

# Modern Brazil

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## Kick-start to new era as nation takes centre stage

A decade of economic expansion has created a new middle class. But tough choices lie ahead if momentum is to continue, writes *Joe Leahy*

In a month, Brazil, Latin America's largest country, will host the event that will define it as a nation fit for the future. But the person who will make that first kick at the 2014 World Cup at the gleaming new Itaquero stadium in São Paulo will not be a football player. In a tribute to Brazilian innovation and compassion, that privilege will go to a paraplegic patient wearing a mind-controlled robotic suit – cutting-edge technology developed by Miguel Nicolelis, a Brazilian neuroscientist. The patient, yet to be chosen, will use an experimental robotic exoskeleton that reacts to signals from the brain to step out of their wheelchair, then kick the ball before play starts between Brazil and Croatia in the tournament's opening match.

"We are navigating territory that has been completely unexplored," says Professor Nicolelis of the technology used in his "Walk Again" project. The same could be said for Brazil. The world will come to the tournament expecting the same old country of football, carnival and samba. But the more observant will sense that beneath the party atmosphere, profound changes are taking place. After more than a decade of economic stability accompanied by the rapid growth of a new lower-middle class, Brazil is no longer easily summarised by a handful of clichés. "If it is well administered without demonstrations and such, [the World Cup] will be a marvellous thing for the country," Pelé, the veteran Brazilian footballer, tells the FT in an inter-



All eyes on the future: young football fans show their allegiance

view. "There is no way you can understand Brazil, without speaking of football's role in promoting the country." Once many might have agreed unreservedly with Pelé's analysis, but today few would argue that Brazil's place in the world is defined only by its fortunes in international football. The country controls its own destiny, in terms of economics, politics, international relations, culture or science. Brazil's transformation dates from 1994 and the beginnings of the Real Plan, when it began tackling runaway inflation. Starting in 2003, Luiz Inácio Lula da Silva, the then-president, stabilised market sentiment through responsible fiscal and monetary policy. He tackled inequality by expanding conditional transfer programmes such as Bolsa Família, which offers a monthly stipend to low-income families in exchange for sending their children to school. This, combined with greater access to credit and falling unemployment, started a consumer boom. Meanwhile, windfall prices for Brazil's commodity exports to China allowed the country to accumulate one of the world's largest stockpiles of foreign exchange reserves. The long economic expansion has created a Brazil almost unrecognisable from that which Mr Lula da Silva, the former unionist firebrand, inherited from Fernando Henrique Cardoso, his centre-right predecessor. Brazil is the world's fourth biggest market for cars, having overtaken Germany, according to Anfavea, the national automakers' group. The big four – Fiat, Volkswagen, General Motors and Ford – dominate the market, but newcomers such as China's Chery are flooding in. Brazil's lower middle class, not long ago an almost invisible mass preoccupied with daily survival, is emerging as a social, political and cultural force. Stars such as Gaby Amarantos, a singer from a tough neighbourhood in Belém, the capital of the remote Amazonian state of Pará, are testimony to its growing clout. Unlike in Pelé's day, Brazil's sports

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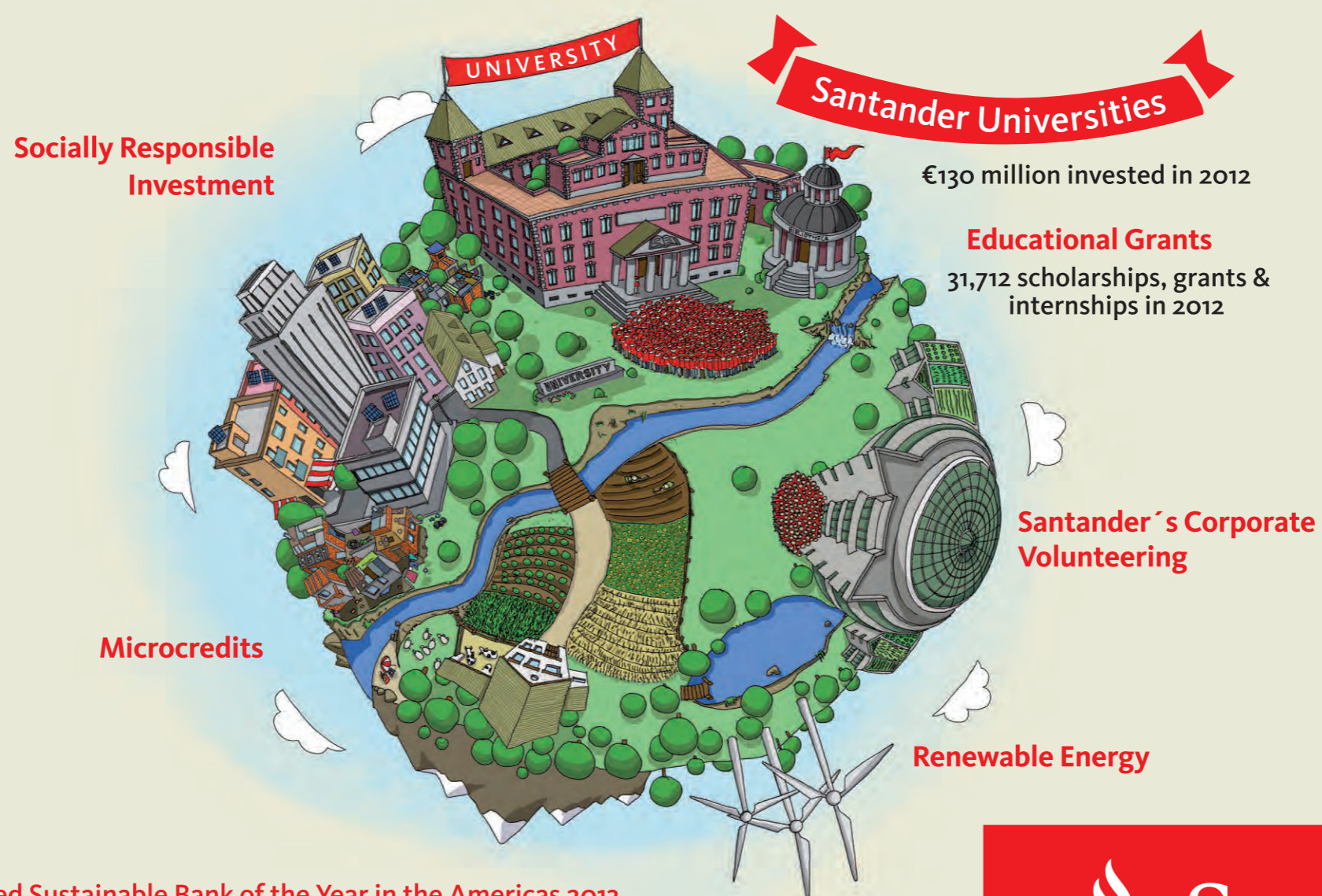
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Santander named by Financial Times

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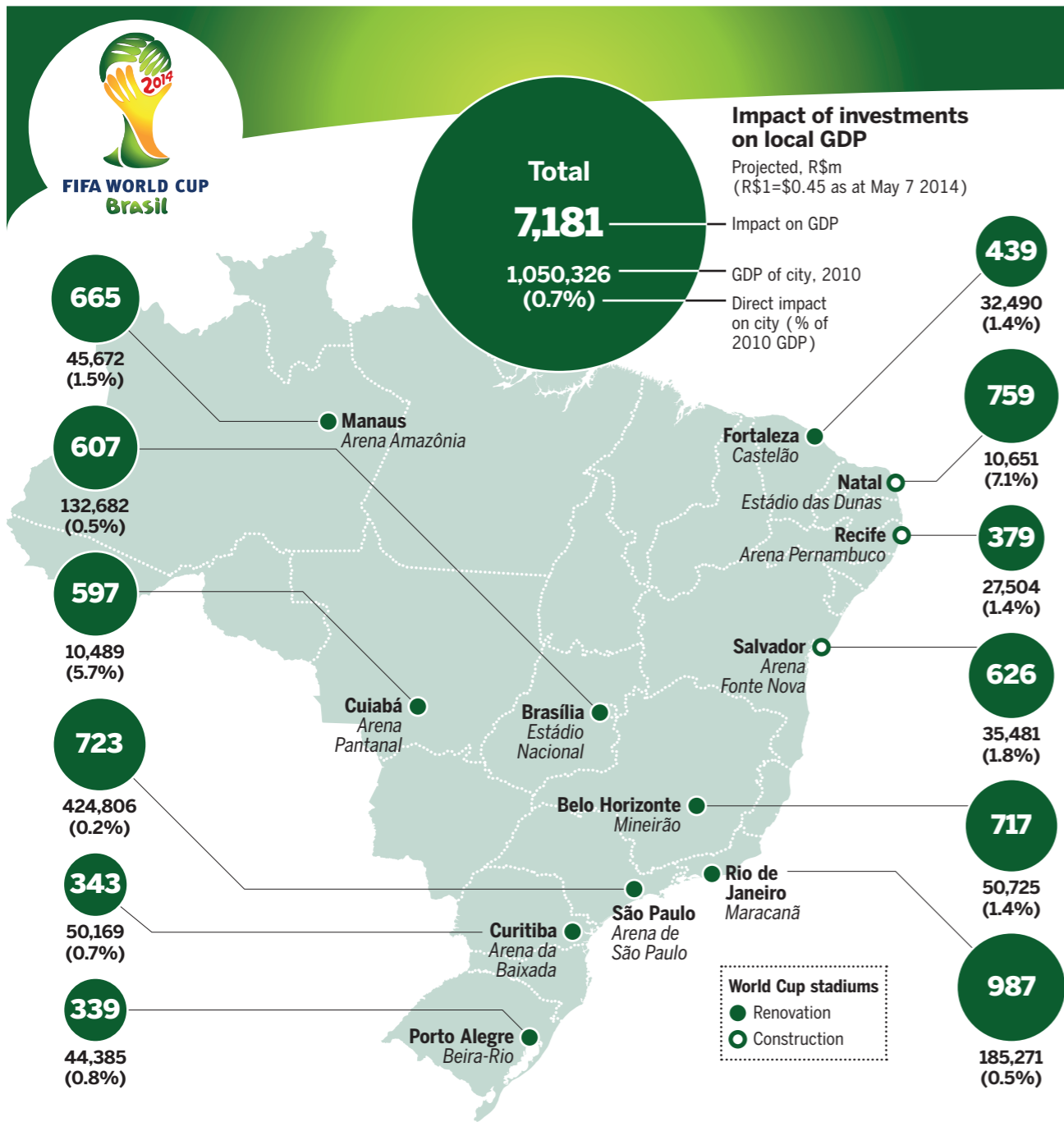


