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## **The Threat of Militarization in Brazil**

When investors think about Latin American politics and policy, the various countries' military forces often come to mind. You'd almost think the region was a hotbed of international aggression, invasions, and state-to-state warfare. The reality is that for the last century, national military organizations in Central and South America have mostly been used against indigenous insurgencies or opposition political movements. In recent decades, even that role has been proscribed in most countries, raising hopes that the region has finally learned to solve its domestic political conflicts democratically instead of by force.

Current economic and social challenges in Brazil have prompted some officials to hint that the military should have a stronger role in guiding the state again. Some people in the government have even issued veiled threats to reimpose a military dictatorship in the country. In this report, we'll examine what has led to the current threat and assess the likelihood of a military-backed government in Brasilia. As always, we'll end with a discussion of the likely ramifications for investors if the military does take a bigger role in Brazilian politics.

### **Militarism in Latin America**

In at least one respect, the history of Latin America since 1492 is infused with militarism, simply from the fact that the Spanish and Portuguese explorers who

claimed it for their sovereigns were largely military men motivated by their experiences in the nearly constant warfare of Renaissance Europe and the martial legacy of Spain's seven-century fight to push the Muslims out of the Iberian peninsula.

Coupled with Catholic missionary zeal, which provided an ideological justification for the conquest of the Americas (similar to the way anticommunism provided the ideological justification for U.S. global hegemony during the Cold War), the *conquistadores* brought their aggressive and militaristic approach to bear as they seized territory and expanded their colonies. The Portuguese began to establish and expand colonies on those principles shortly after the Treaty of Tordesillas between Spain and Portugal in 1494. That treaty gave Portugal the right to seize all territory in the Americas east of the 46<sup>th</sup> Meridian. Under the leadership of Pedro Álvares Cabral, the Portuguese had established their colony in present-day Brazil by the early 1500s.

From the 1500s to the 1800s, there were many wars in Latin America between various European countries jockeying for position. But even during times of peace, and even in areas far from any warfare, the *conquistadores* and their descendants were the local linchpin of colonial administration. In contrast with the democratic approach favored by the British in North America, the Spanish and Portuguese colonies were organized largely on the basis of local military strongmen, or *caudillos*. The soldier-explorers or noblemen who helped establish a colony were granted land tracts known as *encomiendas* (under the Spanish)

or *capitanias* (under the Portuguese). These landowners had nearly complete authority to exploit the local workforce so long as they obeyed the viceroy and paid their imperial taxes.

The *encomiendas* were gradually reformed and replaced by *haciendas*, similar to plantations or ranches employing free labor, but the overall system nevertheless produced a Latin American political culture tinged with authoritarianism and militarism. To this day in Brazil and throughout the region, officials and civilians alike often look to authoritarian leaders and the military for a sense of order, stability, and national pride.<sup>1</sup>

**Brazil’s Long History of Coups**

When Brazil gained its independence from Portugal in 1822, it took the unusual approach of proclaiming a constitutional monarchy rather than a republic. After decades of internal political disputes and international conflicts, including the Paraguayan War of 1864-1870, disgruntled military officers overthrew the king in 1889 and eventually handed power to a civilian government in 1894.

After a period of financial, social, and political instability under the democratic regime, the defeated opposition candidate in the 1930 election, Getúlio Vargas, seized power with the support of the military and began ruling Brazil as a military-backed dictatorship. However, internal tensions continued, and the country suffered a series of political crises, uprisings, and still more coups. In fact, the military deposed Vargas in 1945 and reinstated a new democracy under heavy military influence. The Brazilian economy then entered a period of strong growth touched off by a range of state-led economic policies such as import substitution and heavy government investment.

When João Goulart of the Brazilian Labor Party assumed the presidency in the early 1960s, the U.S. government and right-wing elements of Brazilian society began to fear that his policies would align Brazil with the Communist Bloc and lead to the nationalization of Brazilian industry. In 1964, the military once again stepped into Brazilian politics, deposed the president, and established a new military dictatorship. For the next two decades, the dictatorship ruled Brazil with an iron fist, including strict censorship of the press, political prosecutions, and the murder of political opponents. The dictatorship ended only in

Figure 1.

