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Shifting Fortunes: Brazil and Mexico in a Transformed Region

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Just three years ago, Brazil, the country that long marketed itself as the home of samba and soccer, was all the rage in global affairs. Adorning its cover with Rio de Janeiro’s Christ statue shooting up like a rocket, the Economist proclaimed in November 2009 that Brazil was “taking off.” The first among the BRICS (Brazil, Russia, India, China, and South Africa), the preeminent power bloc of developing nations, Brazil was, it seemed, realizing its enormous potential. It was enjoying strong economic growth. It was aggressively reducing levels of poverty—and even inequality—while fostering a vibrant democracy. If the twenty-first century was really to be the Century of the Americas, Brazil was poised to lead the way. Its star power had few peers.

While Brazil basked in effusive praise, Mexico, the other Latin American titan, was portrayed in markedly negative, sometimes even macabre, terms. The media described unremitting, drug-fueled violence that, in the most extreme depictions, threatened the very integrity of the Mexican government. Indeed, in a US government report, Mexico was viewed as possibly becoming a “failed state.” Spreading criminality was compounded by a severe recession in 2009. The economy contracted by over 6 percent, largely the result of a financial crisis originating in the country to which Mexico was inextricably tied: the United States.

In 2013, the narratives of the two countries that account for over half of Latin America’s population and almost two-thirds of its economic output have nearly been inverted. In the past two years, Mexico’s economic growth has exceeded Brazil’s; its violence, though still severe, declined markedly in 2012; and the onset of a new administration in Mexico City committed to pursuing far-reaching reforms has injected a measure of optimism regarding the country’s outlook.

In sharp contrast to Mexico’s moderate growth of roughly 4 percent, Brazil’s economy expanded by just 1 percent in 2012. Among other constraints, vulnerability resulting from Brazil’s heavy dependence on commodity sales—chiefly to an economically slowing China—became increasingly evident. In addition, international media accounts have focused on escalating violence in São Paulo and police raids into the favelas of Rio de Janeiro. And, as the World Bank has reported, it is far more difficult to do business in Brazil: Investors have become increasingly frustrated with a cumbersome public sector.

The ostensibly shifting fortunes of both countries caution against hyperbole and argue for nuance. The dominant characterizations of three years ago were overdrawn, and so are many today. Brazil and Mexico represent distinctive approaches to governance and development, and their positions in the Western Hemisphere and the world are appreciably different. Until now, their separate paths have only rarely intersected.

Brazilians and Mexicans are keenly conscious of each other’s performance, making comparisons inevitable. Still, it would be a stretch to describe the relationship as a rivalry in the strictest sense. Brazil and Mexico seldom clash over major economic questions (making a recent dispute over auto sales especially stand out), and their policies are hardly antagonistic. Rather, the two countries often jockey for position, power, and influence in a Latin America that in recent decades has been utterly transformed.

By most measures, both nations have advanced in remarkable ways. But they also face similar,
long-term challenges—not unlike those confronting the United States—including high inequality and deficient infrastructure and education systems.

**The Brasília Consensus**

Latin America has long been a veritable laboratory of political experimentation, yet over the past decade a formula for success embodied by the Brazilian experience has taken hold and exerted broad appeal. The ingredients consist of a commitment to economic growth through fiscal discipline, a significant concern for poverty reduction, and a deepening of democracy. Progress in each sphere can be attributed in part to a succession of effective political leaders, each with a remarkable personal story: Fernando Henrique Cardoso (1995–2002), Luiz Inácio “Lula” da Silva (2003–2010) and, currently, Dilma Rousseff.

All have, under different circumstances, sought to balance and integrate these three ingredients. Cardoso’s chief accomplishments were taming Brazil’s chronic inflation and initiating a more vigorous social agenda. Under Lula, and especially during his second term, Brazil “took off” in impressive fashion. The combination of strong growth and the expansion of a conditional cash transfer program, *Bolsa Família*, helped lift some 20 million Brazilians out of poverty during Lula’s eight years in office. Rousseff has adhered to the broad outlines of her predecessors’ approaches, though she has had to confront difficult challenges—both external and domestic—that have led to slower economic growth.

