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Brazil's Place in the Global Economy

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Brazil is a country with long-standing ambitions for a major role in the world economy and in global governance, but its footprint in various measures of both remains relatively modest. On current trends, the gap between ambition and achievement will likely remain large, so we provide a critique of Brazil's strategy in terms of economic statecraft; reflect on the wisdom of choices made in the past in terms of multilateralism vs. regionalism; and suggest a new approach that could enhance Brazil's leadership role at the regional and global levels. It would involve the Brazilian government and business elites making clearer and more daring national choices, including shedding increasingly arcane and detrimental strategic alliances, in order to enable the country to become more involved with and thus influential on the global economic stage.

I. Brazil's Significance in the World Economy

Brazil is a very large country which has enjoyed political and economic stability and an increasingly favorable external environment during the past two decades, but its economic

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accomplishments at home and on the world economic stage have been relatively modest, and thus the country's influence and prestige have remained quite limited.

Its impressive geographical and economic size is indisputable: Brazil is the world's fifth-largest country in terms of territorial extension, coming after Russia, China, the United States and Canada; the fifth most populous country, surpassed only by China, India, the United States and Indonesia; and in terms of the value-added of its economic output, adjusted for international differentials in purchasing power, it is the seventh-largest economy, after the United States, China, India, Japan, Germany and Russia.

However, despite these oft-cited headline indicators, Brazil casts a much smaller shadow when put in its proper context. The country's extensive land area (8.5 million square kilometers), as continental-sized as it is, represents but 6½ percent of the world's total, and includes just five percent of the planet's arable land.[2] Its territory is relatively lightly settled, such that Brazil's nearly 200 million residents account for less than three percent of the world's total population, significantly less than China's more than 19 percent and India's 17½ percent shares of total. Brazil's production of goods and services is likewise valued at less than three percent of the world's total, as opposed to the United States which accounts for nearly 20 percent and China almost 15 percent of global output.

[2] Arable land for 2011 as percent of world's total from World Bank, *World Development Indicators*, 2013.

Figure 1: Main Indicators of Brazil's Place in the World

Rank	Land area*		Population**		GDP***	
1	Russia	16.4	China	1,350.7	United States	16.2
2	China	9.3	India	1,236.7	China	12.3
3	United States	9.1	United States	313.9	India	4.7
4	Canada	9.1	Indonesia	246.9	Japan	4.6
5	**Brazil**	**8.5**	**Brazil**	**198.7**	Germany	3.2
6	Australia	7.7	Pakistan	179.2	Russia	2.5
7	India	3.0	Nigeria	168.8	**Brazil**	**2.3**
8	Argentina	2.7	Bangladesh	154.7	United Kingdom	2.3
9	Kazakhstan	2.7	Russia	143.5	France	2.2
10	Algeria	2.4	Japan	127.6	Italy	1.8
	World	**129.7**	**World**	**7046.4**	**World**	**83.2**
	Of which: Brazil	**6.5%**	**Of which: Brazil**	**2.8%**	**Of which: Brazil**	**2.8%**

* Millions of square kilometers in 2011. Source: World Bank, *World Development Indicators*, 2013.
** Millions of inhabitants in 2012. Source: World Bank, *World Development Indicators*, 2013.
*** Gross domestic product in 2012 based on purchasing-power-parity (PPP) valuation of country GDP, in trillions of U.S. dollars. Source: International Monetary Fund, *World Economic Outlook Database*, Oct. 2013.

Other relevant indicators of Brazil's economic dimension in the world cut a relatively unimpressive figure. The country's merchandise exports multiplied from an average of $1½ billion per annum during 1950-53 to over $60 billion by 2000-03, but because other countries' exports expanded even faster during that half-century, Brazil's share of world exports actually dropped from over two percent to under one percent of total. In the past decade, Brazilian exports have vaulted to the vicinity of $250 billion per year during 2011-13, but this surge only succeeded in raising the country's market share partially up to around 1.4 percent of total world exports.[3]

Moreover, Brazil remains a particularly inward-looking economy even in comparison with other large, continental-sized nations, which also tend to be less open than medium-sized economies. In countries such as Canada, Mexico and Russia, exports of goods and services

