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"Brazil's Place in the Global Economy"

by

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Introduction

Brazil is a country with great ambitions for a role in the world economy and in global governance, but its footprint in various measures of both remains relatively small. If current trends continue, the gap between ambition and achievement will likely remain large. The country came to recognize during the 1980s the futility of autarchy and the limits of state-led, import-substituting industrialization, but it has since sought a "middle way" between the continuity of past nationalist policies and the neoliberal alternative that became fashionable in much of Latin America and in virtually all of the former Communist countries in Eastern Europe and beyond.

Brazil has responded to the centripetal forces of economic globalization through a strong commitment to multilateralism, and also to the centrifugal forces of regionalization through enduring commitments to Mercosul and Portuguese-speaking Africa. However, it has not been very successful in either enterprise. The time has come for a reassessment of Brazil's proper place on the global economic stage.

A New Agenda for Brazil in the Global Economy

Brazil faces a truly historic opportunity to start providing strong leadership at the regional and global levels – one that it has never had before, and that should not be missed, because it is in the best interest of the people of Brazil to take full advantage of it. However, it requires a leap forward for Brazilian government and business elites: the country must make clearer and more daring national choices, including shedding its increasingly arcane strategic alliances, in order to take its rightful place among the world's most influential nations.

In order to profit from this unique opportunity, the political class and the business community must join forces to modernize the country's diplomacy and economic policy in the following ways:

(1) Reduce Brazil's "Third World" profile by distancing the country from the autocratic regimes in Argentina and Venezuela, while building alliances with the world's most important economic powers – especially with the United States.

(2) Start expressing views, and adopting policies, that will reinforce Brazil's regional leadership in South America.

(3) Show support for Roberto Azevêdo, the distinguished Brazilian who is the new head of the World Trade Organization (WTO), by adopting a new and constructive attitude following the modestly-successful WTO ministerial meeting that took place in Bali earlier this month.

Retrospective

Since the 1980s, Brazilian foreign economic policy has been based on the belief that the country could not adequately defend its national interests in international trade and other negotiations unless it built a block of supporters in South America and in Portuguese-speaking Africa. The idea was that those countries would endorse Brazil's foreign-policy objectives and thus increase its credibility and bargaining power in various international fora.

One can certainly question whether this strategy was ever smart or realistic; it is certainly not the way that other countries have achieved a regional or world leadership role throughout history. They have usually done so by military conquest or by economic success, or by the influence of their superior culture or technology – or by some combination of these accomplishments. Even countries like Australia, China, India, Korea and Mexico have gained influence in the modern era without their spending much – if any – time building a web of regional alliances. They have done it on their own merits.

But by now a long time has passed since the 1980s, and with the benefit of hindsight we can come to a firm conclusion: the South American and African countries with which Brazil decided to associate have made no tangible contribution to whatever modest status or influence Brazil has achieved in the world.

In fact, it can be argued that Mercosul and the Community of Portuguese-Speaking Countries have distracted both the government of Brazil and its business community from far more important markets and objectives, thereby causing them to miss opportunities to exercise regional and global leadership.

Indeed, during the many decades that Brazil has chosen to wait for the consolidation of a block of regional supporters in order to sit down and negotiate many key issues with China, Europe, Japan and the United States, many other countries have already gone ahead on the basis of their own achievements – without relying on regional alliances – and they have achieved impressive foreign-policy and other objectives.

Take the case of bilateral trade agreements. Chile and Colombia have negotiated preferential trade agreements with more than sixty countries each, and Mexico and Peru with more than fifty countries each. They all have free-trade treaties with the United States, the European Union, and with the most important countries in Asia. They also have many investment-promotion and protection agreements with dozens of partners around the world.

In sharp contrast, Brazil has negotiated and ratified trade agreements mostly with other South American countries as part of Mercosul, and no bilateral investment treaties have been ratified.

The Company that Brazil Keeps

There is a saying in English that “a man is known by the company he keeps,” and there are variants of that proverb in Portuguese and Spanish. Like it or not, Brazil is widely perceived among international economic and political elites as being tarnished by some of the disgraceful company it keeps. And the most damaging alliances are those that Brazil maintains with Argentina and Venezuela.

Here are two countries run by increasingly authoritarian governments that have mismanaged their economies, discouraging investment and disregarding property rights through arbitrary price controls, discriminatory taxes, capricious import controls, the abrogation of contracts, nationalizations without compensation, the falsification of official statistics, prohibitions on foreign-currency transactions and rampant corruption.