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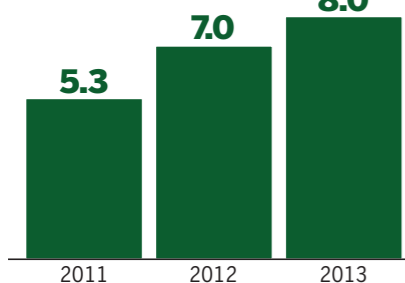
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## Modern Brazil World Cup and Olympic Games

### Sporting infrastructure for the world stage

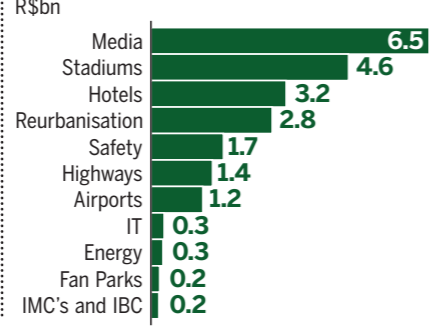


#### Estimated cost of the 12 World Cup stadiums



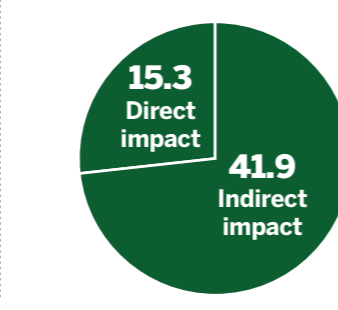
Source: FT research; Ernst & Young; FIFA; Rio 2016

#### World Cup expenditure\*



\* Based on original cost estimates

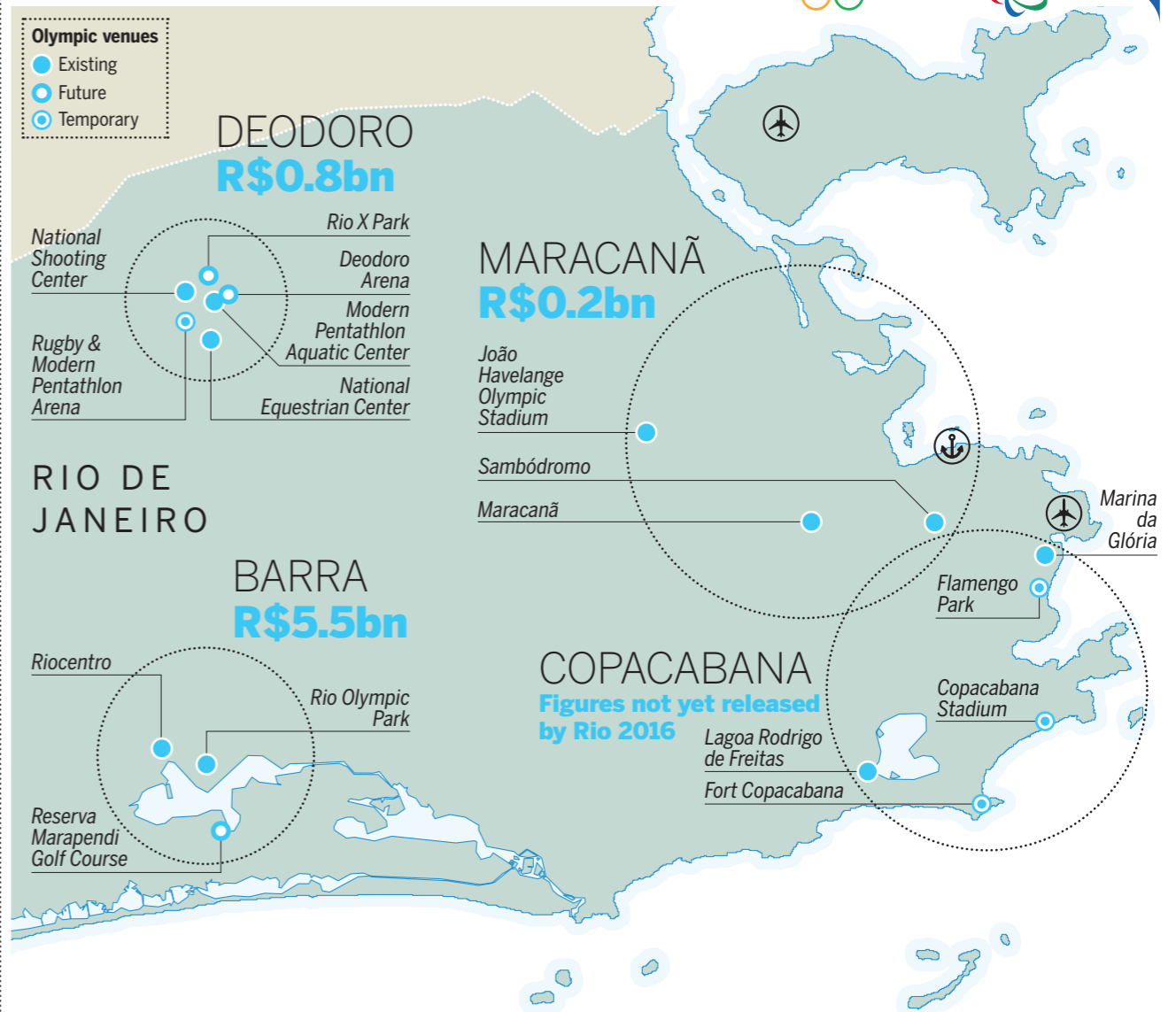
#### World Cup impact on GDP\*\*



\*\* 'Direct impact' estimates the GDP gain from investment and incomes from World Cup projects, mainly from the construction and business services sectors. 'Indirect impact' measures the gains to all other areas of the economy resulting from this increase in investment and incomes

#### Budgeted expenditure for Rio 2016 main zones

Up to April 2014, R\$billion  
(R\$1=\$0.45 as at May 7 2014)



#### Rio 2016 transport projects

Estimated costs

**Metro Line 4**  
Subway  
**R\$8.8bn**

Six new stations and 16 km of new tracks will remove 2,000 vehicles per hour from rush hour traffic and transport up to 300,000 passengers a day

**VTL Porto**  
Light rail  
**R\$1.2bn**

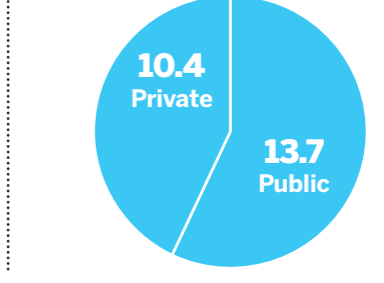
Will connect the Port regions to the centre. The upgrade will allow the light rail system to carry 300,000 passengers across Rio

**BRT Transolympia**  
Bus  
**R\$2.3bn**

The upgrade will add 16 km of roads and eight new stations, connecting the Barra and Deodoro regions. Able to carry 70,000 people per day

#### Rio 2016 investment split for budgeted projects

R\$billion



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## Protesters complain 'no one represents us'

**Politics** World Cup to be focus of dissent, writes *Samantha Pearson*

More than 1m Brazilians took to the streets last June in the country's biggest protests in over two decades. The demonstrations, which were largely organised via Facebook, were sparked by rises in public transport fares, but quickly spread to include grievances over corruption and poor state health services. Sporadic protests have continued since, drawing fewer people but often turning violent. Now, many groups are promising a wave of protests in June and July, when Brazil hosts the World Cup. One of the protest leaders behind the "Não vai ter Copa" ("There will be no World Cup") movement, a 21-year-old law student who lives on the outskirts of São Paulo, talks to the FT. He has asked to remain anonymous for fear of arrest.

#### When did you get involved in the protests?

I started taking part in June last year and since then I have helped organise various protests, including against the World Cup. The movement began spontaneously and we created a page for it on Facebook in January. We've organised five protests against the cup so far and we're about to hold another one.

#### Why are you against the World Cup being held in Brazil?

Society in general and people who live on the "periphery" (the poor outskirts of Brazil's cities) are disillusioned with the World Cup. We need better education and better health services – when you go to a clinic, sometimes there are no doctors to help you – and the quality of public transport is terrible. There are many things that people who live out here are angry about.

#### But Brazilians love football.

Brazilians like football, yes; we are not against sport. We are against the use of public money for a private and global event that will not bring any benefits to the population.

#### How have the police reacted to the protests?

I've been sworn at and threatened by the police – this happens all the time. Once, in the middle of a protest, we went to the police station to help some friends who had been



Protesters are keen that international media 'show what is happening here'

arrested. Some policemen stopped us and told us they would beat us up. They beat up some people nearby and then the police took our mobile phones and forced us to give them our passwords so they could erase any videos or anything showing them doing this.

The military police are the worst. They don't really know how to deal with the situation – they are very aggressive.