[3] Calculated from data in International Monetary Fund, *International Financial Statistics*, 2014, available at http://elibrary-data.imf.org.

are equivalent to at least 30 percent of their GDP; in Indonesia and South Africa, exports represent more than one-quarter of their GDP; and in India and Turkey, the export sector accounts for over one-fifth of GDP. In Brazil, in contrast, exports of goods and services represented less than 13 percent of GDP during 2008-12.[4]

Mineral, agricultural and other primary products account for over half of Brazil's total exports, with many products that are classified as "manufactured" actually involving the processing of raw materials; for example, exports of orange juice are counted as manufactured goods. It is estimated that the proportion of total Brazilian exports embodying "high technology" has decreased from over ten percent of total in 2000 to five percent by 2010 (Canuto 2013). The share of manufactured goods incorporating these high technologies, in turn, has likewise shrunk from roughly one-fifth of total manufactures in 2001 to less than one-tenth by 2011.[5] Even export goods incorporating low levels of technology slid from over 13 percent to under ten percent of total exports between 2000 and 2010. And this decrease in the content of technology in Brazilian exports was not the result of the intervening boom in commodity sales abroad; rather, it reflected modest growth in exports of manufactured goods embodying technology (Canuto et al. 2013).

Brazilian exports are also characterized by the fact that they involve a relatively small proportion of imported inputs, and this is because Brazil is only marginally integrated into global production chains. For instance, estimates of the contribution of offshored

[4] Inter-Agency Group of Economic and Financial Statistics, *Principal Global Indicators*, 2014, available at www.principalglobalindicators.org.
[5] World Bank, *World Development Indicators,* 2014, available at http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators#

intermediate inputs to the production of goods that are then exported show that Brazil is one of the most self-sufficient – some would say disconnected – of nations, with no more than one-tenth of the value-added of its exports incorporating foreign-made inputs. This very low share compares to more than one-fifth of export value-added in the case of Canada and India, and about one-third of same in China and Mexico.[6]

Indeed, Brazil has served as a platform for national and multinational producers to satisfy the needs of the large (and relatively protected) domestic market, or else as a platform to export primary and manufactured goods made almost entirely in Brazil. The resulting self-sufficiency has contributed to Brazil's relative isolation from the world's multiplying production chains, and thus to the country's relatively low international economic profile.

Brazil also cuts a very marginal figure in terms of international financial, and not merely trade, connections. To begin with, the local currency, the Real (BRL), is hardly traded in the international currency markets. According to the latest and most authoritative survey of currency turnover in the world, the BRL figured in 0.6 percent of all spot transactions taking place during the sample month of April 2013. This compares to a 1.7 percent share for the heavily regulated Chinese yuan (CNY), 1.8 percent for the Russian rouble (RUB), and 2.8 percent for the Mexican peso (MXN). Even the Indian rupee (INR), the Turkish lira (TRY)

[6] OECD, *Interconnected Economies: Benefiting from Global Value Chains* (Paris: OECD, 2013), p.26. Data cited are for 2009, available at http://dx.doi.org/10.1787/888932834397.

and the South African rand (ZAR) trade more frequently in the spot currency market than does the Brazilian Real.[7]

In the foreign exchange swap market, which is marginally larger than the spot market – the equivalent of $2.2 trillion/day in swaps, versus $2.0 trillion/day in spot transactions – the BRL was involved in an insignificant 0.04 percent of all transactions taking place around the world during the sample month of April 2013. This compared to a swap-market presence of 1.8 percent of total transactions for the (partially inconvertible) Chinese yuan and 2.6 percent of total for the (fully convertible) Mexican peso, just to mention two more heavily traded emerging-market currencies.[8]

In terms of the international reserves and other foreign assets owned by the Brazilian public and private sectors – foreign currencies, stocks, bonds, real estate, and the like – these amounted to an estimated $731 billion as of the end of 2012 – more than double those in 2006, and by far the largest number in Brazil's history. However, this wealth represents a mere 0.5 percent of what all other countries own in terms of their combined cross-border assets. Brazil's $731 billion was also one-seventh of mainland China's international assets, and roughly one half of Russia's, cross-border assets as of the same date.[9]

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[7] Bank for International Settlements, *Triennial Central Bank Survey: Global Foreign Exchange Market Turnover in 2013*, February 2014, pp. 2-5, available at www.bis.org/publ/rpfxf13fxt.pdf.
[8] Ibid., pp. 6-9.
[9] Calculated from data in International Monetary Fund, *International Financial Statistics*, 2014, available at http://elibrary-data.imf.org.

