



Brazil's Presidential Election

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Brazil—the fifth most populous country and ninth-largest economy in the world—is scheduled to hold general elections on October 7, 2018. The presidential race remains extremely volatile, and the outcome could lead to changes in the economic and foreign policies of a U.S. “strategic partner.”

Domestic Context

The 2018 election is taking place as Brazil struggles to emerge from a series of domestic crises. The country fell into a deep recession in 2014, due to a decline in global commodity prices and economic mismanagement under the center-left Workers Party (PT) government of President Dilma Rousseff (2011-2016). The unemployment rate more than doubled as real gross domestic product contracted by more than 8% from 2015 to 2016. Although economic growth returned in 2017, conditions remain difficult. More than 12% of the population is unemployed, and several million Brazilians who joined the country's lower middle class from 2004 to 2013 have fallen back into poverty.

Brazil also is contending with the repercussions of massive corruption scandals. Since 2014, investigators have uncovered arrangements throughout the public sector in which businesses provided bribes and illegal campaign donations to politicians in exchange for contracts or other favorable government treatment. The revelations discredited much of Brazil's political establishment and contributed to the controversial impeachment and removal from office of President Rousseff in August 2016. These political crises have eroded citizens' faith in their democratic institutions; 28% of Brazilians expressed satisfaction with their democracy in 2017.

President Michel Temer, who succeeded Rousseff, is deeply unpopular. His center-right government has enacted several major economic reforms, including measures to freeze government spending for 20 years, weaken worker protections, and allow greater private sector participation in Brazil's oil sector. Temer also has worked with the Brazilian congress to shield himself from corruption charges. Although international investors have applauded Temer's economic policies, 92% of Brazilians disapprove of his administration.

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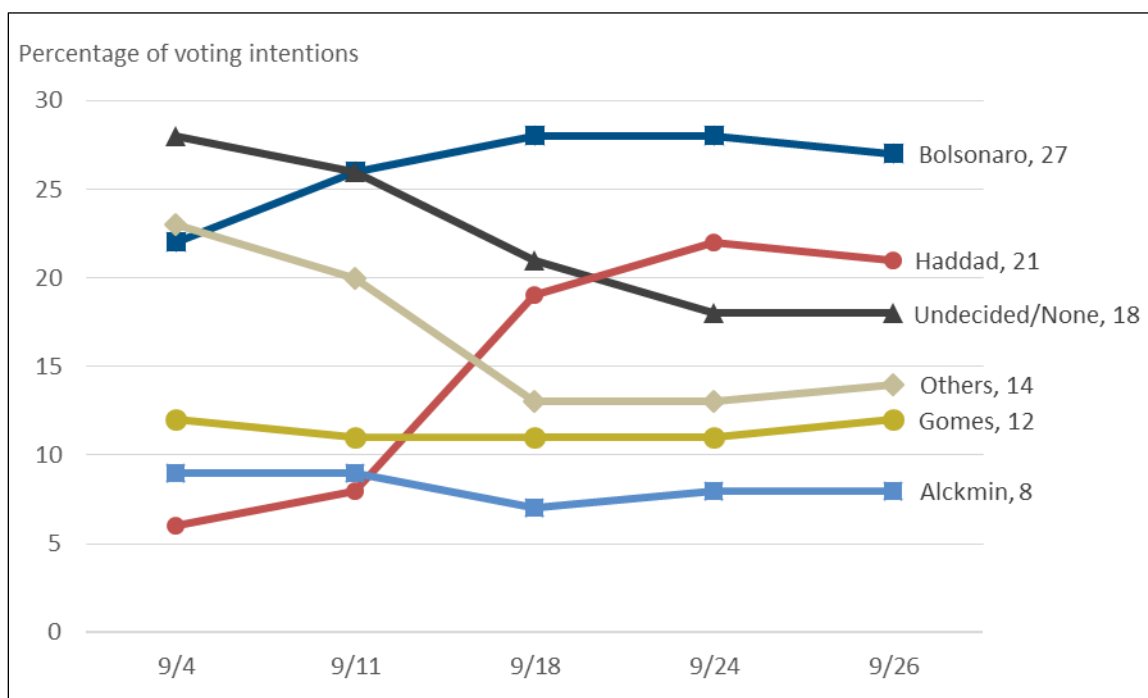
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Presidential Race

