



in the country.

Yet Brazil could be better positioned than many emerging market countries to take advantage of opportunities presented by the geopolitical trends of 2023. Energy prices should be high, along with those of agricultural products. Brazil benefits by being a producer of both. A challenging geopolitical landscape also suggests that the trend of friendshoring and nearshoring should continue, which could create opportunities for Brazil, depending on the Lula administration's policy mix.

Here are some of the key takeaways for Brazil. For the full list of top 10 global risks this year, please see [Eurasia Group's Top Risks 2023](#).

- Lula intends to stimulate economic growth by increasing public investment in infrastructure and energy, raising salaries, and promoting a state-led industrial policy. His intention is not to squeeze out private investors but to seek a better balance between the state and the market after four years of a sharp reduction in public investment under Bolsonaro. But, with public debt at dangerously high levels, Lula faces a trilemma: He needs to increase spending without raising taxes to the point of undermining economic activity, and he cannot allow public debt levels to spiral out of control. The only way to maintain this difficult balance is through economic growth, which suggests Lula needs a favorable global backdrop.
- Top Risks 2023 highlights some critical headwinds for Lula in 2023. The most important of these is described in the Inflation shockwaves risk. Last year's sudden increase in fuel and food prices was an important driver of Bolsonaro's decline in popularity. In 2023, Lula will have to deal with the secondary effects of this global inflationary wave. Brazil's central bank responded early and aggressively to rising prices, pushing interest rates into double digits, which bodes poorly for growth in 2023 but suggests that interest rates could fall more quickly than in other countries thanks to this early action. But given that central banks in many industrialized economies responded late to the inflation challenge, global financial conditions will remain tight for most of 2023. That does not bode well for more indebted emerging market economies such as Brazil. In this context, the cost of fiscal irresponsibility will be high.
- Meanwhile, Rogue Russia (risk #1) and Maximum Xi (risk #2), highlight threats to the global growth outlook that will affect Brazil. Just as the invasion of Ukraine was one of the triggers of the sharp rise in fuel and fertilizer prices in 2022, a possible escalation of the conflict in 2023 could destabilize Lula's economic policy at a very sensitive moment, when the new administration will be focused on designing a new fiscal anchor and consolidating a new strategy for state oil firm Petrobras. A sudden increase in gasoline prices could lead to fuel tax cuts—with a negative impact on government finances—and could also heighten political pressure for more aggressive intervention in Petrobras's pricing policy. Faithful to its diplomatic tradition, Brazil will continue to avoid placing sanctions on Russia, but it will not escape the economic consequences of the war.
- China, Brazil's largest trading partner, may provide a positive counterpoint in the short term, following the end of its restrictive policies to combat Covid-19. But the potential benefits of a faster Chinese recovery would mask the substantial structural risks described in Maximum Xi. The centralization of power in the hands of Chinese President Xi Jinping substantially increases political and economic risks in the form of arbitrary decisions, political volatility, and heightened uncertainty. The dysfunction of the Chinese system, coupled with the aging of the population, will end up affecting the country's economic growth potential and, consequently, its appetite for the raw materials supplied by countries such as Brazil.
- In addition to these headwinds for global economic growth, Weapons of mass disruption (risk #3) describes a phenomenon that is deepening political polarization in democratic nations

such as Brazil. In the long run, it threatens to undermine the quality of public debate, increase political instability, and reduce the efficiency of public policies. Disruptive technologies, such as new artificial intelligence tools accessible to the public, make it even easier to promote fake news and manipulate the public. Lula will face a very strong and mobilized *Bolsonarista* opposition willing to take to the streets in protest. These new technologies could increase the mutual distrust between supporters and opponents of the president.

- Economic stagnation is another trend driving political instability. Brazil's boom of the 2000s, in Lula's first years as president, raised the expectations of a newly emergent middle class that were dashed in the 2010s by a prolonged recession. Arrested global development (risk #7) is a reminder that this is not a problem only for Brazil. During the pandemic, social inequality in the world increased, and living standards worsened significantly for a large segment of the population.
- Nonetheless, the themes of Top Risks 2023 do suggest some potential opportunities for Brazil. In the scenario of Energy crunch (risk #6), the country has competitive advantages to attract investments in renewable energies while extracting increased revenue from oil sales. Although Brazil suffers from rising prices for many types of fuels because of its lack of refining capacity, it is a net exporter of crude oil. It also has immense potential for renewables such as wind and solar in addition to its vast water and natural gas resources. This capacity may be attractive for energy-intensive industries, especially those in Europe, looking to relocate production. Higher global energy prices will also increase the cost of fertilizers and thus agricultural products. Given that Brazil is a major exporter of agricultural goods, it stands to gain from higher prices for these goods as well.
- Finally, the Rogue Russia and Maximum Xi risks suggest that the growing trend toward nearshoring and friendshoring will continue in 2023. With the private sector looking to diversify global supply chains in a more challenging geopolitical landscape, regions such as Latin America can benefit from more investment. In addition to Brazil's advantages in energy, factors such as territorial scale, geographic position, and cultural affinity can make the country an attractive destination for these investments. But much will depend on the policy orientation of Lula's administration. If it manages the economic trilemma well, keeping approval ratings at reasonable levels and macroeconomic vulnerabilities in check, it would be in a good position to gain from nearshoring and friendshoring.

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