[Asked to respond, the military police force said in a statement that it acts in demonstrations to protect people, especially protesters. However, it had a duty to restore public order whenever it was compromised, by using legitimate means and necessary force. It noted that all the allegations related to the actions of the authorities during the June 2013 demonstrations were subject to a police-military investigation, which was reported to and submitted to the judiciary.]

#### What will the protests be like during the World Cup?

There will be fewer people (than there were during the protests last year), but the protests will be more

violent. We are also planning to boycott the companies that are sponsoring the World Cup.

#### Will you target foreign tourists?

No, but we will do such things as invade the airport. We want to show tourists – we want to somehow use the international media – to show what is happening here. We will use the visibility of the World Cup to expose the problems we suffer.

What is more likely to happen to tourists is that they will be robbed. The drug trade will probably also increase, because tourists here are always looking for a good time.

#### Why do the protests often involve acts of vandalism?

If there wasn't any violence, no one would know anything about the protests. We had two protests that weren't violent and the media hardly reported on them at all. Violence is a way of people saying they have had enough, a way to show their dissatisfaction with what is happening and with the government.

If the population pays more attention when protesters break banks' windows, then so be it; or when buses are set on fire, so be it.

The media here often manipulate the situation in favour of the government, though. Protesters are against Globo TV (Brazil's largest television network) in particular. We are tired of seeing something different on the television from what we see on the streets. They make us out to be vandals with no political sensibilities. This helps to criminalise what we are doing and legitimise police violence against us.

In response, Globo TV defended its coverage, saying: "Both organisers and authorities were heard. We presented acts of protest that passed without violence; we recorded actions of vandals and cases of police brutality. People tend to see their point of view. We understand this, but we must maintain our commitment to portray reality, showing everything, leaving nothing out. That is what we did and will continue doing."

#### Brazil will hold presidential elections in October. Do protesters favour any party?

We are against the president, the governors, the mayors, the opposition – everyone. We call it a "crisis of representation" – no one represents us.

## Modern Brazil



Glittering prize: Pelé – Brazil's 'O Rei do Futebol' (King of Football) with the Fifa World Cup trophy at an event to promote the tournament

Getty

# Leaders look to keep a lid on World Cup protests

**Social unrest** Football icon Pelé leads calls for calm during tournament, although issues likely to resurface during the election, writes *Joe Leahy*

Pelé, the man known as Brazil's greatest footballer and usually referred to with the honorific *O Rei do Futebol* (King of Football), enters the room with an air of royalty.

He is appearing at a conference arranged by Iese, the Spanish business school, on the commercial aspects of football.

Pelé is instantly crowded by students eager to have their picture taken with him. Once they are shunted out by a security guard, he sits down for an interview.

Unsurprisingly for a man who owes his rise from humble beginnings to world acclaim wholly to sport, and who has long supported Fifa, football's global organising body, he is unreservedly upbeat about Brazil's hosting of the World Cup from mid-June to mid-July and the Olympic Games in Rio de Janeiro in 2016.

"For the country, this will be something marvellous, because it will bring many tourists, a lot of foreign exchange, and it will promote our Brazil," says Pelé.

Despite his enthusiasm and that of Brazil's centre-left government, first under the administration of Luiz Inácio Lula da Silva, the former president who led Brazil's campaigns to host the World Cup and the Olympics, and latterly under President Dilma Rousseff, the mood in the country before the tournament is strangely sombre.

On the minds of politicians, analysts and sponsors is whether there will be a repeat of the mass street protests that shook the Confederations Cup last June, when 1m Brazilians took to the streets. Promised immeasurable economic benefits from hosting the World Cup and a legacy of better urban transport links, Brazilians are disillusioned by perceived

overspending on stadiums and under-delivery by the government on other public services, such as schools, hospitals, metros and buses.

The Confederations Cup experience was telling, particularly for Ms Rousseff, whose former record approval ratings plunged after the event. She has since recovered some ground – she still leads her nearest rival in the polls by 15 percentage points – but her position is not as secure as it was before last year's protests.

"Her approval rating tumbled after last year's anti-government protests and has never really recovered," says London-based research house Capital Economics in a report. "Those protests were driven mainly by complaints of cronyism and corruption, particularly surrounding preparations for next month's World Cup."

Others believe, however, that Ms Rousseff's dip in the polls is cyclical

and that public opinion will shift once the World Cup is out of the way – provided nothing goes wrong.

"The president's numbers will probably stabilise during the World Cup and recover as the election campaign begins in earnest after the games," says Eurasia Group, a political research company.

While a hard core of protesters remain angry over public expenditure on the tournament and are ready to fight on the streets, others are sceptical that the mainstream public will follow them during the World Cup. Brazilian society's natural shock absorbers – its sense of humour, conservatism and distaste for violent confrontation, and its ability to adopt new trends – are taking some of the fury out of the general protest movement.

Alexandre Gama, the chief creative officer for Brazil at Bartle Bogle Hegarty, the UK-based advertising

agency, says he was not sure how Brazilians would react when they saw the World Cup and demonstrations side by side. "That is very new for us."

But he says Brazilian society is excellent at "devouring cultural stuff" and turning it into something not necessarily better but "absolutely not the same". Take the protests. Mr Gama says Brazil is turning them "into something else with less weight... that's how we deal with differences".

One example was this year's São Paulo fashion week. Normally focused exclusively on haute couture, this year one designer's models carried crosses protesting against issues such as prejudice. The exercise softened the movement, using beautiful people and imagery to make its points, in contrast to the violence of protesters clashing with police on the streets.

Still, there remain plenty of signs of potential trouble. Over the past week

or two, for example, a crowd of impoverished and homeless people has invaded an empty parcel of privately owned land near São Paulo's Itaquerao stadium. They claim the World Cup has raised rents and land prices in the area, making life unaffordable for them and necessitating the creation of this new favela.

One of the invaders is Valdirene Cardoso, who works as a chef's assistant. She earns Brazil's minimum salary of R\$724 (\$327) a month. "The rent of a two-bedroom house is now about R\$600, so we have to choose if we want to eat or just pay rent," she says.

However Brazilians feel about injustices associated with the World Cup, Pelé for one is keen to try to persuade his compatriots to sort out their differences once the event is over. Get behind the national team, he says. The players have nothing to do with the country's political problems.



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## Modern Brazil Politics and economy

# Engagement brings country benefits

### International role

Actions lag behind the aspiration of being a big player, writes *Joe Leahy*

When Marcelo Gurgel, a Brazilian army colonel, went on a peacekeeping mission to Ivory Coast in 2010, the mission turned out to be anything but peaceful.

After Laurent Gbagbo, the country's former president, refused to give up power despite losing an election that international observers had judged fair, his supporters turned hostile to the UN forces based in the country.

Many UN troops were confined to base, but Col Gurgel, who was then a major, still managed to slip out on occasion to retrieve clothes or other belongings in a house in the capital that he and a few other Brazilians had rented.

They travelled in unmarked cars and their Brazilian passports also helped. Supporters of the former president, who shortly afterwards fell from power and was tried for war crimes, were looking more for French and Americans because of those countries' open opposition to Mr Gbagbo.

"We went to the house and passed through checkpoints," says Col Gurgel. "When they discovered we were Brazilian, they chatted about football, Ronaldo and Romário. They let us through because of Brazil's neutral position in the crisis."

Col Gurgel was at the spearhead of what has become one of the chief preoccupations of modern Brazil: how the country should project itself as a growing global economic force while maintaining its traditional neutrality and commitment to peaceful resolution of conflicts.

### Brazil faces a paradox: it is a regional power with global ambitions

Part of the answer has been to participate in UN peacekeeping missions. These allow the military to play a role in resolving conflicts based on the multilateral politics of the UN, without being forced to take sides in the play between great powers.

"Peacekeeping under UN aegis has enabled Brazil to showcase its perceived added value in terms of its expertise on stabilisation, its record on development and conflict mediation, and advocacy for the global south," said a report in March by Noref, the Norwegian Peacebuilding Resource Centre, referring to the group of leading non-aligned developing countries. This includes India, China and South Africa.

Since Brazil began peacekeeping in 1956, it has participated in 46 of 65 UN missions and has deployed 11,669 personnel in total.

Until the government of former president Luiz Inácio Lula da Silva, however,

these missions were mainly symbolic. Brazil generally participated in operations under the UN's so-called Chapter VI: peacekeeping with limited use of force and requiring the consent of all concerned.

The year after Mr Lula da Silva took power in 2003, Brazil took its first military leadership role in a UN mission in Haiti, known by the acronym Minustah.

This was a Chapter VII operation – peace enforcement, or forcible intervention – making it more controversial for a nation constitutionally committed to non-interference in others' affairs.

"Brazil's engagement in Minustah was contentious from the onset," the Noref report found. "Not only because it contravened the principle of non-intervention inscribed in the Brazilian constitution, but also – and especially – because the mission was perceived by some as complicit with US and French plans to oust President Aristide of Haiti."

The report noted that Brazil justified its participation by emphasising that the mission was "endorsed by the UN" and "consistent with the interests and directives of Haiti's authorities".

The Haiti mission provided a platform for Brazil to exert regional leadership. The mission was the first to have the majority of its personnel hail from Latin American nations.

Brazil further increased its dedication to peace when the army opened its peacekeeping operations centre in 2005 in Rio de Janeiro, otherwise known as the Sergio Vieira de Mello Centre.

Brazil has a dilemma when it comes to peacekeeping because of the paradox it faces in its international relations. It is a regional power with global ambitions; for example, it wants a permanent seat on the UN Security Council.

Despite being a western democracy, its doctrine of non-interference, say critics, regularly puts it at odds with Europe and the US and, de facto, on the side of authoritarian powers such as China and Russia.

