BUSINESS NEWS

GIP, Brazil's Raízen Planning Bid for Petrobras Refineries

U.S. financial firm Global Infrastructure Partners, or GIP, is planning a joint bid with Brazilian fuel distribution company Raízen for refineries put up for auction by Brazil's state oil company, Petrobras, Reuters reported Thursday, citing two sources with knowledge of the matter. Raízen, itself a joint venture between Royal Dutch Shell and Brazilian ethanol producer Cosan, has presented nonbinding offers for the largest refineries in the tender. GIP's portfolio includes more than $50 billion in assets through its infrastructure funds. It invests in sectors ranging from energy and transportation to water and waste management. If successful, the bid would mark GIP's first investment in Latin America's largest economy. The firm last year began raising a new fund for investments in emerging countries in Latin America and Asia, Reuters reported. Though Raízen distributes fuel to more than 3,000 corporate clients in Brazil and Argentina, where it has more than 7,000 gas stations, refining has been a Petrobras monopoly for decades.

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spending, underscoring inefficiencies. The Bolsonaro government would do well to read the report's findings and recommendations."

A Henrique Rzezinski, member of the executive committee and former president of Amcham Rio and member of the board of the Council of Foreign Relations of Brazil (CEBRI): "After the successful structural and progressive social security reform, which will result in an important reduction in social inequality, the next reforms on the government's agenda to be taken up in Congress are the administrative and tax reforms. The current annual deficit represents around 8 percent of Brazil's GDP. The administrative reform to be sent to Congress proposes a reduction of 500 billion reais. For civil servants, it includes meritocracy instead of automatic wage increases every two or five years and job stability for life. Until this moment, there has been no formal proposal to reduce social, cultural and labor programs. On the contrary, the government created one more month's payment in the so-called Bolsa Família program, one of the country's most important social initiatives. Also, the tax reform proposal attempts to reduce inequality in the present system, in which indirect taxes result in poor people paying the same amount as rich people for basic mass consumption products such as bread, milk and other staples. The great paradox is that this government is being much more redistributive than the former leftist government. Also, in just its first year, it has reduced the federal government's budget deficit from 130 billion to 80 billion reais, and it is projecting a balanced budget for 2022. Administrative and tax reforms are the most important measures to be sent to Congress, as is the so-called political reform whose main objective is to introduce district voting in the electoral system besides important financial reductions in direct and indirect salaries of politicians in federal, state and municipal governments. It is very difficult to predict if the government will succeed in approving all the reforms in Congress, but we cannot forget that despite high skepticism about the social security reform, it was approved in less than a year. This was historic for such a deep and difficult reform. Despite the strong opposition from leftist parties and from millions of civil servants, there is room for negotiations and optimism among different sectors of civil society."

> **"The tax reform proposal attempts to reduce inequality in the present system..."**
> **— Henrique Rzezinski**

A Joel Korn, president of WKI Brasil and senior international partner at UPITE Consulting Services: "Plans to streamline and reduce the size of the public administration represent a laudable and welcome step to strengthen efficiency and improve the country's fiscal situation. Execution, though, is a major undertaking, and the complexities associated with the tough choices and trade-offs in the allocation of scarce resources cannot be underestimated. At the moment, the government is confronted with very limited room for curtailing discretionary expenditures and the immediate need to implement further cuts within the range of $1.5 billion-$2 billion to ensure compliance with the mandatory expenditure ceiling for the 2020 budget. While the impact of the expense reductions on different sectors is still unknown, I trust that the decisions will be based upon sound and transparent criteria, rather than driven by ideological considerations. At the same time, Bolsonaro's economic team is rightly committed to structural reforms that will lead to long-term and sustainable fiscal discipline. This involves a critically needed

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overhaul of the fiscal regime, aiming at a transition from a framework of a centralized budget permeated by compulsory expenditures to a decentralized and flexible system, involving co-responsibilities and accountability of states and municipalities. To this end, following the recent approval of the social security reform, the single most threatening fiscal constraint, the government is now focused on complex congressional negotiations to secure a 'federative pact' and a long-overdue tax reform. The passage of these reforms should contribute to a gradual reduction of the current high financial burden on taxpayers and, along with ongoing privatization and public concessions programs/infrastructure projects in progress, it will represent a major step for the country's economic development in the years ahead. While I am confident about the government's ability to implement the reforms, municipal elections in the second half of the year may delay approvals in Congress. This should not hinder the country's resilience capacity and potential to post an economic growth of between 2 percent and 2.5 percent this year."

A Lucas Fernandes, consultant at BMJ Consultores Associados: "Taking into consideration the expenses indexed to the minimum wage and inflation (which had increased above what was initially forecasted), the federal government started 2020 with the need to make cuts and readjustments so as not to surpass the spending limit established by this year's budget. Although it is not yet clear which programs will be reformulated, the administration will likely prioritize public policies strongly associated with the PT governments, such as Bolsa Família (income distribution), Pronatec (stimulus of technical education and employment) and Minha Casa Minha Vida (housing for low-income families), as well as cultural incentive programs such as the Rouanet Law. In February, President Bolsonaro may submit to Congress the administrative reform, aiming to decrease public servants' wages and benefits. As we will have municipal elections this year, the president will have a hard time adopting austerity or unpopular measures—reforms that could strengthen opposition candidates, especially from left-wing parties. In this sense, the government is expected to try to use creative subterfuges in order to retain popularity. An example is the initiative to include a 13th installment in addition to the monthly transfers received by Bolsa Família beneficiaries. The population may view it positively, but it will result in stricter rules of inclusion, exclusion and maintenance of assisted families. Even if the government implements most of these measures via presidential decree, lawmakers and opposition sectors are expected to challenge them in the legislative and judicial branches."

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The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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