Figure 2: Additional Indicators of Brazil's Place in the World (as of 2012)

	Amount ($ billions)	% of World Total
Merchandise exports, FOB*	243	1.34
Merchandise imports, CIF*	228	1.25
International assets*	731	0.49
Outward foreign direct investment**	99	0.38
Outward foreign portfolio investment***	22	0.05
International liabilities*	1,556	1.02
Inward foreign direct investment**	747	2.87
Inward foreign portfolio investment***	575	1.32

* Source: International Monetary Fund, *International Financial Statistics*, 2014.
** Source: International Monetary Fund, *Coordinated Direct Investment Survey* (CDIS), 2014.
*** Source: International Monetary Fund, *Coordinated Portfolio Investment Survey* (CPIS), 2014.

According to a comprehensive survey of recipient countries, Brazil's foreign direct investments around the world (namely, investments entailing at least a ten-percent ownership stake) were estimated at about $100 billion as of end-2012, and foreign portfolio investments at the equivalent of $22 billion. To put them in proper perspective, these components of Brazil's international assets were 0.38 percent and 0.05 percent, respectively, of the world total of such cross-border investments.[10] In other words, Brazil's multinational companies and investments may have expanded a great deal abroad in the past decade, but they represent a small dot in the huge universe of cross-border direct and portfolio investing.

In terms of the international liabilities owed by the Brazilian public and private sectors to foreign direct and portfolio investors, and also to foreign banks and suppliers, these amounted to an estimated $1½ trillion as of the end of 2012. This figure is likewise more

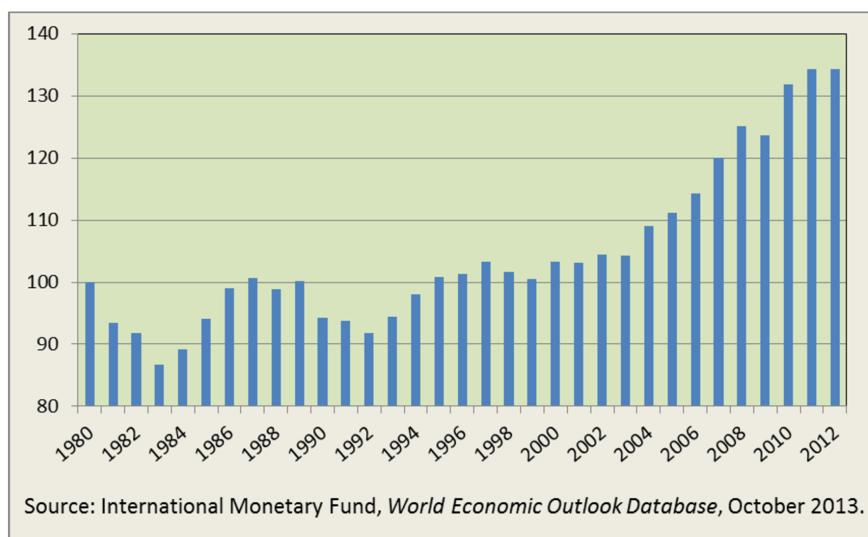
[10] Calculated from data in International Monetary Fund, *Coordinated Direct and Portfolio Investment Surveys (CDIS and CPIS)*, 2014, available at http://cpis.imf.org.

than double the amount of external liabilities the country had in 2006, and by far the largest number in Brazil's history. There is no question that in recent years Brazil has attracted many foreign investors to its shores. Nevertheless, the $1½ trillion captured by Brazil represents a mere one percent of the cross-border loans and direct and portfolio investments that all of the world's countries had managed to attract as of end-2012.[11]

Brazil's footprint on the world economic stage is also light because its performance has been mixed and generally unimpressive. In the long period from 1980 through 2012, per capita incomes in Brazil, measured on an inflation-adjusted basis, increased by a total of 34 percent. The economy actually experienced a contraction in per capita GDP in 12 out of the 33 years, or in more than one-third of the time elapsed. Thus, Brazil has made economic progress in what could be characterized as a "two steps forward, one step back" pattern – certainly so up until the mid-2000s.[12]

[11] Calculated from data in International Monetary Fund, *International Financial Statistics*, op. cit.
[12] Calculated from data in International Monetary Fund, *World Economic Outlook Database*, October 2013.

