Chapter 19
Understanding the Impact of Securities Markets Reform on the Economy of Brazil

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ABSTRACT
The economic strength of a country depicts the international standing of a nation and also reflects the significance of the country in moulding the trends of the global economy equally. The Brazilian economy, like many developing economies, has many facets that have developed and matured with time. The Brazilian securities market has undergone much change over the past decade. The reforms that started with the implementation of the “Plano Real” have accelerated the Brazilian market and economy exponentially, thus making the economy one of the major investment destinations, with some calling it the “next superpower.” The fact that the Brazilian economy is a commodities-dominated economy has led the authors to probe into the various nuances related to the securities markets of Brazil, leading to this chapter through which we get a glimpse into the reforms in the securities market and the effect it has on the country as well as the world. The chapter meanders through the development of the Brazilian economy and provides insight into the heart of the Brazilian economy, thereby discussing the effect of the reforms on the economy of the country, how the same strikes the global economy, and the lessons that the country can learn from the other BRICS counterparts, through which it can consolidate its position.

INTRODUCTION
Fiscal strength of a nation is the backbone on which a country’s economic and political health rests. It determines a nation’s relationships and achievements on an international level. The genesis of strength and mightiness of one of the ‘next superpowers’ will always return to its economic stability and impregnability. It is a fact that a strong financial structure boosts trade and commerce of an economy. However, another fact is that such a financial structure rests upon the ever perpetuating
and dynamic nature of the same. The last decade of the last century is marked by some incredible events which changed the balance of power on a global level. The changes include political and economic variations which lead to the emergence of new power blocks.

The determination of the strength prior to the last two decades was based upon the military strength of a country; however, today the sole determinant of a super power is the economic capacity and potential of the countries. The fact that a country can cater to the needs of the markets of other economies as well as its own makes them a potential super power. Therefore, this philosophy has led to the emergence of different trades and commerce, along with economic reform programmes that cater to the needs of these economies. Naturally with a new form of trade, business, and commerce, new sets of regulations follow to conduct such business without any encumbrances. Therefore, time and again various countries must revise and renovate their financial sector to make them more friendly and acceptable to the novelty of the modern financial sector.

The present chapter shall deal with the implications of securities reform in Brazil by:

1. Reflecting the potential of Brazil to become a super power.
2. Implications of the securities market reforms in Brazil.
3. The international standards and how Brazil has responded to them.
4. Implications of the Reforms made by Brazil on its domestic and global market.
5. Lessons that Brazil could learn from the other BRICS (Brazil, Russia, India, China, South Africa) nations.

Finally, the chapter concludes with a reflection on the prospects of Brazilian securities market and the reforms that Brazil must introduce to improve its position and strengthen its market to make it more investor friendly.

**BRAZIL AS A POTENTIAL SUPERPOWER**

International changes post-1990 and later in 2008 created a paradigm shift in the so-called “world-power-play”. The crisis of 2008-09 changed the economic structure around the world substantially and thereby created a “power-pocket” that encompassed the emerging economies of Brazil, Russia, India, China, and South Africa (BRICS). These countries are considered the next superpowers. Hence, they stand as competition not just with each other, but also with other eminent economic powers of the world. If the recession of 2008-09 stood as a true advantage for a country, then it would not be an exaggeration to state that the winners were primarily China and Brazil. While China offers cheap labour, stable markets, and high productivity and lending capacity, the Latin American economy of Brazil represents different types of advantages.

Brazil is one of the prominent contenders for the position of superpower. The emergence of Brazil is due to its vast virgin natural resources, beneficial location (close proximity to the markets of USA, Canada, and Europe), and an emerging infrastructure market coupled with change in the demographic attitude which has developed the financial markets of Brazil. However, today Brazil faces the need to reform its financial sector. In 2002, the International Monetary Fund (IMF) published the first Financial Sector Assessment of Brazil, after which the Brazilian financial sector grew not just in size, but also added to the country’s economy via the sophistication and diversification of the sector and its instruments. Due to change in the financial policy, the country created financial buffers which led to creating bolsters that supported its economy during the global financial crisis of 2008. Despite efforts made by the country, Brazil’s financial sector still faces perils in terms of volatility in the international financial scenario. It is, therefore, imperative to strengthen the financial safety nets to make the economy substantially immune to the discrepancy.