Few, if any, countries can match such competence and continuity in political leadership. Solid macroeconomic management, combined with a profound concern for the social agenda and a penchant for political negotiation, has produced extraordinary results in policy making. Brazil’s model was particularly tested by the 2009 financial crisis, which, defying many expert predictions, it weathered remarkably well. Its economy, today the world’s seventh largest, grew by 7.5 percent in 2010.

Brazil has also been at the forefront of the development of biofuels (ethanol in particular). And with its new oil finds and large reserves of shale gas, the country appears poised to become a major global energy power. The Brazilian government plays an active, interventionist role in the economy that, coupled with a strong private sector, has resulted in a hybrid, public-private approach toward economic development. This approach is reflected in Brazil’s biggest and best-known companies, such as the mining juggernaut Vale, the aerospace conglomerate Embraer, and, of course, the oil giant Petrobras.

Brazil’s record on its domestic agenda over the past decade has enabled it to play a more influential, high-profile role in global and regional affairs—fulfilling its long-held feelings of *grandeza* (greatness). The country will surely be in the spotlight in coming years as it hosts the 2014 World Cup and 2016 Summer Olympics. At the global level, Brazil has been notably assertive in forums such as the Group of 20 (Mexico and Argentina are the other Latin American members) and the World Trade Organization.

Its BRICS membership and ambition to become a permanent member of the United Nations Security Council (Brazil has been a non-permanent member 10 times since 1946) have opened doors for its presidents and top officials across the globe. Under Lula, buoyed by progress on the domestic front, Brazil pursued a more aggressive foreign policy, seeking to perform a mediating role in the Middle East while developing a joint proposal with Turkey (much to Washington’s displeasure) for dealing with Iran’s nuclear program. Showcasing Brazil’s commendable HIV/AIDS efforts, Lula also pursued more robust south-south diplomacy, including deeper cooperation with Africa.

Brazil has sought to enhance its global position with greater engagement in regional affairs. Regarding itself much more as a “South American” than a “Latin American” nation, Brazil has principally concentrated on its immediate geographic sphere of influence, while showing limited interest in Central and North America, which are viewed as the United States’ strategic prerogative. Indeed, Brazil’s distance and independence from Washington have been key to its aspiration to be taken more seriously as a global actor.

In 1991, Brazil jointly spearheaded the effort to create Mercosul (whose original members also included Argentina, Uruguay, and Paraguay), which aimed to eventually become a common market. This organization has since become less credible on trade questions, diverging from its original purpose and acquiring a more political cast. For many, this perception crystallized when Venezuela became a Mercosul member through the back door—the result of a hasty suspension of Paraguay (whose senate had been blocking Venezuela’s entry) following President Fernando Lugo’s (equally hasty) impeachment in June 2012.
Also on the regional front, building on what Cardoso began years before, Brazil (with Venezuela's backing) in 2008 launched the Union of South American Nations (UNASUL). This organization assumes an explicitly political function; it has, for example, established an affiliated South American Defense Council. In 2011, in a move that partly reflected the evolving Brazil-Mexico relationship, the Community of Latin American and Caribbean States (CELAC) got off the ground, encompassing all of the hemisphere's governments—with the exception of Canada and the United States.

Although Brazil has had little choice but to devote increased attention to hemispheric concerns in recent years, it has accorded even greater precedence to its global priorities.

**Mexico's Trajectory**

Geography may not be destiny, but Mexico's location just south of the United States has—for better or worse—significantly shaped its economic, security, and demographic situation. Roughly 80 percent of Mexico's exports, chiefly manufactures, go to the United States—compared with less than 20 percent of Brazil's. Two decades ago, the United States, Mexico, and Canada adopted the North American Free Trade Agreement (NAFTA), which has substantially boosted trade and investment among the three countries. Today Mexico is the second-largest trading partner of the United States, slightly ahead of China. Some experts predict that in six to eight years, Mexico could overtake Canada as the United States' principal trading partner, as connections across the Rio Grande continue to deepen on all fronts.