Figure 3: Brazil's Gross Domestic Product per capita, constant prices (1980=100)



Source: International Monetary Fund, *World Economic Outlook Database*, October 2013.

Meanwhile, during the same 1980-2012 period, the simple (unweighted) mean performance delivered by 105 emerging and developing countries excluding Brazil was a near doubling of their GDP per capita – specifically, a 93 percent cumulative surge – and the median performance was a 53 percent increase. China was the star performer by a long shot: the country managed to multiply its 1980 per capita income by about 15 times during the intervening 33 years, never experiencing a single recession year.[13] Vietnam multiplied its GDP per capita by five times – not a single recession year there, either – and India and Thailand, notwithstanding a major setback in 1998, achieved a nearly four-fold increase in their living standards. Malaysia and Indonesia almost tripled their per capita incomes between 1980 and 2012, despite becoming victims of the Asian financial crisis; Chile registered a time-and-a-half (160 percent) increase – impressive only by Latin American

[13] South Korea, now considered a high-income, advanced economy which is therefore not part of the sample of 105 countries classified as emerging and developing, multiplied its per capita income by nearly six times during 1980-2012, having taken off much earlier than China.

standards; and Poland doubled its economic standard of living even though it went through a wrenching transition from communism to capitalism.[14]

To be sure, Brazil's influence and prestige beyond its own borders might have been greater if in areas beyond economics and finance its achievements had been truly notable. However, the country has not scored well in many alternate metrics of business climate or of educational, cultural and scientific endeavors. To cite but one example, the very long list of Nobel prizes awarded since 1901 – it includes 876 individuals through 2013 – features a single laureate born in Brazil who spent his entire adult life in England, making Brazil notable only for being the country with the smallest number of laureates on a per capita basis.[15] The record compares poorly, for instance, with 9 Nobel winners from South Africa, 8 from India or four from Argentina.[16]

II. Brazil's Economic Statecraft

Brazil came to recognize during the 1980s the futility of autarchy and the limits of state-led, import-substituting industrialization, and 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 – never mind in the former Communist countries, most of which have embraced capitalism with gusto.

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[14] Calculated from data in International Monetary Fund, *World Economic Outlook Database*, October 2013.

[15] Sir Peter Medawar shared the 1960 prize in Medicine. He was a British biologist born in Brazil, but he was educated in England and spent all of his adult, professional life there. See www.nobelprize.org/nobel_prizes/medicine/laureates/1960/medawar-bio.html. On Nobel laureates awarded by country on a per capita basis, see http://en.wikipedia.org/wiki/List_of_countries_by_Nobel_laureates_per_capita.

[16] See www.nobelprize.org/nobel_prizes/lists/countries.html. Countries without a single laureate are excluded from the ranking.

In terms of its economic statecraft – namely, the harnessing of global economic forces to advance Brazil's foreign policy, and the use of foreign policy tools to further the country's economic potential – the political and business elites in Brazil have responded to the centrifugal forces of economic globalization through a commitment to multilateralism. At the same time, however, they have responded to the centripetal forces of regionalization through commitments to Mercosul, and to a lesser extent to Portuguese-speaking Africa.[17] These two commitments have been supplemented as of late by a new version of state-fostered economic development known as "neo-developmentalism," the term coined by Brazilian economist and former policymaker Luiz Carlos Bresser-Pereira to define a 21st-century alternative to the "Washington Consensus" orthodoxy that is supposed to be an improved version of the flawed developmentalism of the 1960s and 1970s (Ban 2013, Bresser-Pereira 2009).