Here are two countries whose governments have undermined fundamental social institutions like the press, the central bank, labor unions and the judiciary, and who routinely engage in all kinds of acts of intimidation and abuse of political, labor and business leaders who resist government orders.

In the case of Argentina, in particular, it is well known that the arbitrary actions and discriminatory policies have had a negative impact on all of its neighbors and especially on Brazil. Beyond the impact on bilateral trade and tourism of restrictions on imports and controls on access to foreign exchange, there is the damage done to Brazilian investments as seen in the high-profile cases of Vale, Petrobras and América Latina Logística-ALL. They illustrate everything that is seriously wrong in Argentina in terms of distortions in relative prices, insecurity in property rights (and specifically in contracts), and arbitrary and confrontational policies.

And things are likely to get much worse in Argentina and Venezuela, because both Cristina Fernández de Kirchner and Nicolás Maduro have lost their popular support but not their personal political ambition or messianic passion. They are trying to maintain their legitimacy and to stay in power by any means, including by persecuting their opponents, muzzling the press, demonizing businessmen and encouraging class warfare.

However, they are both running out of the fiscal and financial resources necessary to keep themselves in power by subsidizing their supporters in the lower and middle classes. Inflation that is out of control, economies that are stagnant and currencies that have lost most of their value betray the exhaustion of expansionary fiscal and monetary policies – and of their 21st century version of populism, in general. Moreover, both have lost their access to the international capital markets and are running low on hard-currency reserves.

Argentina, furthermore, may yet spark another massive default on its international bonds because the government may be prevented by the Supreme Court of the United States from continuing to discriminate among its creditors by paying some but not others.[1] A renewed default could easily precipitate another chaotic scenario like that of 2001-2002, including a depositor run on Argentine banks, accelerating inflation, food shortages, as well as supermarket lootings and violent demonstrations. In fact, recent disturbances throughout Argentina suggest that the government is starting to lose control of the streets.

[1] It may do this next year either by refusing to take up an appeal by Argentina of a case that was decided in August 23, 2013, when the U.S. Court of Appeals for the Second Circuit issued its opinion on Argentina's appeal from the District Court for the Southern District of New York's amended injunction requiring that Argentina make "ratable payment" to holdout creditors when it next makes a payment to holders of its performing bonds – or else by taking up the case and then siding with the Second Circuit. See Shearman & Sterling, Don't Cry for Me Argentine Bondholders: Avoiding Supreme (Court) Confusion, September 27, 2013, available at *http://www.shearman.com/files/Publication/a6c206f1-dc37-4ee4-917c-68d92b88da04/Presentation/PublicationAttachment/62c3d8e2-b84f-4a55-b69a-cdcef4448a4f/Don%e2%80%99t-Cry-for-Me-Argentine-Bondholders-Avoiding-Supreme-(Court)-Confusion-LIT-092713.pdf*

This is why the time has come for Brazil to distance itself from the floundering regimes in Buenos Aires and Caracas. They do not share the same democratic and liberal values that Brazilian society holds dear – never mind the same understanding of the supportive role that the public and private sectors must play in a modern, globalized economy.

Super-blocs vs. Multilateralism

This distancing from damaging regional alliances should be accompanied by Brazil choosing economically stronger and ideologically more compatible partners with which to do business and to generate additional prosperity – partners that will integrate Brazilian companies into their global production and marketing chains.

Take the case of the major regional trade blocs currently being formed. In Latin America, the most exciting recent development is the Pacific Alliance, which was created in mid-2012 by Chile, Colombia, Mexico and Peru, and held a successful summit meeting in Cali, Colombia, this past May. It is moving rapidly to eliminate all remaining trade barriers among its members and to foster the free circulation of goods, services, capital, and even people. Costa Rica joined in June and Panama is expected to follow soon, with other market-friendly economies from Canada to Paraguay and Uruguay expressing interest.

These countries want to connect themselves with each other and also with a number of countries in Asia that are looking for reliable partners for their global value chains. Brazil has so far shown no interest in joining this group, and yet the country must become more integrated into global supply chains. Otherwise, Brazilian companies will not be able to generate high-quality jobs that depend neither on the ups and downs of commodity prices nor on the elimination of distortions and restrictions in world agricultural trade.