Under the administration of President Felipe Calderón, which ended in December 2012, the main story of the past six years has been Mexico's drug-fueled violence. It has taken some 60,000 Mexican lives. It has also hurt the country's economy (investment and tourism in particular) and, of course, its international image. Major US publications have frequently invoked sensationalist phrases to describe the country: "deepening drug-war mayhem," "reign of terror," "criminal anarchy." When Calderón took office in 2006, he called on the military to play a central role in carrying out the drug war, a move questioned by some Mexican and international observers.

As with trade, the links with the United States in the drug war are profound—but in this case, far less benign. As the world's largest consumer of cocaine and the primary provider of the smuggled arms used in drug-related killings, the United States bears an enormous responsibility for the criminal violence wracking Mexico. The Mérida Initiative, a program of cooperation between Mexico and the United States to combat drug-fueled violence, has been in place since 2008. While security collaboration has never been higher, the level of US support falls short of the magnitude of the challenge, and implementation of the initiative has been plagued by delays and inefficiencies. At the same time, the United States has been unable or unwilling to tackle contentious and difficult domestic reforms related to drug policy and gun control that could help allay the situation.

In recent years, Mexico's security crisis and even stronger ties with its northern neighbor have restricted its ability to pursue a more multifaceted foreign policy, as it once did during the Central American civil conflicts of the 1980s through the Contadora Group, a regional initiative. Instead, it has focused on deepening cooperation on a wide-ranging agenda with the United States, and on trade promotion worldwide. Mexico today has free trade agreements with some 40 countries, compared with the United States' 18.

Before 2010, Mexico's trade boom had been accompanied by lackluster economic growth, which encouraged significant out-migration to the north. This was largely the result of failure to pursue long-needed energy, fiscal, and education reforms, together with economic problems in the United States. For many years, the effect of China's rising role in the region was also considerably less helpful than it was in the case of Brazil. China, when its labor costs were lower, dealt a blow to Mexico's manufacturing sector, causing scores of factories to close and many jobs to be lost. Hit hard by the financial crisis and understandably wearied by the frustrating drug war, Mexico dropped to a low point in 2009 as pessimism intensified. At the same time, hype about Brazil was nearing its zenith.

**Turning the Tables?**

In the last three years of the Calderón administration, the outlook in Mexico began to brighten.
Most notably, the economy began climbing out of its deep hole, with growth approaching 4 percent in 2011 and 2012. The US recovery, however anemic, gave Mexico a needed boost. With labor costs increasing in China, foreign investment in Mexico began to increase, and exports became more competitive.

A new narrative has emphasized an expanding middle class (by some estimates, reaching nearly 50 percent of the population); a reduction in poverty levels (the conditional cash transfer program, though often associated with Brazil, actually began in Mexico in the 1990s); a public mood increasingly ready for real reforms; and, according to an April 2012 study produced by the Pew Research Center, net zero migration to the United States.

Further, although the overall security situation may not be on a sustained path of improvement, levels of violence declined in 2012. Some success stories have even begun to emerge: Ciudad Juárez, long a site of unprecedented levels of violence, recently witnessed a sharp drop in homicides.

The election of Enrique Peña Nieto of the Institutional Revolutionary Party (PRI) in July 2012 helped crystallize the perceptions of positive change. Although the PRI had dominated Mexico's political system for more than seven decades—and its highly authoritarian old guard has hardly disappeared—many argue that Mexican society has become far more democratic since the 1990s. There is little prospect of recreating the old PRI model in the context of an increasingly autonomous and assertive Congress, judiciary, civil society, and media.

Since the beginning of the new administration and announcement of the cabinet on December 1, 2012, there have been clear signs that Peña Nieto is moving quickly to undertake a broad reform agenda. Observers are relatively sanguine about the prospects for reform that would open Mexico's energy sector, with its significant endowments of oil and gas, to some form of private sector participation. Even during the lame duck session of Congress, labor reform designed to create a more flexible and formal workforce was adopted with ample support. And, within the framework of a new political pact among the country's three main parties, Peña Nieto has left little doubt that he plans to introduce badly needed education reforms, which would likely mean a fierce battle with the country's largest and most powerful teachers' union.