Brazil has long sought recognition of its perceived importance in the world, first and foremost by attempting to become a permanent member of League of Nation's Executive Committee and then of the United Nations Security Council (Fishlow 2011, 181). The point has been included in virtually all bilateral diplomatic agendas and mentioned in most presidential statements during or at the conclusion of meetings with other heads of state. In order to obtain support for this cause, Brazil has offered concessional loans, many of which went unpaid and had to be forgiven as of late, and has promised increased technical

[17] An expansion of Brazilian exports to and investment in Africa in the past decade has been promoted to a large extent by Brazilian government loans to African importers and borrowers, channeled mainly via PROEX, Brazil's equivalent of the U.S. Export-Import Bank, and also by BNDES, the giant state-owned development bank which has no parallel in the United States. An unknown proportion of these loans are of dubious quality, and it is estimated that more than $1 billion in loans to African obligors have already had to be written off (World Bank/IPEA 2011, 99, and Pereira da Costa and da Motta Veiga, 2011). Our focus here is on Mercosul, and not on Brazil's initiatives in Africa.

cooperation to a variety of governments in Africa and Latin America. Indeed, it was to boost Brazil's case for membership in the Security Council that Brasilia decided to lead the U.N. Stabilization Mission in Haiti, with the mobilization of important military, humanitarian, and other resources starting in 2004.

As of yet, Brazil has very little to show for all of its time and effort spent on the United Nations objective: the country's consolation prize has been frequent selection for temporary membership in the Security Council – and that is all. In general, the countries of Latin America have not supported Brazil in this quest, favoring a rotation system whereby the region would always be represented (Turcotte 2008, 804). Nevertheless, it is still the case that "Brazil's diplomatic and military establishment sees winning a permanent chair in the Security Council, even without veto power, as a desirable symbol of the country's status as a major world player" (de Almeida 2009, 176).

Brazil has also long pursued the resolution of world problems through multilateral approaches to economic development, international trade, global warming, and international security issues. For example, Brazil and other developing countries became influential voices in the Uruguay Round of trade negotiations that was launched in 1986 under the aegis of the General Agreements on Tariffs and Trade (GATT, the predecessor of the WTO, the World Trade Organization). Brazil also played an important role in the start of the Doha Round of 2001, the latest – and so far incomplete – attempt to curb protectionism affecting trade in agriculture, services and intellectual property. Among developing countries, Brazil and India have been heavily involved in guiding the agenda and negotiations (Fishlow 2011, 168-73).

Indeed, despite failure to build consensus on a comprehensive trade deal, the earnest efforts of Brazil's envoy to the WTO, Amb. Roberto Azevêdo, gained him the credibility, and gave him the visibility, to be elected Director-General of the WTO in September 2013, for a four-year term. This election marked the first time that a national of Brazil became head of any of the global economic-governance institutions. He was only the second of eight prior directors-general of the GATT/WTO to come from a developing country, which is no mean feat.[18]

In Brazilian government and business sectors there has been justified pride in Mr. Azevêdo's election, but he has faced a difficult challenge in resuscitating the moribund Doha Round, not least because of his own government's foot-dragging. While continuing to pay lip service to multilateral solutions to world trade and other global problems, Brazil has moved on to carve out new markets in China and beyond for the country's expanding production of commodities (e.g., iron ore, crude oil, soybeans, sugar, poultry, and coffee), as well as for major Brazilian construction, engineering and other companies now doing contract work in many countries around the world. Moreover, one of the obstacles on Azevêdo's path is increased protectionism in the wake of the global financial crisis of 2008, especially in developing countries including Brazil.

The administration of President Luiz Inácio Lula da Silva (2003-10) reintroduced the concept of a strategic industrial policy with the launch of the *Política Industrial, Tecnológica e de Comércio Exterior* (Industrial, Technological and Foreign Trade Policy, or PITCE) in

[18] The previous one was Thailand's Supachai Panitchpakdi (2002-05).

November 2003, this time with an export-promoting, rather than import-substituting, development objective. It was supplemented in May 2008 by a *Política de Desenvolvimento Produtivo* (Productive Development Policy, or PDP), administered by the state-owned National Brazilian Development Bank (BNDES), to help position Brazilian companies (e.g., in the mining, steel, aviation, and biofuels sectors) to become global leaders. Ever since then, BNDES has been picking and promoting suspected winners through generous long-term loans at concessional interest rates.[19]

In her inaugural year in office, President Dilma Rousseff, Lula da Silva's successor, quickened the pace of industrial policy and turned it sharply inward, starting in August 2011. The government first announced the *Plano Brasil Maior* (Plan Larger Brazil), a package mainly of tax breaks in most cases conditional upon the use of Brazilian-made goods or on export performance objectives.[20] The following month, the authorities imposed a 30 percent increase in the tax on manufactured products (IPI) for vehicles with less than 65 percent of their value added originating in Brazil, Argentina or Mexico. (Brazil has preferential regimes for autos with Argentina and Mexico, the former in the context of Mercosul.)

