Brazil: Too many bumps in the roads?

Its Growth Acceleration Project targets $252 billion in energy and infrastructure projects. Critics question if its goals are realistic

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RIO DE JANEIRO - It's tough getting around Brazil these days.

Go by plane, and the voyage might take days. Equipment failures and strikes or work slowdowns by air-traffic controllers have led to frequent delays over the past six months and caused havoc at airports.

Go by road, and you take your chances on the country's unpredictable highways. Many of Brazil's highways are unpaved, and the ones that are tarred are liable to open up in huge craters at any moment. On several occasions over the past few months, main roads have washed away, taking cars, buses, and trucks with them.

Go by train – well, that's hardly a serious option because there aren't really any trains.

The precarious state of Brazil's infrastructure is drawing renewed attention thanks to a multibillion-dollar government plan to help fix it. No one argues that work needs to be done. But the discussion in Brazil is whether the government's Growth Acceleration Project, or PAC in its Portuguese acronym, is enough. Many are skeptical.

"The PAC has the merit of signaling a set of priorities," said Paulo Correa, the author of a recent World Bank report on Brazil's infrastructure. "The question is whether this administration is taking advantage of the current positive economic environment to building the microfoundations for long-term growth. Unfortunately, that does not seem to be the case."

President Luiz Inàcio Lula da Silva announced the PAC in January and described it as "the most perfect development project ever done in this republic." It envisages spending approximately $252 billion over four years: $29 billion on transport, $138 billion on energy, and $85 billion on other infrastructure projects.

Of that transport spending, $4 billion will go to railways, $1.4 billion is earmarked for ports, and about $1.5 billion is for airports. The largest portion, $17 billion, will go toward building and fixing roads, and another $5.3 billion has been set aside for the merchant navy. The money is to come from both public and private investment.

The PAC targets more than 1,600 measures. The amounts earmarked are impressive and, by broad agreement, long overdue. Brazil spent only about 1 percent of its gross domestic product on infrastructure last year, according to Mr. Correa, far below the 3.5 percent it must spend simply to maintain what is already in place.

If Brazil wants to catch up with Korea, perhaps the best example of a once developing nation that has progressed quickly thanks to heavy investment in infrastructure and education, it would have to spend 9 percent of its annual GDP on new projects, Correa says. That ambitious expenditure would add at least 4 percent to the country's annual economic growth.

Brazil's economy has grown at an average of 2.6 percent per year since the turn of the century. While that growth has been steady, it pales compared with Korea, India, or China, three nations it is most often compared to. During the same period, Korea grew 5.2 percent, India 6.4 percent, and China 9.6 percent, according to World Bank figures. The government is targeting growth of 5 percent with the aid of the PAC.

Lula says that the PAC is the engine to drive growth. No one denies a jump start is needed.

The rail system, for example, needs about $15 billion in immediate investment simply to lay vital track. Brazil transports 30 percent of its goods by rail on 29,000 kilometers (about 18,000 miles) of track, 13,000 kilometers less than it needs, says Rodrigo Vilaca, executive director of the National Association of Rail Transporters.

The country's skies are more dangerous, with radar black spots above the Amazon, old equipment near collapse, and poorly paid air-traffic controllers launching periodic job actions over poor pay, long hours, and lack of leadership.

Ports, especially the country's largest port in Santos, are expensive and inefficient. Long-standing labor problems and traffic congestion cause frequent bottlenecks and cost transporters time and money. And on the ground, where 60 percent of all goods are transported, more than two-thirds of roads are in a "deficient, poor, or terrible" state, says Flavio Benatti, president of the cargo section of the National Confederation of Transporters, an industry lobby group.

The problem with the PAC, Mr. Benatti and other experts say, is not in its goals but in its execution. The majority of the spending is slated to come from private investors, but they are reluctant to invest in South America's biggest nation because its regulatory framework is weak and because regular interference from the government in contracts and planning deters them.

"It is essential to reduce regulatory risk and therefore the cost of capital for ... investments," says Benatti. "If you get risk down and get appropriate contract design and effective regulators, you will get private sector investment."

The PAC includes mechanisms to improve the regulatory environment, but doubt exists over how it will happen. Lula has assured aides there is a rigorous tracking system in place to monitor projects, and has said that he will follow up.

But Benatti speaks for many when he lauds the PAC's goals but questions its effectiveness.

"We hope that this happens and we would be delighted to see these numbers," Benatti says. "For the private sector to invest seriously, the rules need to be clear. The country needs more investment, and the PAC provides for that. If we don't get that, then we won't grow."