The Ditchley Foundation, a UK-based think-tank, staged a recent conference on Brazil's place in the world and said it needed "to take more account of the perceptions of others if she wanted to be seen as a country with real weight and influence".

Col Gurgel is one who can testify to the benefits of international engagement. His eight-month deployment to the UN headquarters in Ivory Coast was dangerous but brought many advantages.

Not only did he become more familiar with French and English, but he worked with servicemen from all over the world, acquiring broader knowledge of peacekeeping and soldiering in general.

"We got to know other cultures, including African culture, which I think must be the source of our traditional Brazilian cheerfulness," he adds.

"I saw the people there in the middle of every type of difficulty always making the best of it – always smiling."



# Tackling a crisis of confidence tops Rousseff challenger's list

Interview Centrist election hopeful Eduardo Campos explains his vision to *Joe Leahy*

**B**razil's presidential elections in October are shaping up to be a three-horse race. In the lead with approval ratings of about 37 per cent is President Dilma Rousseff. As a strong incumbent, the election is hers to lose.

But a scandal at Petrobras, the state-oil company that she led before her election in 2010, a slowing economy and persistent inflation are eroding support for her and her Workers' party, the PT. The party will have been in power for 12 years by the end of this year.

In second place, with approval ratings of 22 per cent, is Aécio Neves, the head of the Brazilian Social Democracy Party (PSDB). This led Brazil in the eight years until 2002 and is seen as more economically liberal than the left-leaning PT.

Finally, with approval ratings of 12 per cent and rising fast, there is Eduardo Campos of the Brazilian Socialist party. Hailing from an established political family in Recife in Brazil's northeast, Mr Campos and his vice-presidential candidate, Marina Silva, represent a new force in politics, because they have the potential to break the PT-PSDB's 20-year stranglehold on power.

At 48, Mr Campos is the youngest of the candidates. Here, the former governor of the northeastern state of Pernambuco outlines his electoral pitch.

### What is wrong with the Brazilian economy?

Brazil has fundamental macro-economic problems, but they are not greater than challenges faced in the past, nor are they worse than the difficulties that many countries are experiencing now.

We now have a crisis of confidence. Society had the perception that things were getting better day by day. We built a democracy, we overthrew the authoritarian regime [Brazil's former dictatorship of 1964-1984], we overcame hyperinflation, and we built sound macro-economic fundamentals.

We began to reduce inequality. We had great expectations that the president [Ms Rousseff] would

preserve these achievements and build on them, that she would improve governance [and] inspire confidence in investors, so that they would help us with infrastructure, with concessions and public-private partnerships.

[But] then society started to perceive that some things had stopped improving and others had started to worsen again.

In the short term, we need to recover the confidence of investors here and abroad through macro-economic governance that is backed by performance guarantees, with targets that are met, such as for inflation [and] for the primary fiscal surplus [the budget surplus before interest payments].

In the longer term, we need to focus very strongly on two pillars: productivity and quality.

The time has come for Brazil not only to make speeches about education, but to provide quality education, starting [with] creches.

On infrastructure, we don't have the money in the budget to do it alone, so we need to... animate investors to help us build the roads, railways, seaports, airports, gas lines [and] power plants that we need.

Finally, in this search for productivity, we need to simplify the country by reducing bureaucracy and our taxation system.

A large state does not want that, it wants everything to be complicated... But we need to invert the logic in which today in Brazil it looks like society works for the state rather than the other way around.

### People say that Brazil needs a "confidence shock" to win back investors. What would you do?

In our government, the central bank would have administrative autonomy...

I think it is very important that you guarantee that the [inflation] targets are indeed the targets and that you don't have a situation, as we are seeing now, in which the macro-economic and monetary policies work contrary to each other.

It creates a very negative impression for investors – [our present state of] high inflation, low economic growth and rising interest rates.

### Radical strategy: Campos wants to see a focus on 'productivity and quality'

Reuters

### What would be your new formula for Petrobras?

[In an unofficial policy to control inflation, the government has been forcing Petrobras to import petrol then sell it at below international prices.] Being an international commodity you have to have a rule that takes a reading of the international oil price.

### What about the rule that requires Petrobras to participate in all the pre-salt concessions?

[After Brazil's discovery of huge offshore fields, known as "pre-salt" because they lie under a layer of the material beneath the ocean, the PT introduced nationalist legislation requiring Petrobras to hold a 30 per cent stake in every field alongside private sector bidders.

The measure was considered onerous because of the size of the required investment. It has led to a situation where Petrobras, already lacking in cash because of the fuel subsidies, is seen as wanting private sector bidders to pay the government less in auctions for the fields because it cannot afford to pay its part to develop them.]

We are the country of pre-salt and we are importing billions of dollars in fuel and we have Petrobras hoping that the concessions will be sold more cheaply so that it can pay less. The poorer it is, the less it supports Brazil.

We would like a Petrobras and a Brazil that both pull in the same direction.

### One problem the next president will face is the difficulty of assembling a coalition in Congress, because of the sheer number of parties. This often leads to charges of corruption, as the president awards ministries to coalition allies. What will you do about this?

In our government, no party will have a ministry that it can call its own. We will end this practice, in the way Brazil put an end to the dictatorship and to hyperinflation.

I think Brazilian society has today knocked down part of the wall separating the real Brazil and Brasília and I think in October, we will demolish the rest.

# Kick-start to new era for nation

Continued from Page 1

stars are no longer footballers alone. Brazilian fighters are champions in mixed martial arts, and the country is even fielding squads in the winter Olympics.

On the international stage, Brazil is becoming increasingly assertive. It is a regular participant in international peacekeeping missions.

A more reticent diplomat than her predecessor, President Rousseff still went on the attack last year over revelations from Edward Snowden, the former National Security Agency consultant, that Washington had spied on her communications, by cancelling a state visit to the US.

And Brazilian voters, until recently regarded as meek, even submissive, have found a voice.

Last year, during the Confederations Cup – the dress rehearsal for this year's World Cup – they took to the streets in unprecedented numbers to express concern over political corruption and ineptitude. A hard core plans to protest during the World Cup.

No one is certain if these protests – or the outcome of the World Cup – will affect presidential elections in October.

President Rousseff is facing an increasing challenge in her bid for a second term against the opposition candidates, Aécio Neves of Mr Cardoso's centre-right PSDB, and Eduardo Campos, of the PSB, a former governor of the northeastern state of Pernambuco who is courting investors.

If Brazil is to continue its rapid evolution, the next president will have to make tough economic decisions.

Rising household debt, the need for infrastructure investment and changes in the global environment have exhausted the Lula consumption-led model.

### No one is certain if these protests will affect presidential elections

Jean-Marc Etlin, chief executive of Itaú BBA Investment Bank, says: "We find ourselves in a situation after 15 or 20 years where we need to go to the next level. And going to the next level just doesn't mean repeating the same things."

Brazil needs to prioritise productivity in the short to medium term through investment in infrastructure and in the longer term by improving education, he says. "Otherwise, we won't enjoy the same pace of growth."

The four years of Ms Rousseff's first term have been a testament to the difficulties of making such changes.

A technocrat, she came to office with hopes of increasing investment. Instead, she pursued unorthodox policies focused on manipulating economic indicators, such as controlling interest rates, prices and the currency.

Jan Dehn, head of research at Ashmore Investment Management, says that unless the next president can put in place a credible economic team, restore fiscal responsibility, free monetary policy and the currency and liberalise price controls, Brazil will muddle along with low growth and high inflation.

"The medium-term outlook is OK, but by no means stellar," he says. "We are just going to see Brazil trundle along without a crisis but without great love from investors."

Things do not have to be that way. From the moment Prof Nicoletti's patient kicks the ball at Itaquerao, not only will the World Cup be in play but the future of Brazil itself with the election campaigning that will start straight after the tournament.

It is a future that has rarely looked brighter, providing that whoever wins the election has the courage to make the necessary changes.

# A period of growth is in sight, but reform must come first

### Opinion

HENRIQUE MEIRELLES

Brazil can and should enter a new period of growth over the next few years, driven by an expansion of investment, particularly in infrastructure, and an increase in productivity.

Following the economic crises and periods of volatility that defined the 1980s and 1990s, Brazil underwent a deep macro-economic transformation that laid the groundwork for the country's most recent growth cycle.

When the 2008 financial crisis hit, the country's expansionary monetary and fiscal policies restored

employment and consumption levels.

With the recovery in 2010, monetary stimulus measures were withdrawn, but the fiscal ones were maintained.

From 2011 onwards, the growth rate of productivity and gross domestic product fell, even after monetary stimulus measures were reinstated and fiscal stimulus measures were amplified – a clear sign of the exhaustion of the economic cycle.

With the jobless rate almost consistent with full employment and the borrowing capacity of the public and private sectors in decline, we are faced now with the end of what I would call the "bonus

period" – brought by economic stabilisation – and we are making the transition to a new phase: that of productivity growth.

Fortunately, this new cycle offers enormous opportunities. The growth of the past decade has increased the country's production capacity and transport demands for both products and people.

At the same time, the

'Changes are feasible and now is the time to implement them'

consumer market has expanded greatly, with the middle class doubling in size from 60m people in 2003 to 120m in 2014.

This growth, however, has not been accompanied by an equivalent increase in the provision of logistics, energy and other forms of infrastructure.

The fiscal expansion of the past few years has restricted the capacity of the public sector to invest.

As such, it has created demand for infrastructure projects with good returns, making private sector investment viable and creating a positive environment for investments in productivity.

However, for the country to reap the maximum benefits, it will be necessary to simplify the tax system and reduce the size of the informal economy.

In spite of the difficulties encountered on these fronts in the past, there is room under the current conditions to contain public spending and improve its quality, with a focus on productivity growth.

There is also a general consensus on the need to improve the

business environment and foster greater worker productivity.