Subsequently, in October 2012, increases on 100 tariff lines were announced affecting mainly imported machinery, plastics, iron and steel, chemicals, paper and wood articles. Tariffs were raised between two and 18 percentage points, which resulted in new tariff levels of between 14% and 25% for affected imports. According to a recent report by the European Commission, Brazil, together with Argentina, South Africa, and Indonesia, are responsible

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[19] For useful context on neo-developmentalism as reflected in these industrial policies in Brazil (and also in Colombia), see Rojas 2013.
[20] See www.brasilmaior.mdic.gov.br.

for more than half of all new protectionist measures introduced in the period from October 2008 to May 2013 – and this even though they were little affected by the global financial crisis which impacted Europe, above all.[21]

In the last several decades, Brazil has also supplemented its allegiance to multilateralism with a commitment to regional economic projects in South America and in Portuguese-speaking Africa.

In the mid-1980s, a relationship blossomed between Brazil and Argentina as both countries celebrated the restoration of democracy and the end of a military-era nuclear development race, and as both found themselves coping with a heavy legacy of government indebtedness, galloping inflation, and lack of access to foreign capital. Presidents José Sarney and Raúl Alfonsín grew close as each experimented with unconventional stabilization plans (the Cruzado Plan and the Austral Plan, respectively) and toyed with the idea of a unified response to foreign bank and official creditors. Once both of these plans failed to vanquish hyperinflation, and more orthodox approaches had to be embraced, Brazil and Argentina engaged in coincidental trade-liberalization initiatives during 1988-89, whereby tariff walls were cut in half. This is what made it possible for their successors, Presidents Fernando Collor and Carlos Menem, to enter into an alliance whereby tariff levels would be lowered further only for intra-regional trade (Fishlow 2011, 141-3). In March 1991, the Treaty of Asunción was signed incorporating Paraguay and Uruguay into the trading arrangement that became known as Mercosul in Portuguese and as Mercosur in Spanish.

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[21] European Commission, Directorate-General for Trade, *Tenth Report on Potentially Trade-Restrictive Measures Identified in the Context of the Financial and Economic Crisis, 1 May 2012-31 May 2013*, available at http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151703.pdf.

Soon after the treaty came into effect, Brazilian economic diplomacy began to envision that Mercosul could serve a larger, strategic purpose: Brazil would be able to boost its bargaining power in multilateral trade and other negotiations if it built a block of supporters in South America and beyond – mainly among Portuguese-speaking Africa (Bernal-Meza 2002). It was the way to reconcile a pivot to regionalism with continued allegiance to multilateralism. "There is no doubt that a continental integration [process] will reinforce considerably our country's potential development and international position" (Nogueira Baptista 2008, 237). Besides, multilateralism "does not have the universality [of application] that it had hoped to achieve some day" (Souto Maior 2004, 187). Moreover, the search for regional prominence "was also an end in itself, which reflected historical beliefs among Brazilian foreign policy elites regarding the distinct destiny of their country. It was in particular a reflection of their awareness that beyond its potential to occupy a central or hegemonic position among its neighbors, Brazil was large enough to play a relevant role in the international order" (Gómez Mera 2005, 131-2). Under President Lula da Silva's tenure, Brazil added a complex cooperation structure with other South American countries to its overall foreign policy agenda, and it included membership in the newly founded Union of South American Nations (UNASUR) to pursue regional integration projects (Gomes Saraiva 2010).

One can certainly debate whether this hegemonic ambition 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 economic success, or via the influence of their superior culture or technology – or by some combination of accomplishments in these endeavors. Even countries as disparate as Australia, China, India,

Mexico and South Korea 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 merit.