Just as Mexico has shown signs of an upswing, Brazil seems to be facing mounting difficulties. A slump in key European markets and the economic slowdown in China, together with indications that its huge domestic market has become overly leveraged, requires significant adjustments in Brazil's economic policy. Some argue, moreover, that Brazil has begun to reach limits on rapid growth unless it pushes through pending reforms to boost productivity across all sectors.

For example, a recent Foreign Affairs article entitled “Bearish on Brazil,” by Morgan Stanley's Ruchir Sharma, criticized the country for being overly dependent on commodity exports and not investing enough in infrastructure or manufacturing. The World Economic Forum's 2012–2013 Global Competitiveness Report ranked Brazil 107th worldwide in quality of overall infrastructure—far behind Mexico at 65th. Unlike Brazil, Mexico has recently been lauded for diversifying its exports over the past two decades: In the 1980s, 10 percent of Mexico's total exports were manufactures; now that figure stands at over 75 percent.

The automobile sector starkly illustrates the relative weight each country gives to exports versus serving its internal market. In 2011, the year for which the most updated data are available, Mexico produced 2.6 million vehicles and exported 2.1 million of them. Brazil, meanwhile, produced 3.4 million vehicles, but exported just 0.54 million of them.

Also, though investment is high in both countries, the so-called “Brazil cost” (the additional expense of goods due to insufficient infrastructure, high taxes and interest rates, and an excessively onerous bureaucracy) renders doing business more difficult. According to the World Bank, it takes an average of 119 days to start a new business in Brazil—the fifth-longest wait in the world. Mexico, in contrast, is one of the best countries in the region for conducting business. Although none of these problems is new to Brazil, they were largely eclipsed by more positive features highlighted during its widely touted “takeoff” phase.

Brazil’s economic setbacks have begun to constrain the country’s foreign policy projection. After a period of frenetic worldwide diplomacy at the end of the Lula period, Rousseff has assumed a
more subdued global and regional profile. At the same time, some of Brazil’s longstanding problems, such as corruption, criminal violence, and strains on the justice system, are bound to draw even more media scrutiny in the run-up to the World Cup.

After the United States, Brazil is the world’s second largest consumer of cocaine, and although there have been improvements and success stories in reducing urban violence, its homicide rate is higher than Mexico’s (23 versus 18 per 100,000 people, according to the United Nations). Brazil’s stepped-up antidrug policies in relation to coca-producing neighbors like Bolivia and Peru reveal how worried national authorities are about this problem.

Nevertheless, though Mexico’s star has recently brightened—while Brazil’s has faded a bit—it is unwise to embrace any sweeping, zero-sum interpretations about the region’s two most important countries. Both nations are protean, susceptible to natural economic cycles, shifting global tendencies, and national vicissitudes. Moreover, though continued progress is likely in terms of both countries’ national development and global role, their enduring challenges are significant. They are also strikingly similar.

**TWO PEAS IN A POD**

The litany of problems facing Brazil and Mexico is by now familiar. While crime and security issues have different manifestations in each country, they remain serious challenges that demand more effective and credible police forces and justice systems. Deteriorating infrastructure remains an obstacle to robust development, though the Rousseff administration has recently undertaken a notable initiative with public and private sector support to address this challenge, especially in advance of the World Cup and Olympics.

Low productivity stems in part from the poor quality of education; although access to schooling in both countries has significantly increased, the amount that students are actually learning remains dismal by global standards. The Program for International Student Assessment, a project of the Organization for Economic Cooperation and Development, in 2009 ranked Brazil 52nd out of 64 countries for reading and 56th for math; Mexico fared only slightly better, ranking 47th for reading and 49th for math.

In terms of fiscal issues, both governments have displayed admirable discipline, yet taxation in Brazil is too high and regressive. Mexico, in contrast, taxes too little and makes up for it by drawing on oil profits, undercutting the vitality of its energy sector.