Then there is the Trans-Pacific Partnership (TPP), which recently held a negotiation round in Singapore. It involves the United States plus ten other countries from Australia and Canada to Vietnam, also including Chile, Peru and Mexico. Now Japan has expressed a willingness to make concessions in order to qualify for entry into what is looking like the most important economic initiative to unite the Americas with Southeast Asia, which would make the TPP a group of twelve countries, with Korea possibly joining next year.

The countries in the TPP share a commitment to concluding an ambitious agreement that will address many of the issues that have proven too difficult to resolve during the Doha Round, such as rules for free trade in services and technology. However, Brazil has once again expressed no interest in joining this group, even though it will become the largest in the world, because it will include countries representing forty percent of global GDP.

And then there is the Transatlantic Trade and Investment Partnership (TTIP), in which the United States and the European Union are engaged nowadays in what is the third round of negotiations in just the initial year: the first round was in July in Washington, D.C., the second in November in Brussels, and the third is being held December 16-20, again in Washington. TTIP is aiming to be an ambitious, comprehensive, and high-standard trade and investment agreement between parties who already trade a great deal with one another on the basis of very low tariffs, and thus it is focused on reducing or removing costly non-tariff barriers, including on agricultural goods, and on harmonizing differences in regulations and standards that impede the free flow of goods and services across the Atlantic ocean.

It is clear, therefore, that we are heading toward a global economy made up of several super-blocs: the Trans Pacific Partnership, the Trans-Atlantic Partnership, the European Union, China's own economic bloc with its neighbors, and within Latin America, the Pacific Alliance.

Realistically, there is no future in Mercosul, considering how long its members have tried to establish a free-trade area and a customs union among themselves – and how little has been accomplished or has endured, especially in recent years. One is reminded of Mercosul's limitations also by the glacial pace of trade talks between its members and the European Union: the two parties recently set an end-of-January (2014) deadline to swap opening terms for a conversation, the first – and fruitless – installment of which took place a dozen years ago. The talks are motivated by the fact that existing European trade preferences are expiring for all Mercosul countries except Paraguay, since Argentina, Brazil and Uruguay are now deemed to be too well off to deserve them.

If Brazil wants to stay out of the super-blocs, because it wants to place all its bets on a multilateral approach to global trade governance, then Brazil's private sector and political elites must become one of the strongest supporters of Roberto Azevêdo and the WTO. To be consistent with this bet on multilateralism, Brazil ought to develop and display a new and constructive attitude in the wake of the recent WTO ministerial which took place in Bali in early December. Without such a fresh attitude, the Doha Round will remain moribund, and the recent, limited progress in what is a modest, WTO trade-facilitation agenda will leave Brazil very alone in a world that is going to be increasingly dominated by trade super-blocs.

A Strategic Partnership with the United States

Brazil should also consider becoming a strategic partner of the United States. This is a controversial – even heretical – proposition among intellectual elites and political leaders in Brazil, but even FIESP, the São Paulo industrialists' lobby, which has long promoted the country's industrialization behind a wall of protectionism, is now changing its tune. A recent policy paper called for trade agreements with not only the EU but also the United States. Indeed, the time has come to recognize that the United States has changed a great deal in recent years. It no longer has a hegemonic project for Latin America, and it recognizes that every country in the hemisphere is different and deserves to be respected as such. The United States appears ready to have a mature relationship with Brazil, with an agenda that is very broad and not confined merely to the prevention of terrorism or the control of drug trafficking.

Vice President Biden made it clear when he visited Brazil last May: President Obama believes that there is an incredible opportunity for a new era of relations between the United States and Brazil. That is why he personally delivered an invitation to President Dilma Rousseff to come to Washington in October for what would have been the only state visit that President Obama hosted in 2013 – the first state visit to Washington for a Brazilian president since 1995, and the first for Obama in his second term in office. Unfortunately, leaks about U.S. intelligence-gathering in Brazil led President Rouseff to postpone her state visit to Washington, but hopefully the trip will take place during 2014.

But to state the obvious, as Biden said, it is up to Brazil to decide whether to seize the possibilities that such as top-level visit would provide, and to accept the responsibilities that would come from developing a strategic partnership with the most powerful country in the world.

Is Brazil ready to distance itself from its bad partners in South America and to enter into new and promising strategic partnerships in North America, Europe and beyond? As is the case in soccer, if one wants to play in the First Division, one must be ready to quit playing in the Second Division. The time has come for Brazil to change course and aim high.

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