But by now a long time has passed since the early 1990s, and with the benefit of hindsight one is able to question whether the South American and African countries with which Brazil decided to associate – including Venezuela as a full member of Mercosul since mid-2012 – have made a tangible contribution to whatever modest status or influence Brazil has achieved in the world since then.

While the value of Brazil's exports and imports with its Mercosul partners has tended to increase over time, it has grown far less rapidly than Brazil's trade with the rest of the world. Specifically, Brazil's trade with Mercosul increased by $40 billion between 1990 (the year prior to the signing of the Asunción Treaty) and 2013. During that same period, however, Brazil's trade excluding Mercosul increased by a mammoth $390 billion, and thus the share of Brazil's trade with Mercosul in total trade has shrunk to a low of 9 percent in 2013 from a peak of nearly 17 percent in 1988.[22] Therefore, regardless of any efficiency – or inefficiency – effects which the trade alliance may have generated, it can be said that in the past decade Mercosul has been more of a drag, rather than a stimulant, in terms of propelling Brazil forward in terms of a greater role in global trade.[23]

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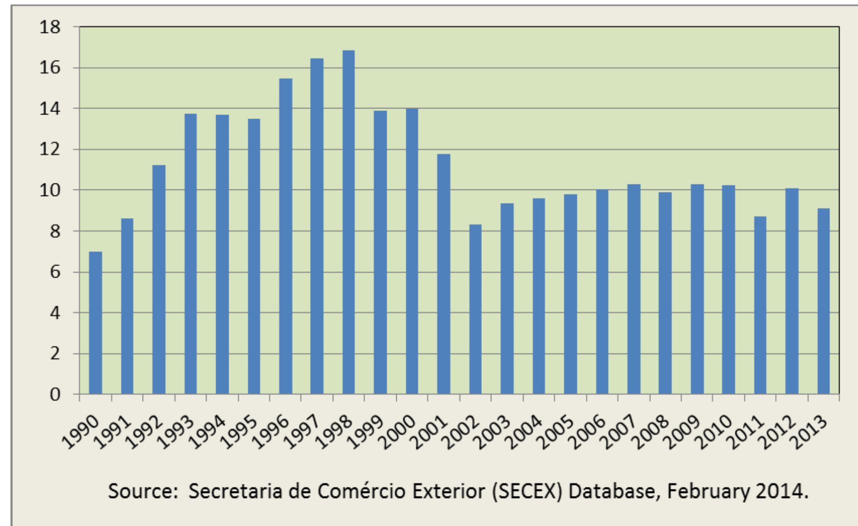
[22] Calculated from Secretaria de Comércio Exterior (SECEX) data, Ministério do Desenvolvimento, Indústria e Comércio Exterior, 2014, available at www.desenvolvimento.gov.br/sitio/interna/interna.php?area=5&menu=2081. Prior to 1991, Argentina, Paraguay and Uruguay accounted for 7 percent of Brazil's total foreign trade.

[23] An early empirical study found that Mercosur was not internationally competitive in sectors where intra-regional trade grew most rapidly. "Domestic producers reoriented exports to local markets, presumably in order to charge the higher prices associated with the most restrictive trade barriers. This reduced the potential exports of third countries to

Figure 4: Brazil's Merchandise Trade with Mercosul (% of total trade)



In contrast, the North American Free Trade Area (NAFTA) has been a useful complement to the maintenance of the United States' commanding role in world trade. U.S. trade with Canada and Mexico has increased at a faster pace relative to that of U.S. trade with the rest of the world: specifically, trade with Canada and Mexico has grown four-fold between 1993 (the year prior to NAFTA going into effect) and 2013, whereas U.S. trade with countries other than Canada and Mexico has expanded by about three-and-a-half times. NAFTA's share in U.S. trade has thus been maintained at almost 30 percent of total during the decade 2004-2013 versus a pre-NAFTA share of 28 percent in 1993.[24] Therefore, regardless of any efficiency – or inefficiency – effects which this trade alliance may have generated, it can be said that NAFTA has been useful in terms of helping to maintain U.S. leadership in global trade.

Mercosur and under many circumstances may have reduced their welfare relative to an equivalent nondiscriminatory trade liberalization" (Yeats 1988, 25-6).