The problems of inequality and corruption deserve special mention. Although recent studies by the economists Nora Lustig and Luis López Calva show that there have been modest reductions in inequality in both Brazil and Mexico, both countries remain among the worst performers in the Americas.

In 2009, for example, the top 20 percent of Brazilian earners accounted for 59 percent of the nation’s income, while the bottom 20 percent’s share was merely 3 percent. Mexico is quite similar: That year, the top 20 percent received 54 percent of earnings, compared with the bottom quintile’s meager 4.7 percent. The still enormous gaps between rich and poor have important political and economic implications. In coming years, progress on fiscal and education reforms will be critical to achieving a more equitable distribution of income.

There are few rigorous and reliable measures of corruption, though governments in both countries (and throughout much of Latin America) have identified it as a priority. According to the 2012 Corruption Perceptions Index produced by the monitoring group Transparency International, Brazil fares better than Mexico. It placed 9th among the 26 Latin American and Caribbean countries, while Mexico came out 16th. Not surprisingly, the issue has drawn considerable media attention in both countries.

Since Rousseff assumed office, she has wasted no time demonstrating her intolerance for corruption, and has fired seven of her ministers. The so-called mensalão scandal, which involved millions of dollars in bribes to members of Congress during the Lula administration, has resulted in the most significant trial in the country’s modern history, even sending the former president’s chief of staff to prison. A new “clean slate” law, forbidding individuals with criminal records from running for office in Brazil, barred some 1,200 candidates nationwide in 2012.

In Mexico, meanwhile, *The New York Times* has done much to expose the misbehavior of the giant retailer Wal-Mart, which reportedly offered bribes on a regular basis to Mexican officials for favors such as zoning approvals. The recently installed Peña Nieto administration has already set up a new anticorruption commission.
In sum, while it is tempting to extrapolate from short-term swings in each country, it is more productive to examine longer-term trends. Brazil and Mexico exhibit distinctive policy approaches, largely attributable to their geographical positions and divergent political legacies. On balance, the tendencies in each are heartening and point to more significant influence in global affairs, sustained growth, social progress, and political openness. Dramatic retrogressions in each country seem improbable. Nonetheless, the pending challenges remain serious and, unless effectively tackled, will impede continued progress for both nations and the region as a whole.

LOOKING AHEAD

Forecasts predict Mexico and Brazil to be among the world’s top ten economies by 2020; indeed, some projections rank them within the top five by mid-century. Both countries’ influence in regional and global affairs is bound to grow in coming decades. In a hemisphere in considerable flux, Brazil and Mexico’s decisions about their economic policies and governance models will be critical in shaping the future direction of the Americas.

For Mexico, the strategic alignment with the United States is likely to endure. No matter what strains and tensions emerge over sensitive bilateral questions that invariably arise in a close relationship, the increasingly profound connections between the two countries militate against any significant rupture. Migratory flows over the 2,000-mile border are bound to accelerate, not diminish, though one hopes they will occur under a more sensible and realistic legal framework. Current and subsequent Mexican administrations may well seek to diversify their relationships in the hemisphere and throughout the world, but the bilateral agenda will require continued attention and effort.

To be sure, such close ties carry some risks for Mexico. The country’s dependence on the United States for such a large percentage of its exports, remittances, and tourist dollars is of some concern. The costs to Mexico of the 2008–09 financial crisis underscore the hazards of close reliance on a single partner. At the same time, such deep linkages confer clear advantages. Most obviously, the US anchor gives Mexico proximity to the world’s largest economy and provides a huge market for its goods and labor. Mexico’s solid industrial sector is the result in part of competing with countries such as China for market share in the United States.

If there is serious immigration reform in the United States—and reform of the energy sector in Mexico—the prospects for an even stronger bilateral relationship will increase. These were the most sensitive concerns when NAFTA was negotiated and approved two decades ago. If there is progress on both fronts, the opportunities for deepening integration will multiply.