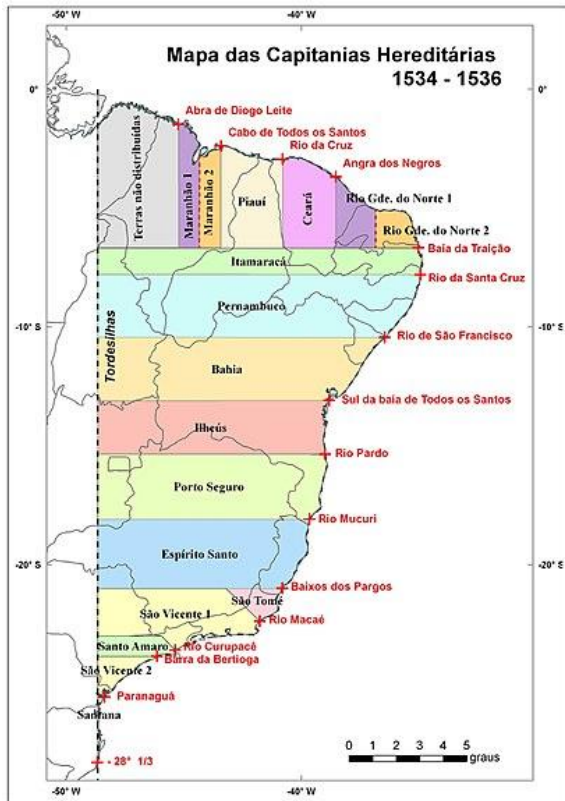


Figura 10 – Proposta do novo mapa das capitanias hereditárias. Desenho do autor.  
*The capitánias of colonial Brazil, early 1500s.*  
 (Source: Wikipedia Commons)

<sup>1</sup> For a short and accessible overview of Brazilian history to the late 1990s, see: Skidmore, Thomas. (1999). *Brazil: Five Centuries of Change*. Oxford University Press.

1985, when Brazil finally established its current, vibrant democracy.

### A New Coup?

As shown above, Brazilian coups have often arisen from periods of social or economic crisis. Since the reestablishment of democracy in the mid-1980s, the country has suffered a number of severe challenges, such as hyperinflation in the early 1990s and various corruption scandals. Two presidents were impeached and ousted for their shortcomings. However, there was only limited talk of another coup. Brazilian democracy seemed secure.

The problem now is that Brazil is under the leadership of a right-wing nationalist president who seems predisposed to military intervention in the country's politics. This comes at a time when he himself is facing a severe political threat from poor economic growth, the global coronavirus pandemic, and various corruption investigations by the nation's judiciary.

**Who is Jair Bolsonaro?** Brazil's current president, Jair Bolsonaro, is a retired army captain and long-time congressman who won the election of 2018 as a member of the conservative Brazilian Social Liberal Party (see Figure 2). His economic policies have been decidedly pro-business and investor friendly. His success in pushing through a reform of the country's pension system to put it on firmer financial ground and make it less costly has been widely lauded by investors. However, he has generated pushback for some other policies, such as loosening restrictions on resource exploitation in the Amazon rain forest. His most controversial policies have been in the social sphere, where he has strongly fought initiatives like gay marriage, affirmative action, and secularism. Those policies, along with his strong support for the U.S.

and Israel, have made Bolsonaro a darling of conservatives and fostered a close relationship with President Trump. At the same time, Bolsonaro has spoken fondly of the country's previous military dictatorship, and he has filled almost half his cabinet with military figures.

Figure 2.



*Brazilian President Jair Bolsonaro*  
(Source: *New York Times*)

**The Threats Facing Bolsonaro.** The president's close association with the military is probably a yellow flag by itself, but what makes it even more concerning is that Bolsonaro is currently facing a range of political challenges that could make him turn to the military to keep him in office and bolster his hopes for a second term in the next election in 2022. Those threats include:

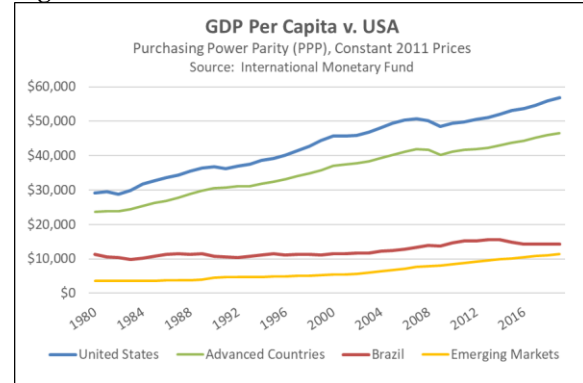
- **Recession and Slow Recovery.** After the nationalist import substitution policies of the 1950s and 1960s eventually produced an economic crisis and stagnating living standards (see Figure 3, next page), liberalization and stabilization reforms in the 1990s ushered in a period of healthy economic growth in Brazil. On top of that, exploding Chinese demand for Brazilian iron ore and other commodities added to growth in the early 2000s. However, falling commodity prices, high debt, and political chaos flowing from the vast

“Operation Carwash” corruption scandal helped touch off a deep recession in 2015-2016. Real GDP declined some 7%. Weak demand and poor investment since then have held growth to about 1% per year. Growth in per-capita GDP has been flat to down.