The significant progress made in improving access to education should now be followed by an improvement in the quality of education, creating a more qualified workforce.

It is possible to foresee the beginning of a new phase in the development of Brazil, based on the

achievements of the past decade.

The significant growth of average wages and the consumer market has created the foundations for a new cycle of investment in infrastructure and productivity, and for reforms that will open up the country and make it more competitive.

The necessary changes are feasible, the conditions have been established and Brazil is more aware than ever that now is the time to implement them.

The writer is a former president of Brazil's central bank and former FleetBoston Corporate and Global Bank president

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## Modern Brazil

# Ranchers shun chainsaws in renewed effort to boost yields

**Amazon** The farming industry has shouldered blame for deforestation, but new techniques are bringing hope to a delicate region. By *Joe Leahy*

Rancher Francisco Militão Matheus Brito shows off a herd of cattle, their brilliant coats a sign of their health as they feast on an Amazonian pasture.

Alta Floresta, a municipality in the north of Brazil's Mato Grosso state, whose ranches border the remainder of the untouched Amazon forest, is a perfect place for raising cattle.

"This is a fantastic region. We have well-defined rains, we have a well-defined dry season," he says on a trip to his property, which covers about 700 hectares.

What many of Alta Floresta's farmers have lacked until recently, however, was the technical expertise to realise the potential of their land.

Now, ranchers such as Mr Militão are exploring new techniques to improve productivity in the municipality. In so doing, they are giving hope to an industry blamed for much of the deforestation in the Amazon.

Their success will help determine not only the future of the meat industry, one of the pillars of Brazil's rise

as a global food producer, but also the country's stature as an environmental champion.

"Farmers have not had the technology," says Vando Telles de Oliveira, co-ordinator at the Integrated Cattle Initiative (ICV), a pilot project to provide technical assistance to ranchers from the Life Centre Institute, a conservation organisation.

"This exists, but it has not reached the field and as a consequence we have had a degradation of the soil, hydrological resources and pasture."

Mr Militão and ICV have achieved yield increases through a system of rotating cattle through a set of enclosures.

Once the grass in one is exhausted, the cattle move to the next, giving the first time to recover.

The cattle drink water pumped into troughs in the enclosures. Natural water sources are fenced off, protecting rivers and springs from erosion caused by the trampling of cattle.

Alta Floresta – its name meaning high forest – was founded by the private-sector "coloniser" Ariosto da



In terms of kilos of meat per hectare per year, his farm is five times more productive than the state average

Riva. The businessman acquired the land from the military government in the mid-1970s.

This was done under the generals' policy of settling the Amazon to ward off imaginary foreign invaders, described as *integrar para não entregar* – literally "integrate so as not to deliver it"; or, put more simply, "use it or lose it".

Mr da Riva's vision of an ecologically balanced effort to exploit his vast patch of jungle was not to be. Gold was discovered and the region

became a 20th century version of the California gold rush.

"The airport in Alta Floresta was the second busiest in Brazil in terms of landings and take-offs," says Mr Militão of that time.

Mr Militão bought his property in Alta Floresta 29 years ago. He runs a small business in the town to supplement his income from the farm.

"My family have always been farmers, small and humble. They were pioneers back in the day, clearing the bush with axes," he says.

Pastures new: cattle graze in the Amazon region, where beef farming methods are changing Reuters

Ranching practices in the region have traditionally been simple. Farmers cleared the forest, grazed cattle until the land was degraded and then cleared some more.

Over time, the farmers deforested the region's hydrological basins, areas today known as Permanent Preservation Areas under Brazil's new forest code, which requires that they be protected. The depleted basins led to an abrupt water shortage in the municipality recently, as rainwater no longer followed the traditional courses and streams, and caused erosion instead.

In 2008 a fresh crisis occurred, when Alta Floresta was put on a federal government blacklist of municipalities for rampant deforestation. In 2012, the city exited the blacklist, which restricts the provision of credit to farmers in the municipality.

It was forced to comply with laws such as a requirement to place more than 80 per cent of its properties in a state rural environmental registry, which allows officials to monitor whether property owners have stopped deforestation.

Mr Militão and a handful of other ranchers participating in the pilot programme with ICV represent the next phase of Alta Floresta's recuperation process.

Productivity among ranchers in Mato Grosso state is low, at an average of less than one head of cattle per hectare. With soya farming becoming ever more efficient and demanding more territory, it is only by raising productivity that ranchers will be able to increase their earnings without further deforestation.

By implementing the new but basic rotation techniques, Mr Militão has already raised the average productivity in the section of his property participating in the pilot project to 3.5 head of cattle per hectare.

By the more important measure of kilos of meat per hectare per year, his farm is already more than five times more productive than the state average.

Mr Militão's focus now is on improving the system, not only by raising healthier cattle but taking them to the slaughterhouse at a younger age, preferably before they are two years old.

Gesturing towards the brilliant herd, he says the faster the throughput, the more meat a farmer will produce from the same area and the less the need to deforest new land.

"If an animal is stuck here for four years, we will lose in all senses: environmentally, economically – everything," he says.

ADRIANA LIMA, BORN JUNE 12TH, SALVADOR, BAHIA, BRASIL

### Class Rich seal advantage in one of world's most stratified societies

Some believe modern Brazil is not one country but many, writes **Thalita Carrico**.

The biggest divide is along economic lines in a society ranked among the world's most unequal by the World Bank. According to the alphabet soup that demographers use to classify people, classes D and E are poor and extremely poor; class C is the new lower middle class; class B is the more comfortable – but far from rich – traditional middle class, and class A is the very

upper middle class and the wealthy.

A family with monthly income above R\$9,745 (\$4,342) is typically considered part of class A; between R\$7,475 and R\$9,745 part of class B and from R\$1,734 to R\$7,475 part of class C.

The gap has narrowed in the past decade, helped by economic growth, social benefit programmes, pay rises and access to credit.

Millions have been lifted out of poverty into the new

lower middle class, which now constitutes the largest income group in the country.

These advances, however, have not been matched by gains in income among class B, the traditional middle class of shopkeepers and professionals whose parents benefited during previous economic booms.

Discontent is on the rise, as people see roads, airports, universities and job markets that were once almost exclusively theirs becoming crowded with newcomers

from the former lower income groups.

The upper echelons, meanwhile, continue to do well from the stronger economy. They can take advantage of the privileges of wealth and the advantages of a well-financed state that offers considerable benefits not only to the poor but also to the rich, such as free higher education.

Here we speak to three Brazilians occupying different positions on the socio-economic spectrum.



**Paula Araújo**  
Housemaid

Living in the central soya bean state of Goiás, Brazil's equivalent of the US Midwest, Paula Araújo dreams every day of somehow being able to earn enough money to renovate the roof of her home.

She lives in a newly built house of three rooms with her husband, but is dissatisfied with the quality of the roof. "This type of shingle makes the house extremely hot inside. I want to change it for something more comfortable," she says.

But Ms Araújo's dream quickly runs up against financial constraints. She earns about R\$400 (\$180) a month as a housemaid and her husband does not have a permanent job.

To help with expenses, Ms Araújo registered in 2003 to receive the government's Bolsa Família programme, which pays a small monthly stipend to 36m low-income earners.

But even this source of earnings is not certain. The 44-year-old used to receive R\$140 a month, but recently the eldest of her three sons finished school – the benefits are conditional on the family guaranteeing to fulfil certain duties, such as sending children to school – and her benefit was reduced accordingly to R\$108.

She uses the money to buy medicine and school supplies. "I think Bolsa Família is good; it always comes to the rescue when we need it."

But despite her enthusiasm for the programme of benefits, she is concerned about the wider effects, complaining that some Brazilians have become dependent on the benefit.

"I know some families who receive R\$400 a month and then don't want to work any more," she says. **TC**



**Horácio Magalhães**  
Lawyer and community volunteer

With his Carioca accent – as people from Rio de Janeiro are known – the middle-aged Mr Magalhães was born and raised in the city's Copacabana beach neighbourhood.

He runs a community group, the Association of Friends of Copa, and divides his days between working as a lawyer and patrolling the beach in his free time looking for problems and nuisances that he can bring to the association for resolution.

These might include loud music, crumbling footpaths, the need for a pharmacy or a lack of public services.

He says that in the past decade, the traditional middle class lost its economic power, while the new middle class has gained. "My old building is where the [traditional] middle class used to live. Now it is the man who sells hot dogs in a food truck on the beach who shares the rent of a studio with four other people."

Rising incomes mean that people of all social backgrounds can afford to live in the neighbourhood's apartment blocks. Mr Magalhães laments that more and more of the old residents of Copacabana who can afford to do so are migrating to other neighbourhoods. "Copacabana has become a tower of Babel," he says, recalling how one residential tower has been forced to hire security staff for residents' meetings, so heated are the discussions between the inhabitants.

One residential block has installed biometric fingerprint recognition because the mix of people entering and leaving the building make it difficult for guards to distinguish resident from visitor. **TC**



**Mariana Kauchakje**  
Student

Mariana Kauchakje studied in private schools. To give her a further leg-up, her mother, a college professor, paid for three years' worth of extra English classes.

The effort was rewarded: Ms Kauchakje was selected to study visual arts in the federal university of Paraná.

In Brazil, state-run colleges are free, but difficult to enter because of challenging entrance exams. This favours the upper middle class and wealthy, because they can afford the expensive, higher quality private education necessary to get the grades.

The 25-year-old also studied in Massachusetts in the US for one year through the government's so-called Science Without Borders programme, aimed at getting more Brazilian students studying abroad.

The government paid for her flights to the US as well as \$1,500 for relocation and a monthly allowance of \$300. The school in Massachusetts offered meals and lodging.

Ms Kauchakje says she needed extra financial support from her mother. "I spent a lot on winter clothes and school supplies were very expensive," she says.

