

## Opinion – Bolsonaro as Antithesis to the Green Growth Agenda

Written by João P. Romero and Fernanda Cimini

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JOÃO P. ROMERO AND FERNANDA CIMINI, DEC 22 2020

“If Brazil finds a solution for itself, it will save the rest of the world” said the French anthropologist Bruno Latour referring to the multiple ecological and sanitary crises faced by the country. Latour’s words may sound like drops of hope in an ocean of disillusion and discouragement: there are still smart people out there who believe in us. Yet, the reasons for optimism are scarce. The erratic conduct of the Brazilian Environment Minister Ricardo Salles, a staunch defender of environment deregulation, has been under the spotlight, but the roots of this serious environmental crisis can also be found in the economic policies adopted by Finance Minister Paulo Guedes, the ultra-liberal economic guru of Bolsonaro. While several countries put together strategies of green growth and recovery, associating economic growth with reductions in greenhouse gas emissions, Brazil’s government has decided to head in the opposite direction. President Bolsonaro and the economic team directed by the Minister Paulo Guedes are betting in a growth strategy focused on the production of primary goods, in which the country is more competitive. This strategy not only diverts the country from a high-tech economic path but is also highly detrimental to green growth.

Green growth strategies have been adopted for more than a decade in a number of countries around the world. Relevant examples of green growth initiatives are the South-Korean five-year plan of 2009–13, the Chinese plan of 2011–15 and the Irish plan of 2007–13. Moreover, it is important to highlight the 2011 OECD green growth program. The benefits of adopting green growth strategies are manifold, starting with the obvious and urgent need for protecting the planet from climate change. But even if governments and citizens have not yet understood the severity of this issue, the economic benefits of taking green growth seriously still outweigh the costs of sacrificing the environment. Green growth contributes to raise production by reducing the occurrence of extreme climate events. Furthermore, it seeks to combine increases in production with reductions in greenhouse gas emissions through green innovations, changes in productive structures, improvements in energy generation and increases in the efficiency of resource uses. All such changes foster increases in investment, employment and growth.

In the past few years, several studies have pointed out that increasing economic complexity is an important form of promoting green growth. The influential works of César Hidalgo (Toulouse), Ricardo Hausmann and others have shown that increases in economic complexity lead to higher GDP per capita growth rates. More recently, Penny Mealy and Alexander Teytelboym have presented evidence that higher economic complexity is also associated with green innovations. In a paper forthcoming in *World Development*, João Romero (UFMG) and Camila Gramkow presented evidence that increases in the index of economic complexity are associated with decreases in emission intensity and emissions per capita.

The growth strategy of Bolsonaro’s government, however, ignores all the benefits arising from the green growth approach, focusing on increasing primary production, which presents an extremely higher emission intensity. To understand the size of the environmental impact of primary production in Brazil, it suffices to note that in 2018 agriculture production was responsible for 70% of Brazilian greenhouse gas (GHG) emissions (including its effect on deforestation), while responding for only 5% of Brazilian GDP.

Innovation is crucial to reduce GHG emissions. To foster green innovations, the OECD highlights, among other measures, the role of science and technology policies. In Brazil, however, the government budget for 2021 was

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approved with a 32% cut in the already record-low resources devoted to science and technology. Increasing the efficiency of resource use depends also on infrastructure investments, especially the ones focused on improving water treatment and usage, transport systems and clean energy generation. In this regard, the recently approved regulation on sanitation promises to increase investments in this area. Nonetheless, successive cuts in public investments are threatening the mere reposition of infrastructure depreciation in Brazil. Federal public investment (including state-owned companies) fell from 2.4% of GDP between 2009-2014 to 1.3% in 2019 and will likely reach even lower numbers in 2020 and 2021.

Furthermore, under Bolsonaro, the Brazilian oil company Petrobras has adopted a reconfiguration strategy, aiming to focus on oil extraction while reducing its investments in renewable energy. This decision means heading in the opposite direction of European oil companies such as BP (UK), Total (France) and Equinor (Norway), that are investing heavily on renewable energy.

By incentivizing a predatory and pollutant re-primarization of the Brazilian economy, the economic policies of Guedes and Bolsonaro have been harming the economy's productivity as well. In 2019, Brazilian labour productivity fell by 1%, mainly due to decreases in the productivity of the manufacturing and services sectors, that were not entirely compensated by an increase in agricultural productivity. And in 2020, the recovery of GDP in the 3<sup>rd</sup> trimester, the first after isolation measures had been reduced, was below government's projections.

With respect to the regulation of deforestation, the international community has witnessed the astonishing increase in fire spots in the Amazon rainforest and also in the swamp area of Pantanal. Bolsonaro's government, however, has done little to cope with these environmental crimes. The government claims that due to the austerity policies under way, it is not possible to fund deforestation regulation. Nonetheless, the president was not at all alarmed when countries halted donations to the Amazon Fund. Meanwhile, Minister Ricardo Salles has been accused of imposing difficulties to deforestation oversight. It is now clear that the current Government has been more open to the demands of illegal miners than to the demands of environmentalists and leaders of Brazilians native tribes.

It is not possible to foster green innovation, clean industrial production, improvements in infrastructure and energy generation as well as environmental oversight without active state policies. The European Green New Deal, for example, will channel almost 2 trillion euros to initiatives related to climate change mitigation and green growth.

In Brazil, however, the extremely tight public expenditure ceiling implemented in 2016 makes impossible to adopt hardly any policies focused on green growth. The rule has frozen public expenditure for a period of 10 years, establishing that primary expenditure (public investment included) cannot grow faster than the inflation rate of the previous year. Hence, by returning to this rule in 2021, the Brazilian government will adopt an extremely sharp fiscal adjustment after the high expenditure disbursed in 2020 to cope with the effects of the Covid-19 pandemic. The adoption of a green growth strategy in Brazil, therefore, requires the modernization of the country's expenditure ceiling rule to exclude public investment from it and to allow a positive growth rate of real expenditure, in line with most expenditure rules adopted in other countries.

To sum up, going against the world trend of green growth, Bolsonaro's government has kept public investment in record-low levels, reduced funding to science and technology, relaxed deforestation oversight, and fostered primary production in detriment of high-tech industrial production. All this contributes, simultaneously, to reduce growth and to increase greenhouse gas emissions. It is not surprising that Brazil is facing an unprecedented capital flight, and that in 2020 external direct investment is the lowest since 2009. To date, therefore, Bolsonaro's economic policies represent the exact antithesis to the green growth agenda. In the absence of a radical overhaul of the existing economic policies, it is very unlikely that Brazil will be able to offer any green transformation.

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### About the author:

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