- Coronavirus Pandemic.** As the novel coronavirus spread across the globe in early 2020, Bolsonaro downplayed the risk, calling the disease nothing but a “little flu.” He actively pushed back against calls for economic lockdowns and social distancing measures. He fired two health ministers after they publicly called for more stringent measures. Even though state and local governments eventually imposed lockdown measures, it proved to be too late. Infections and deaths began to skyrocket. Despite unwavering support among Bolsonaro’s core conservative base, the worsening situation has put additional political pressure on Bolsonaro.
- Judicial Investigations.** The most dangerous development for Bolsonaro is that the nation’s courts, emboldened by their success in prosecuting the Carwash scandal, [have launched a series of investigations into corruption by Bolsonaro, his family members, and his political supporters](#). For example, the federal police have [opened investigations into at least one of Bolsonaro’s sons and several supporters for an illegal fake news and intimidation racket against political opponents](#). An investigation has also been launched into Bolsonaro’s [alleged attempt to replace police officials in order to thwart the inquiry](#). Importantly, any evidence turned up by these investigations [could be turned over to the electoral court and lead to Bolsonaro being kicked out of office](#). With the political danger that

acute, Bolsonaro may be quite willing to turn to the military for help.

**Figure 3.**



### What is the Evidence?

Bolsonaro’s close association with the military and his severe exposure to judicial and political threats wouldn’t necessarily imply a turn to the military to support his government. That possibility has only arisen because statements and actions by Bolsonaro and his supporters have suggested he is considering that strategy. For example, in May, National Security Advisor Augusto Heleno, a retired general, warned of “unpredictable consequences” after the Supreme Court allowed a corruption investigation into certain Bolsonaro supporters. Shortly thereafter, the defense minister echoed the sentiment. Conservatives throughout the country [have even held mass rallies calling on the military to support Bolsonaro](#).

Importantly, Bolsonaro himself hasn’t tried to tamp down the rumors. In fact, after one set of corruption inquiries was launched in April, he argued that “absurd orders” from the courts should be ignored. Several conservative politicians allied with Bolsonaro have already said they would refuse to obey any court orders affecting them. Finally, Bolsonaro has attended several of the mass rallies calling for military intervention.

**Ramifications**

The risk of militarization in Brazil probably doesn't include the armed forces seizing power for themselves. After all, Bolsonaro has already shown himself supportive of the military, and his conservative policies likely have wide support within the armed forces. Rather, the risk is that if Bolsonaro begins to fear that he will be turned out of office, he may ask the military to disband the nation's judicial and legislative branches, as Alberto Fujimori did in Peru in 1992. The armed forces then might also become involved in censorship of the press, persecuting political opponents, or otherwise enforcing a new authoritarian government under Bolsonaro. (Of course, the president may simply be gambling that the mere threat of such an action could stop the judiciary or legislature from challenging him.)

If the Brazilian military suddenly and dramatically started to backstop the Bolsonaro administration, the country's financial markets would probably suffer a period of volatility and declining values. After that immediate phase, or if the military intervention developed more slowly over time, a stable Bolsonaro administration pursuing its pro-business policies with the support of the military could actually look attractive to investors. In the short term,

policies geared toward market liberalization, increased investment, and macroeconomic stability could buttress Brazilian asset values. Brazilian equities and bonds both would probably benefit as local and foreign investors focus on improved profit opportunities. The Brazilian currency, the real, could also strengthen.

In the longer run, however, the loss of democratic accountability could eventually produce the economic imbalances and stagnation that it often has done in the emerging markets. The result could be a range of problems ranging from slowing growth and rising inflation to a cratering currency, capital outflows, and capital controls. In that case, Brazilian equities might only perform well for a limited period before slowing or retreating. Renewed concern about Brazil's economic stability or fiscal position could ultimately drive investors out of Brazilian bonds or the real. In the meantime, investors should probably be prepared for short-term volatility in case the risk of militarization comes true.

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