The student says the requirements of the programme excluded people from the lower middle class.

"Who in Brazil is proficient in English? Who has \$400 to pay for the Toefl test?" she says, referring to the standard international English test.

For her, though, the government-funded programme was a boon, strengthening her already considerable head start in life.

Today she lives in an upper middle class neighbourhood in Curitiba, southern Brazil. **TC**

## Modern Brazil Consumers

# Service standards lag behind in consumer boom

### Retail

Recalcitrant vendors and naive shoppers create culture of mistrust and complaint, writes *Thalita Carrico*

When Janaína Cheim bought a stove in December, she had a nasty surprise – the appliance leaked gas. But worse than the defect was the months-long crusade she had to undertake to return the appliance and get her money back.

A technician visited her house three times without resolving the problem and her calls for reimbursement went unanswered until she complained on social media. When the company that had sold the stove finally replied, it asked her to sign a contract agreeing not to sue in return for a refund. “The companies don’t care about consumers – they only want to sell,” says Ms Cheim.

Her problems are typical in a country in which rapid economic growth and increased access to credit over the past decade have helped create a consumption boom.

At the forefront of this shopping

spree is Brazil’s so-called new middle class, made up of more than 40m people who have risen from poverty over the past decade to a position in which they can afford basic consumer goods and services.

The growth of this group has radically increased demand for infrastructure, shopping centres, call centres and salespeople. But standards of customer service have not kept pace. “The new consumers who have recently gained access to the market are vulnerable because they have not been taught their rights,” says Paulo Arthur Góes, executive director of the São Paulo division of Procon, a consumer rights agency.

Although the frenetic pace of consumer spending in Brazil has eased recently, thanks to high inflation and a slower economy – with growth reaching only 2.3 per cent last year – people are continuing to spend, partly because unemployment is low.

The World Cup, which starts next month, is spurring consumption. Sales of televisions rose 38 per cent in January compared with a year earlier, according to Eletros, the appliance retailers’ association.

With rising sales has come a sharp increase in complaints. Procon publishes a list of the 50 most complained-about companies. The top 10 almost always include banks, telephone companies and pay television



Burden of proof: many Brazilian shoppers are unaware of their rights

and ecommerce groups. Complaints concern faulty billing, poor quality, difficulties terminating contracts, and trouble with customer service.

While the new consumers may be naive, the companies seem equally ill prepared. When buyers have complaints, the strategy of many vendors seems to be stonewall them until complainants give up from exhaustion, says Mr Góes. “The companies aren’t able to meet the demand for more quality, so if consumers have a

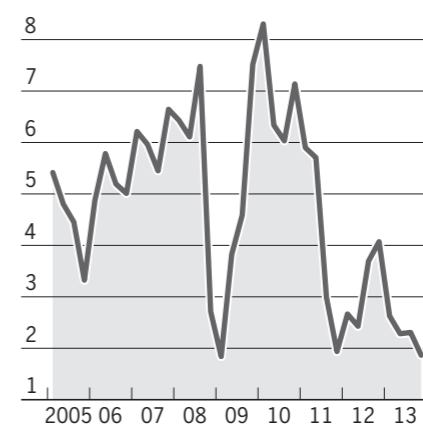
complaint, the logic is to defeat them by tiring them out,” he says.

Marco Rodrigues, president of the Syndicate of Electrical Equipment and Appliances Retailers in São Paulo, counters that consumers sometimes try to take advantage of companies.

“Consumers are quick to insist on their rights, but they don’t want to know anything about their obligations,” he says. Many try to return items simply because they do not like them or did not choose correctly, he says.

### Real consumption spending

Annual % change



Source: Haver Analytics

tools to help companies organise and respond to customer complaints. Profits have risen from zero in 2011 to R\$8m (\$3.6m) in 2013.

The website fielded 5m consumer complaints in 2013. With the launch of a mobile version this year, Mr Vargas expects this to rise to 14m in 2014. “Brazilian consumers are not sophisticated – they go for price first,” he says.

In a country in which great customer service is rare, businesses that try hard to please customers gain an advantage. Clothing brand Farm Rio, for example, started as a booth in a clothes fair in 1997, but is now one of Rio de Janeiro’s most famous retail chains with 54 stores.

Its success is the result not only of the colourful and original patterns of its clothes but also the way it treats customers, particularly its “flexible” return policy. This allows customers to return clothes without a receipt.

The owners Marcello Bastos and Kátia Barros applied to the retail chain the lessons they had learned in their small-scale business at the fair: the need for personal relationships with customers and to be responsive to their needs.

Ms Cheim had been hoping to hear similar reassurances from the company that sold her the stove. She eventually received her money back, but the company has yet to retrieve the offending item from her home.

## Chery’s chief shares nation’s car obsession

### Auto industry

Curi sees room for China manufacturer to grow, says *Samantha Pearson*

Luckily, Luis Curi shares his compatriots’ enthusiasm. After a long day at the office, the chief executive and vice-president in Brazil for Chery, the Chinese automaker, says everyone wants to talk to him about cars.

Even when he visits the doctor, “we spend the first 10 minutes talking about my health and the next 50 minutes talking about cars,” says the 52-year-old Brazilian.

“Brazilians have a huge passion for them, which is only surpassed by their love of football. In fact, cars are probably on a par with Carnival,” he says.

Over the past decade, Brazil’s fleet of vehicles has more than doubled to 83m, according to the national traffic department, as rising incomes among the new middle classes and greater access to consumer credit have allowed many Brazilians to buy their first car.

The Latin American country has overtaken Germany, according to data from Anfavea, the automakers’ association, to become the world’s fourth-biggest car market and the industry

low-quality imports, he says.

In a further move to gain Brazilians’ trust as well as cut logistics costs, Chery has spent \$400m building a factory just outside São Paulo, which is expected to open in the second half of this year.

Two months after Chery began construction in July 2011, the Brazilian government announced measures to clamp down on imports, making local production even more necessary.

It was 2007 when Mr Curi began working with Chery, as it turned its attention to the Brazilian market. Aside from the country’s labyrinthine taxes, the volatility of Brazil’s currency at the outset of the global financial crisis made it difficult to formulate a business plan, he says.

“After all, currency volatility is not something they normally have to deal with in China.”

By 2007, Mr Curi knew the Brazilian market inside out. After graduating in economics and a brief stint in banking, he began working in the industry in the early 1990s, when Fernando Collor de Mello, Brazil’s then-president, opened up the country to imports.

He started at Japanese companies – acting as executive director in Brazil for Suzuki and then Mazda – before moving to Ssangyong, the South Korean automaker, to help it break into the country. He has also worked for India’s Tata, Maruti and Mahindra.

Mr Curi says: “It was all about Japan in the 1970s and 10 to 15 years ago it was the South Koreans, but then it was clear the next automotive ‘wave’ would come from China.”

When he joined Chery, he spent weeks travelling in China, getting to know what he describes as a “magnificent” country and learning just enough Chinese to impress his bosses.

However, as the carmaker began to open dealerships across Brazil, his time was taken up by endless trips across his own country – where it can take more than nine hours to fly from one end to the other.

“I would spend months in a sequence of trips,” he recalls.

Nevertheless, opening dealerships is still the best part of his job, he says. The worst part is reading the economic pages of the newspaper every day.

“You see that the dollar has strengthened and you have to absorb this and try to find a solution that inevitably changes the plans you made.”

But, after more than 20 years in the industry, a career change is not an option. “It’s a fascinating world... It gets you like a virus; once you’re in, it’s very difficult to leave.”

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**Luis Curi:** ‘It can take a long time to gain brand recognition in Brazil’

accounts for almost a quarter of Brazil’s industrial gross domestic product.

Chery entered the Brazilian market in 2009. While sales have shown signs of slowing over the past year, Mr Curi says there is still room for growth.

“Some cities are already saturated, but there is the whole region outside the cities to explore,” he says.

“If Brazil doesn’t manage to surpass Japan within the next 10 years to become the world’s third-biggest market, it will get very close.”

However, Brazil is far from an easy market, he says. Brazilians’ love of cars and the high price they have to pay for them (as a result of the country’s heavy tax burden) have made them particularly picky customers.

“Brazilians are more open to new products than other nationalities, so it’s easy to gain access to the market. But because they’re so demanding, it can take a long time to gain brand recognition,” says Mr Curi.

For this reason, Chery entered the market with one of its most expensive models in order to “break the stigma” attached to Chinese products as cheap,

\*Original values were reported in Brazilian Reals and converted to US Dollar, using rates of December 31, 2012 (USD 2,04) and 2013 (USD 2,34), respectively.

## Modern Brazil Sports

# Olympian effort brings winter sports to favela's children



Uphill all the way: children take part in a 'ski the streets' class using roller skis adapted for use on concrete

Thalita Carrico

**Street skiing** São Paulo's young learn unlikely lessons from Sochi athletes. By *Thalita Carrico*

São Paulo is experiencing its coldest day so far this year. The temperature has fallen to a touch below 20C. For Leandro Ribela, the Brazilian winter Olympian, the weather is perfect for a touch of skiing – on concrete, that is.

Fresh from the Sochi Winter Olympics, the cross-country skier pulls up in his car near the city's tough São Remo favela, known for its armed robbers and drug gangs.

Pulling out a set of huge suitcases containing "roller skis" – skis adapted for use on concrete with small wheels underneath – he greets a group of children from the favela that have arrived for training under his charity programme, known as *ski nas ruas*, or ski the streets.

"Did you eat a snack before class?" the 34-year-old asks, as he sets the children up to begin skiing.

Teaching boys and girls from a favela to ski on concrete and tarmac may seem like a tough challenge, but as a winter Olympian from a mostly tropical country, Mr Ribela is used to

going against the odds. In a country acclaimed for its prowess at soccer and – a very distant second – beach volleyball, the evolution of the nation's winter Olympic squad is an illustration of modern Brazil's ability to surprise and defy the clichés.

