



Brazil: A Historic Opportunity to Provide Leadership

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This year Brazil faces a truly historic opportunity to start providing strong leadership at the regional and global levels – a great opportunity that it has never had before, and one 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 Brazil: the country must shed its increasingly arcane alliances and take its rightful place among the world's most powerful nations.

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

- (1) Reduce Brazil's "Third World" profile by distancing itself 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 WTO, by adopting a new and constructive attitude at the next WTO ministerial meeting taking place in Bali in December of this year.

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 forums.

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I never thought that 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 modern times without their spending time building a web of regional alliances; they have done it on their own merit.

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 status or influence Brazil has achieved in the world.

In fact, I would argue 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 things 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 60 countries each, and Mexico and Peru with more than 50 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, directly or indirectly through Mercosul, has negotiated and ratified trade agreements mostly only with other South American countries, or else with insignificant nations like Cuba and Israel, and it has not ratified any bilateral investment treaties.

We have a saying in Spanish: “Dime con quién andas y te diré quién eres.” This is similar to the English saying “A man is known by the company he keeps.” And 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 relationships are those that Brazil has 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. I don't need to tell you how bilateral trade, tourism and investments have been damaged by Argentina's policies, because the high-profile cases of Vale, Petrobras and now América Latina Logística-ALL, illustrate everything that is seriously wrong in that country.

And things are going to get much worse in Argentina and Venezuela, because both Cristina 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 low and middle classes. Inflation that is out of control, economies that are stagnant, and currencies that have lost most of their value indicate the exhaustion of expansionary fiscal and monetary policies. Moreover, neither has access to the international capital markets.

And Argentina, as you have probably heard, is closer than ever to defaulting on its international bonds, because the government may be prevented by the courts of the United States from continuing to discriminate among its creditors by paying some but not others. A renewed default could easily precipitate another chaotic scenario like that of 2002, including a depositor run on the banks, accelerating inflation, food shortages, as well as supermarket lootings and mass demonstrations.

This is why the time has come for Brazil to distance itself from the 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.

This distancing 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 a year ago by Chile, Colombia, Mexico, and Peru, and recently held a summit meeting in Cali. 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 two weeks ago and Panama will follow soon, with other market-friendly economies from Canada to 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 Brazil must become more integrated into global value chains. Otherwise, Brazilian companies will not be able to generate high-quality jobs that don't depend on the ups and downs of commodity prices, and that don't depend on the elimination of restrictions to world agricultural trade.

Then there is the Trans-Pacific Partnership (TPP), which recently held a negotiation round in Lima. It involves the United States plus 10 other countries from Australia and Canada to Vietnam, but 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 South-East Asia, so that would make it a group of 12 countries, with Korea possibly joining in 2014.

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 during the Doha Round, like rules for free trade in services and technology. However, Brazil has likewise expressed no interest in joining this group, even though it will become the largest in the world, because it will include countries representing 40% of global GDP.

When you consider that the United States and the European Union are also about to start negotiations on a Transatlantic Trade and Investment Partnership (TTIP), it becomes clear to me 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 and Latin America the Pacific Alliance. I don't see any future in Mercosul, considering how long its members have tried to establish a free-trade area and a customs union – and how little has been accomplished, especially given recent events.

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 government must become one of the strongest supporters of Roberto Azevêdo and the WTO. As mentioned before, and to be consistent with this bet, Brazil must develop and display a new and constructive attitude at the next WTO ministerial meeting taking place in Bali in December of this year. Without such a fresh attitude, the Doha Round will probably not succeed, and then its failure will leave Brazil very alone in a world that will be dominated by super-blocs.

And this leads me to my final and most provocative suggestion: Brazil should also consider becoming a strategic partner of the United States.

Now I know that this is considered a heretical idea among many intellectual and political leaders here in Brazil. However, let me assure you 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. I sincerely believe that the United States is 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 was here some 10 days ago: 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 will be the only state visit that President Obama will host this year – the first state visit to Washington for a Brazilian president since 1995, and the first for Obama in his second term in office.

But to state the obvious, as Biden said, it's up to Brazil to decide whether to seize the possibilities that such as top-level visit will 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 and beyond? I

sincerely hope so. As is the case in soccer, if you want to play in the 1st Division, you have to stop playing in the 2nd Division. The time has come for Brazil to aim high.