The current presidential front-runner is Jair Bolsonaro, a far-right congressman and former army captain backed by the small Social Liberal Party. Bolsonaro has been in congress since 1991 but is running as a political outsider. He is a longtime defender of Brazil's military dictatorship, and his running mate—a retired army general—suggested in 2017 that the armed forces might need to intervene to deal with corruption. In recent months, Bolsonaro has asserted that police officers should be free to kill suspected criminals and that land rights activists should be considered terrorists. Although his populist law-and-order message appeals to many Brazilians fed up with corruption and escalating violence, others have expressed alarm at his inflammatory comments and authoritarian sympathies. On September 6, Bolsonaro was stabbed at a political rally in an apparent assassination attempt. He was discharged from the hospital on September 29 but may not be able to return to the campaign trail before Election Day.

Figure 1. Presidential Election Polls: September 2018



Source: IBOPE Inteligência.

Most of Brazil's political establishment is supporting Geraldo Alckmin, a former governor of São Paulo state from the center-right Brazilian Social Democracy Party (PSDB). Alckmin has embraced the Temer Administration's economic agenda and pledged to enact additional market-oriented reforms if elected president. The parties backing Alckmin's candidacy control more than half of the seats in the lower house of congress, giving him the largest share of Brazil's public campaign finance fund and nearly half of all political advertising time on television. Those advantages have not translated into popular support, however, as Alckmin has been unable to consolidate the centrist vote and has lost some traditional PSDB voters to Bolsonaro.

Former president Luiz Inácio Lula da Silva (2003-2010) of the PT, who is currently serving a 12-year prison sentence for corruption, led the presidential race for more than a year. Electoral authorities declared Lula ineligible to run on August 31, however, after an appeals court upheld his 2017 conviction. Lula remains popular among many Brazilians whose standard of living improved significantly during his tenure. Fernando Haddad, a former education minister and mayor of São Paulo, replaced Lula at the top

of the PT ticket. He quickly won over many Lula supporters (see **Figure 1**) but continues to face competition for left-leaning voters from Ciro Gomes of the Democratic Labor Party. Gomes is a former member of congress, cabinet minister, and governor of the northeastern state Ceará.

If no candidate wins a majority of the vote, the top two finishers will advance to a runoff scheduled for October 28, 2018. The latest polls suggest Bolsonaro would enter the second round trailing each of his principal competitors.

Potential Policy Shifts

Many economists argue that Brazil's economic recovery depends on the next president enacting extensive reforms, including measures to reduce pension costs, simplify the tax system, and liberalize trade flows. Alckmin has embraced such policy changes, but the other candidates are more ambivalent. Haddad and Gomes have pledged to address the fiscal deficit; however, they also intend to reverse most of the Temer Administration's reforms and reassert a stronger role for the state in development. Bolsonaro has expressed support for market-oriented policies during the campaign but has advocated economic nationalism throughout his political career. Whoever is elected may struggle to move legislation through Brazil's fragmented congress. Stronger economic growth in Brazil could bolster demand for U.S. exports, which totaled \$63.7 billion in 2017.

Brazilian leaders, who have been preoccupied with domestic crises, have dedicated little attention to foreign affairs over the past five years. The next president will face similar challenges but could reassert Brazilian influence abroad once the domestic situation stabilizes. Most of the candidates likely would maintain Brazil's long-standing commitments to multilateralism, peaceful dispute settlement, and nonintervention. Bolsonaro is more likely to break with tradition. He has called for closer alignment with President Trump and has announced his intention to withdraw from multilateral arrangements such as the Paris Agreement on climate change and the U.N. Human Rights Council. A more assertive Brazilian foreign policy could help address global challenges, such as the crisis in Venezuela. It also could lead to bilateral tensions, however, when U.S. and Brazilian interests diverge.

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