The Winter Olympics began in 1924, but Brazil only started sending squads in 1992 when the games were held in Albertville, France. Snow is a rarity in Brazil, to say the least. Last year, for example, in the southern city of Curitiba where the winters are cold by Brazilian standards, it snowed for the first time in 38 years.

The first time Mr Ribela saw snow was as a 12-year-old during a family ski trip to San Carlos de Bariloche, the Argentine mountain resort.

It turned out that while his family, like many Brazilians, did not take to the cold and the snow, he liked both very much.

"I have always been motivated by sports and the Olympic Games were my goal, but I never imagined I would do it through snow sports," says Mr Ribela. He was one of 13 athletes

Brazil sent to Sochi to compete in seven categories, a record-sized squad for a country that dispatched only five athletes to the last Winter Olympics in Vancouver.

In Sochi, his second Winter Olympics, Mr Ribela was ranked 80th out of 86 competitors. A modest result, he admits, but he still led the South American rankings.

Brazil's government has invested R\$5m (\$2.2m) over the past three years in its Winter Olympics committees through a law known as Lei Agnelo/Piva.

Passed by former president Fernando Henrique Cardoso, the law requires that 2 per cent of gross revenues from federally supervised lotteries must be transferred to the Brazil-

'We try to instil a sense of commitment to a goal'

Leandro Ribela

ian Olympic and Paralympic committees.

Brazil's winter athletes arouse curiosity among their competitors at the games. The crowds attracted by winter sports in Europe can rival those of the Maracanã, Rio de Janeiro's soccer stadium.

Mr Ribela recalls a cross-country skiing race in Norway with 70,000 spectators. "It looked like a soccer stadium; when we passed, they cheered and screamed for us. It was a great feeling," he said.

Today, the Brazilian athletes are recognised and respected at these events but it was not always like that. "In the beginning, when our skill levels were really bad, I could sense some misgivings, people wondering: 'What are those guys doing here?'"

Brazil's tropical conditions and short history in winter sports mean athletes must cope with a scarcity of training facilities and experienced coaches to help them improve. For most of his career, Mr Ribela got around the problem by training extensively in Europe and the US.

"Until 2010, I racked my brains to learn where and how to train." But then after spending a summer in Europe, he saw that athletes there stayed fit by training on asphalt with roller skis.

He began doing the same in São Paulo and it was then that he noticed the plight of the children of São Remo, many of whom worked minding cars or selling water to people jogging and riding bikes on the University of São Paulo campus nearby.

He hatched a plan to engage the children in constructive activities through sport, with additional Spanish, English and sexual education classes.

"The schools there are terrible. You see 14-year-old kids attending classes who still don't know how to read," he says.

"We try to instil in them Olympic values, not necessarily athleticism as such – we don't expect high performance. But we try to teach them a sense of commitment to a goal," he says.

Nevertheless, the dream of some of

the students is to become exactly that: an Olympic athlete just like Mr Ribela, whom they gently call "professor".

He and three more volunteers train 25 children. Helped by donations, three of the children have travelled with Mr Ribela to competitions abroad, where they saw snow for the first time.

"It was so different, but it was easy to adapt; after 10 minutes I started a 17-km race," says Victor Melo, one of the students, of his first attempt at snow skiing. "My mum said she was really proud of me. She never imagined I would visit another country."

Another of the children, 15-year-old Gustavo de Souza, was born with only one leg and is on a waiting list for a prosthetic limb.

But his disability has not stopped him from roller skiing. He shows off his mastery on the roller skis by speeding down hills, even passing over speed bumps on the road.

His dream is to compete at a Paralympic Games. "Skiing on actual snow? It must be heaven," he says.

## Ultimate Fighting craze proves lucrative for television networks

### Martial arts

Brazilians lead the field in the tough world of UFC, writes *Samantha Pearson*

Lyoto Machida says his father never pushed him to become a professional fighter. But with a father like Yoshizo Machida, it was perhaps inevitable that the young cage fighting champion would aspire to such a career.

Lyoto's official nickname as a former light heavyweight champion in the Ultimate Fighting Championship (UFC) is The Dragon, but many fans in Brazil know him as the real-life Karate Kid.

Under the guidance of his father – a strict Shotokan karate master who migrated from Japan in the 1960s – he began learning karate when he was three. By the age of 13, he was already a black belt.

"He has trained all my brothers," explains Lyoto in a surprisingly soft tone for someone who makes a living from cage fighting – a form of mixed martial arts that takes place in an enclosed space.

"For him, the most important thing he could pass on was the philosophy behind the martial art – principles of respect and self-confidence."

Like Lyoto, many of Brazil's fighters have benefited from their diverse cultural heritage – largely Japanese, African and European



Lyoto Machida, left, in the ring with Dutch fighter Gegard Mousasi

13 UFC events have sold out, according to the UFC's Brazil office.

Aside from Lyoto and Anderson Silva, the popular former middleweight champion, another seven Brazilians have won UFC championship titles.

Lyoto was 15 when he set his sights on a career in UFC. "I saw a fight for the first time and I got it into my head that I wanted to be a champion," he says.

His father taught the young Lyoto his own, hybrid version of karate, called Machida Karate. In 2009 all the sweat and blood finally paid off. On May 23 that year Lyoto knocked out the US fighter Rashad Evans, clinching the UFC title in the process.

But at the age of 36, Lyoto has now been in the UFC for 12 years and there is pressure on him to retire – not least from his own father.

Yoshizo, who has acquired cult status in Brazil for his martial arts teaching, has given several interviews over the past couple of years, saying that he believes his son is now past it. However, Lyoto has other ideas. "I want to keep going for another three or four years," he says, rather timidly.

But when the time does come to walk away from the cage, he intends to follow in his father's footsteps by teaching others how to fight – perhaps even his own children.

"I won't force them though," says Lyoto. "I'll just sit back and see which path they follow."

Brazil held one UFC event in 2011, three the following year and seven in 2013

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## Modern Brazil

# Behaviour-targeting aims to release blog power

**Interview** Boo-box's Marco Gomes finds his pioneering technology is in demand, writes *Samantha Pearson*

Gama, a small town in Brazil's central scrubland, was not the most obvious place for a budding computer scientist to grow up but Marco Gomes did not let that put him off.

At the age of 11, he built a computer using discarded parts from old desktops and taught himself how to write code. By 12, he was selling his services as one of Gama's few website developers, creating designs for everyone from the owner of the local hardware shop to a language school.

The son of an evangelical pastor and a wedding photographer, Mr Gomes has made it to the forefront of Brazil's social media scene. His company, boo-box, displays 1bn advertisements for clients every month across 500,000 blogs and other social media sites, and claims to reach about six in 10 internet users in Brazil.

Mr Gomes no longer works from his bedroom but from a trendy office in one of São Paulo's upmarket business districts, complete with Google-esque relaxation areas.

"Even though we're still small – there are about 40 people here – we are able to compete on an equal footing with the likes of Facebook and Google," says Mr Gomes, who has just turned 28.

He received an initial investment of \$300,000 from Monashees Capital, the Brazilian venture capital fund, in 2007. Intel Capital bought an undisclosed stake in the company in 2010. In 2012, boo-box was ranked by Fast Company, the business and technology magazine, as the second-most innovative company in Brazil.

Over the past few years, the country has become a fertile ground for social media businesses.

A surge in smartphone ownership among the new middle classes has helped create one of the top markets in the world for Facebook and Twitter, according to those companies.

Mass protests last year – largely organised via Facebook – highlighted



Evangelical conviction: Marco Gomes quit university in 2006 to found boo-box, convinced of the untapped advertising potential of social media

the importance of social media.

For Mr Gomes, however, it was one statistic in particular that caught his attention at the age of 20 and led him to create boo-box.

"It was 2006 and the internet was taking up an ever bigger part of people's leisure time – about 60 per cent," he says, reeling off statistics at a rapid pace.

"However, investment in online advertising was only 3.8 per cent [of total advertising]... and it was all in web portals, which weren't as popular with our generation.

"Now, our generation had no money. We weren't economically active, but it was only a matter of time. So you had 60 per cent of leisure time consumed by the internet, with only 3.8 per cent of total advertising, and this 3.8 per cent was in the wrong place."

With an almost evangelical conviction in these numbers, Mr Gomes quit university in 2006 to set up the country's first technology company to specialise in social media advertising.

Boo-box has more than 1,500 clients – ranging from the country's biggest banks to pet shops – which rely on the company to help them reach potential customers across hundreds of the country's most popular blogs.

The key to its success has been the technology it uses to target these customers: behavioural targeting. This tracks which of the company's participating blogs and social media sites a user has visited. "We focus on the individual rather than the website," says Mr Gomes.

For example, if a carmaker wants to advertise its seven-seater SUV, boo-box would not simply publish the advert on a blog for cars, but publish

### The CV Marco Gomes

1986 Born May 14

1998 Begins working as a freelance website developer using a computer he built himself

2006 Quits computer science degree at the University of Brasilia to found boo-box

2010 Intel Capital buys a stake in boo-box

● He is married, likes cycling, is a self-proclaimed fan of zombies, science fiction, robots and is fascinated by second world war history

it for users whose browsing history indicates they might be looking for a larger car.

For Marcelo Nakagawa, professor of entrepreneurship at Insper, a São Paulo-based business school, this has been the key to boo-box's success. "No one else in Brazil has anything similar to the technology it uses, nor the database of consumer behaviour it has gathered, so it really is a pioneer in this respect."

While boo-box faces tough competition from large players such as Google and Facebook, it has carved out a niche in Brazil by focusing on smaller blogs, giving it access to richer data on consumer preferences, he says.

