

at just more than 2 percent, says the Lowy Institute's Graham: "When you look at the investment picture, Japan is the giant. China cannot compare."

Asians can benefit from the Japan-China rivalry. The strategy of the Association of Southeast Asian Nations is "Let's hedge our bets and try to play off as many countries as possible," says Chia Shuhui, an analyst in Singapore with BMI Research. "The more the merrier." —Bruce Einhorn, with Suttinee Yuvejwattana, Ting Shi, and John Boudreau

The bottom line Japan is expanding aid to Asia before China's new development bank embarks on Asian infrastructure programs.

Inflation

The Favelas Sour on Dilma Rousseff

- ▶ Brazil's leader loses her base as prices soar
- ▶ "Clothes, my God! Milk, Lord in heaven! Even eggs are expensive"

Brazil's Congress hasn't moved to impeach embattled President Dilma Rousseff, but in a shantytown named for her, she's already been ousted. As high inflation hits the poor harder than the rich, the leader of the Comunidade Dilma Rousseff last month tore down the placard honoring the president at the entrance to the *favela* in Rio de Janeiro. The members of the community had hoped the sign would attract the attention of the government and lead to the favela getting electricity and a sewage system. "We put up a sign after Dilma was elected, thinking it was going to be worthwhile, but nothing at all happened," says Marilene Silva Souza, who sells cookies and bottled water on a nearby highway. Now, thanks to inflation, she and other residents "are eating scraps. If you want to eat a little better, you have to pay an absurd amount."

After the start of Rousseff's second term in January, her government boosted state-regulated prices for electricity as well as bus and subway fares in an effort to tame the budget deficit and maintain Brazil's sovereign bond rating. The hikes, along with rising food costs, have propelled inflation to 8.9 percent, almost double the official target and up



In a favela renamed for Rousseff, a sign honoring her was taken down



2.5 percentage points since December. These changes cut the living standards of the poor, who form the base of Rousseff's Workers' Party and have turned against her. The presidential press office had no comment.

Some prices have risen much faster than the average rate of inflation. Electricity costs rose 42 percent in the first six months of the year. Urban bus fares went up 12.7 percent, beans as much as 24.5 percent, and eggs 14 percent, while the price of onions has gone up 148 percent. A severe drought damaged harvests and drove up the price of food.



Miranildes Coelho, a widowed mother of three, says every day is worse than the last. The monthly pension from her late husband, equivalent to the 788-real (\$251) minimum monthly salary, can't properly feed and clothe her kids, she says. The eldest two understand when she can't afford milk, unlike her 4-year-old daughter. "Beef, rice, beans. Clothes, my God! Milk, Lord in heaven! Even eggs are expensive," Coelho says. "We have to hold on with that little salary." Inflation will be rising twice as fast as targeted by yearend, say economists surveyed by the central bank.

In the Dilma Rousseff favela, the placard was torn down on June 26, the day that the political weekly *Veja* published a report about alleged illegal donations to the president's 2014 reelection campaign, sparking renewed calls for her impeachment. "I took the sign down with anger, with sadness, with ▶

Global Economics

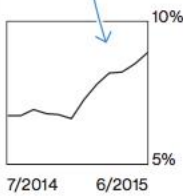
Brazil has one of the world's highest levels of income inequality

◀ disgust, with annoyance,” says Pastor Vagner Gonzaga, the leader of the community. “I said, ‘This is where it ends.’”

Overall approval of the government since December has fallen 31 percentage points, to 9 percent, according to a survey in late June by pollster Ibope. That’s lower than the worst ratings for the government of Fernando Collor de Mello, who resigned from the presidency in disgrace in 1992.

Prosecutors are investigating whether sizable donations to Rousseff’s reelection campaign came from the profits of inflated contracts awarded by **Petrobras**, the state-run oil company.

Inflation in Brazil



Ricardo Pessoa, the owner of contractor **UTC**, was allegedly involved in the donations. Pessoa agreed to talk to prosecutors, and his testimony was leaked to the press, including *Veja*. Pessoa’s lawyer declined to

provide any details about his client’s collaboration with the authorities.

The court that acts as the elections watchdog will hear testimony about the donations and is expected to rule soon on whether Rousseff derived an unfair advantage as the incumbent. Such a ruling could nullify the results of the election, though this is unlikely, according to political consultants Eurasia Group. Rousseff’s party denies the allegations.

On July 9, Eurasia increased the

odds of impeachment to 30 percent from 20 percent. Alejo Czerwonko, emerging-markets investment strategist at UBS, says impeachment is a long shot. The opposition prefers to have Rousseff stay in office and suffer the political cost of imposing austerity, allowing them to win the next election and inherit a recovered economy, he says.

If it were up to Pastor Gonzaga, Rousseff would be impeached. “I’m now anti-Dilma, anti-Lula,” Gonzaga says, referring to Rousseff’s popular predecessor, Luiz Inácio Lula da Silva. “I believed this government was for the poor.” —*David Biller*

The bottom line Brazilian President Dilma Rousseff must deal with a campaign finance scandal, rising inflation, and voter discontent.

Radicalism

In a Saudi Prison, Playgrounds and ATMs

► Saudis arrest returning jihadis, then play nice

► The room “is a gift for the inmates who behave well. It’s like a hotel”

Departing guests at the Family House in Riyadh are invited to fill out a questionnaire: Were the rooms clean? Was the food varied enough? Then they go back to jail.

The facility is inside al-Ha’ir, one of

Lockdown



A corridor in al-Ha’ir, one of five maximum-security prisons in Saudi Arabia that hold jihadis and others considered enemies of the Saudi state



A bedroom at the Family House on jihadi inmates at al-Ha’ir as Prisoners can spend as long as