Also critical will be whether a major new trade initiative, the Trans-Pacific Partnership (TPP), actually takes hold. In addition to Australia, New Zealand, a handful of Asian countries, and Mexico, the TPP prospectively includes the United States, Canada, Peru, and Chile. If such a scheme were to carry weight and prosper, it would have profound implications for cementing economic ties between the more open Latin American and Asian economies and ensuring that the Pacific remains the world’s most dynamic market.

It is unclear how Brazil and the more closed Mercosul countries would fit into such a scenario. While the TPP and other initiatives to more formally link Latin American countries with Asia hold enormous commercial promise, they risk further accentuating already discernible strains in hemispheric economic relations. A major question moving forward is the possibility of a more pronounced bifurcation in the hemisphere—with discrete US- and Brazil-led blocs—and the growing challenge of achieving broader hemispheric cooperation on a common agenda.

Brazil does, however, enjoy considerable advantages as it carries out its global and regional strategies. The country is economically diverse (its trade, for instance, is fairly evenly distributed among China, the United States, Europe, and Latin America); its resource endowment is formidable; and it has substantial political initiative and ample room for maneuver.

With almost half of South America’s population, Brazil has a massive internal market fostered by extending new lines of credit, which has resulted in an expanding middle class. While many bemoan Brazil’s protectionist bent, its robust consumption may allow policy makers to expand the economy—albeit perhaps not as efficiently—with

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limited exposure to foreign competitors. And Brazil's independence from the United States, as it has historically, will likely enable it to more effectively pursue multiple options on the global stage.

While Brazil and Mexico have forged ahead independently of one another, it would be a mistake to rule out the possibility of greater economic and political cooperation between the two in coming years. Certainly, Brazil's decision in 2012 to impose high tariffs on Mexican automobiles did little to inspire confidence among business leaders. But with the prospect of energy sector reform in Mexico—and given that Peña Nieto has cited Petrobras as a possible model to follow—serious bilateral cooperation on that issue could be in store.

In addition, with Brazil's disappointing growth in 2012, and an increasingly problematic commercial relationship with its neighbor Argentina, the Rousseff government may find Mexico's expanding market attractive.

**STRATEGY AND OSCILLATIONS**

Over the past dozen years, Latin America has undergone dramatic changes. The region has become stronger economically, more independent politically, and more assertive in global affairs. Deepening fiscal problems and debilitating political polarization within the United States have only reinforced this trend by limiting Washington's sway. The result has been a region increasingly emboldened, yet also fragmented and moving in a number of directions at once. In this context, the relative success of Mexico and Brazil likely will influence how other countries choose to navigate an unpredictable global marketplace and the demands of an emergent middle class.

In a hemisphere in such flux, it is scarcely surprising that the apparently changing fortunes of Brazil and Mexico have given rise to commentaries about which will occupy the number one spot. In February 2012, Mexico's former foreign minister Jorge Castañeda claimed in an op-ed in *El País*, entitled “The Mexico-Brazil Rivalry,” that once Mexico's drug war wound down—and Brazil's poor infrastructure and communications were exposed during the World Cup—the Brazilian government's marketing of a twenty-first century miracle would be effectively debunked.

In August 2012, *Forbes* asserted, “Sorry Brazil, Mexico Is Better.” The title of a *New York Times* piece on the G-20 meeting held in Los Cabos, Mexico, in June 2012, was telling: “World Leaders Meet in a Mexico Now Giving Brazil a Run for Its Money.” The *Economist* and *Financial Times* blogs also have noted that Mexico seems to be pulling ahead of Brazil, with the latter instructing readers, “Forget the BRIC countries or even just Brazil . . . it's all about Mexico now.”

The so-called “Latin rivalry” provides grist for the media mill and makes for a compelling narrative. But tracking the supposed competition to see which one of the region's twin powers is up and which is down serves as little more than a distraction and is shortsighted. For the United States, the fundamental question is how to build a more productive, long-term relationship with both countries. These relationships demand commitments from Washington as serious and sustained as with any top-tier nation in the world.

Regardless of the choices they make, Brazil's and Mexico's underlying trajectories should be matched with a correspondingly farsighted mindset among senior US policy makers—a mindset that remains focused on strategic considerations, no matter the eye-catching oscillations of the moment.