However, the next challenge for the company will be finding a way to compete in the fast-growing market for mobile phone and tablet apps, says Mr Nakagawa.

The company does not disclose its profits, but according to the most recent market estimates, it generated R\$11m (\$5m) in revenues in 2012.

Getting rich was never Mr Gomes's intention, he insists. Instead, he sees his business as a way of providing Brazil's bloggers with a sustainable funding model.

"From the very beginning, boo-box was created to develop and finance independent media in Brazil," he says. As well as providing bloggers with a way of making money from their sites, boo-box offers training courses to help them write better.

Last year's protests in Brazil proved the need for more independent journalism, he says, pointing out that it was often bloggers, rather than mainstream media, who captured what was really going on in the streets.

## Red tape and high costs make designer market a tough sell

### Luxury brands

Challenge is to lure consumers away from spending abroad, says *Vincent Bevins*

As Brazil's economy powered forward in 2010, its luxury industry was regarded as one of the world's most promising. Domestic consumption was on the rise and the country was home to an increasing number of very wealthy people.

Household consumption accounted for 62 per cent of Brazil's economy in 2012, according to the World Bank, a proportion that had increased slightly since the start of the boom.

The country was home to 227,000 US dollar millionaires that same year, according to Credit Suisse.

The luxury market was expected to deliver easy profits: established luxury brands could sell to a country of 200m consumers, while local brands could expand abroad.

But the reality has been less lucrative. International brands have arrived to mixed success, and the prospect of Brazilian brands finding success abroad is looking slim.

"Everyone thought Brazil was a pot of gold that one had only to claim," says Jorge Grimberg, a São Paulo-based trend analyst at Stylesight, a fashion market intelligence provider.

"But brands coming here found breaking into Brazil was tougher than expected, not only because of high taxes and costs but because Brazilians consume luxury differently. I don't see many brands becoming big abroad soon," he adds.

Brazil has proved a more successful consumer than producer of high-end luxury goods. But even as international brands established successful branches in Brazil's high-end malls, others found the market small and difficult.

One problem was that wealthy Brazilians had long been accustomed to buying high-end clothing, bags and

jewellery when they travelled abroad. Because of high import duties and local bureaucracy, luxury goods are often cheaper in the US or Europe.

"The Brazilian luxury customer can be on a plane to Miami tomorrow and buy for considerably less," says Antonio Haslauer da Costa, an independent business development consultant specialising in the luxury market.

"The reason they will buy at home is because they feel they belong to a club. Companies need to understand that mechanism and create an exclusive environment, with prestigious events."

Some brands have done just that, putting on events or recruiting local ambassadors. Others have tailored their advertising to Brazilian consumers, or, like carmaker Audi, launched local magazines. Burberry, Gucci and Prada have been successful with these approaches in recent years, says Mr Haslauer da Costa.

Location matters too. Rather than setting up shop on a São Paulo or Rio street, success often means tucking into a space in one of the country's large and

loud shopping malls, considered more glamorous and safer destinations.

Cartier, for example, closed its high-street location and retreated into a mall. "Brands have moved mainly because of security," says Maxime Tarneaud, country manager for Cartier in Brazil. "[Malls] give shoppers a place with a wide selection of products, and air-conditioned spaces.

'Companies need to create an exclusive environment with prestigious events'

"In 2009, there were only 12 foreign luxury brands in Brazil [including Cartier]. Since then, 30 have arrived. That has a lot to do with spaces opening up in malls, but we still estimate Brazil only makes up about 1 per cent of the world's total luxury market."

"Shopping malls are simply a part of the culture for

Brazilians with money," explains Mr Grimberg. "You can wear an extremely expensive watch in São Paulo, but some people prefer to do it in their bulletproof cars."

Mr Tarneaud says the biggest challenge is the high prices for imports – usually between 30 and 100 per cent higher than those in the US or Europe, and the subsequent need to persuade shoppers to buy in Brazil. The upside, he says, is the general eagerness of the upper class to spend.

"Our strategy is to adopt an aggressive pricing approach, and aim for just a 20 per cent mark-up on the US or Europe," says Mr Tarneaud. He says Brazil's most exciting growth prospects lie in secondary cities, such as Belo Horizonte, Curitiba, Recife and Ribeirão Preto, where malls will provide the basis for expansion.

"But Brazil will never be a market like China." Brazilian brands that hoped for international success have had it tough – with a few exceptions, such as Osklen, a Rio fashion house, and Pedro Lourenço, a fashion designer with a shop in São Paulo.

Their success, analysts say, is largely due to their niches – high fashion – and both brands are rarely present in more than a few shops worldwide.

Over the past few years, many international fashion journalists and editors at fashion weeks in São Paulo and Rio have been disappointed to see brands take inspiration from Europe rather than local influences and materials.

Without a clearly differentiated Brazilian brand to sell and with the economy slowing since 2010, most homegrown luxury brands have been limited to trying to hold their ground.

"Brazilian brands' globalisation efforts have lacked a bit, and they have often erred on the side of trying to be everything for everyone," says Mr Haslauer da Costa.

"They can't simply expect to duplicate what international brands have with centuries of luxury legacy."



Off the street: Gucci in the Village Mall, Rio

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## Modern Brazil Culture

# The Beyoncé of Pará gives voice to the new north

**Music** Defying the snobbish southern critics, Gaby Amarantos has brought her unashamedly upbeat tecno brega to the masses, writes *Joe Leahy*

**G**aby Amarantos, the queen of tecno brega, or “cheesy techno”, is having a few hours of uncharacteristic quiet time in her new apartment in central São Paulo.

It is Sunday night and the woman who has been called the Beyoncé of Pará, the Amazonian state in Brazil’s north where her genre of electronic pop music originated, has already performed three shows today.

“Would you like something to drink,” she asks, a faultlessly hospitable host even though she must be tired. She is still wearing make-up from the shows.

The growing popularity of Ms Amarantos in São Paulo is a measure of how far she and tecno brega have come.

The name of the genre has been attributed to snobbish critics in Brazil’s richer south, who originally derided this form of music from the lower-income areas of Pará’s capital, Belém. But rather than react to their taunts, Ms Amarantos embraced the label and the music as her own, celebrating rather than apologising for her success.

She and her family are among the 40m or so people who have moved into Brazil’s lower middle class over the past decade, thanks to a stable economy, rising incomes, social welfare and greater access to credit. Together, they are reshaping Brazil’s social, political and cultural life.

“I drink champagne; who doesn’t like luxury? A life of glamour is all good,” say the lyrics of one of her latest songs, “Gaby Ostentation”. But after its celebration of new riches, the song continues: “I don’t need much to make me complete... family barbecue, drinking beer... that’s what it is to be rich... happiness you don’t buy with a card.”

One has to visit Belém and its tecno brega parties to get a feel for where Ms Amarantos comes from. During a visit by the FT last year to the tough neighbourhood where she was brought up and still lives, Ms Amarantos showed off some local tecno brega parties.

At one, a large alien spaceship appeared to be preparing to take off, smoke pouring from its sides. This was one of tecno brega’s trademark *aparel-*



Celebrating new riches: Gaby Amarantos, her musical peers and their fans spring from a confident lower middle class

*hagens*, or apparatuses. These are sound systems built into an outlandish stage. At the top of the structure is a kind of cockpit for the DJ.

Each *aparelhagem* and its DJs typically run their own unique mixes of sampled pop songs and electronic music that forms the basis of tecno brega. Unlike other forms of urban

music from the peripheries of Brazil’s big cities, such as funk – whose themes can be dark and about gangster life – tecno brega is unashamedly upbeat and its rhythms lighter.

While few Brazilians outside Belém had heard of Ms Amarantos until a few years ago, the 35-year-old says her career spans about two decades.

‘Brazil is living in a moment of confusion. I have no idea what will happen’

She used to sing in the local church before she began making her own music and giving it away on homemade CDs. She toured the Amazon’s cities by boat, bringing to the region’s remote towns her tecno brega parties and her extravagant costumes.

Since her career took off in 2010, she has become a national television

celebrity, appearing on shows such as *Medida Certa* (Right Measure) on Brazil’s dominant Globo TV network. Participants try to shed weight. “I lost 18kg,” she says with pride.

One of her songs is the theme tune for a new soap opera, *Geração Brasil*, or Generation Brazil. This is the second time one of her songs has been used for one of Brazil’s immensely popular soap operas.

With the World Cup starting next month, she also recorded tournament sponsor Coca-Cola’s theme song for the event alongside Rio de Janeiro group Monobloco.

She says she is expecting numerous singing engagements during the World Cup. But the schedule remains unclear because of uncertainties such as whether the protests seen last year during the Confederations Cup, the dress rehearsal for the World Cup, will be repeated.

Brazil is facing a difficult year, Ms Amarantos says. Like many Brazilians, she originally supported hosting the World Cup, but she did not expect the amount of controversy over lavish government expenditure on the event.

Brazil is preparing for elections in October, adding to the uncertainty. “Brazil is living [in] a moment of confusion. I don’t have the slightest idea where Brazil will go and what will happen,” she says.

Like the country, her music is evolving. While she maintains the brega rhythms, she is incorporating other styles, such as samba, sertanejo (music that originates from the country’s rural interior) and another popular genre, reggaeton.

Indeed, she has been expanding her horizons so much over the past 12 months – including tours of other Latin American countries and the US – that she admits she has lost touch with Belém’s music scene.

Ms Amarantos is about to put that right, however, with plans to visit her home city to find out the latest on the *aparelhagens* and their crews.

If they are in town, that is. These days, it seems the rest of Brazil cannot get enough of Belém’s music scene.

“The *aparelhagens* once only did shows in Pará; now they are going to the [surrounding states of] Maranhão and Amapá. There have been weekends when not one is in town,” she says.

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