[24] Calculated from Bureau of the Census data, U.S. Department of Commerce, 2014, available at www.census.gov/foreign-trade/balance. In relative terms, U.S. trade with its NAFTA partners peaked in 1999-2001, when trade with Canada and Mexico accounted for almost one-third of total U.S. trade.

III. A New Agenda for Brazil's Economic Diplomacy

How might Brazil go about narrowing the gap between its global leadership aspirations and its limited achievements on the international economic stage? In the absence of fresh, clearer, and more daring national choices, such as the shedding of strategic alliances which have not yielded fruit, Brazilian government and business elites will not succeed in enhancing the country's footprint and influence in the world – certainly not in any meaningful way, or anytime soon. Consequently, the conventional wisdom in Brazilian foreign-policy circles must be questioned and debated until elements of a new strategy emerge to guide a reset of the country's economic diplomacy.[25]

In our view, Brazil would do well to incorporate its proudest societal values, such as respect for civil and democratic rights, into its foreign economic policy – much like President Jimmy Carter did for the United States starting in 1977, when he revolutionized the State Department from the White House. It would also do well to recognize that Brazil must break out of its confining (and increasingly embarrassing) South American relationships and start building bridges to the world's most important nations – much as President Richard Nixon did when he reached out to China in the early 1970s.

The resulting reshuffling of foreign-policy priorities would enable Brazil to reduce its "Third World" profile by distancing itself from autocratic, floundering partners like Argentina and Venezuela (and their counterparts in Africa), while making common cause with the world's

[25] We are mindful that "[d]ecades of trade protectionism and a foreign policy vision whereby economic relations with the world were perceived as a threat to national development left deep marks on the hearts and minds of the leading public and private actors who influence the course of trade policy in Brazil. Nevertheless, from the 1990s onward, Brazil's economic evolution has enabled the emergence, in both the private and public sectors, of less defensive interests and visions about the perspective of the country's international insertion" (Veiga 2009, 128).

most important and welcoming economic powers – especially with the United States and the European Union.

Perceptions of Brazil among international economic and political elites are not helped by some of the questionable company the country has chosen to keep. And the most dubious relationships are turning out to be those that Brazil has cultivated with Argentina and Venezuela. During the past decade, both those countries have been run by increasingly authoritarian governments that have mismanaged their economies, discouraging investment and disregarding property and contractual rights through high-profile nationalizations, discriminatory taxes, and suffocating controls on consumer prices, utility rates, foreign trade and capital movements. In both Buenos Aires and Caracas, governments have undermined fundamental institutions like the judiciary, the press, the central bank, labor unions, business associations, and civil society generally through acts of intimidation and abuse of power. Surely it is awkward for Brazil to be – and to be perceived to be – a partner and supporter of decadent regimes which are a reminder of Brazil's own dark days of authoritarian rule and economic mismanagement, mainly from the mid-1970s to the mid-1990s.

Besides, Argentina's latest experiment with populism and nationalism, in particular, has had an increasingly deleterious impact 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.[26] And Brazilian companies with still sizeable trading relationships and investment in Argentina and Venezuela are currently finding it hard to get their bills paid.[27] More fundamentally, neither of those governments shares the same democratic and liberal values that Brazilian society holds dear – never mind the same understanding of the supportive role that sound macroeconomic policies and a friendly business climate play in any modern, globalized economy.[28]

The political and economic situation is likely to get much worse in Argentina and Venezuela in 2014 and beyond, because both Presidents Cristina Kirchner and Nicolás Maduro have lost their popular support but not their personal political ambition or messianic passion. And yet, 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 has been getting out of control, domestic markets that are grinding to a halt, and currencies that have lost most of their value are the blinking lights signaling the exhaustion of expansionary fiscal and monetary, as well as of excessively redistributive, policies. And neither situation is likely to improve even after Mrs. Kirchner and Mr. Maduro leave office, because their eventual successors will face a damning legacy of economic, political and social woes that will take years to repair.

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[26] See "Múltis brasileiras perdem ânimo com o país e investimento desaba," *Valor Econômico*, August 26, 2013, available at www.valor.com.br/brasil/3246254/multis-brasileiras-perdem-animo-com-o-pais-e-investimento-desaba#ixzz2v6XHdFBd.

[27] See "Venezuela deve US$ 2 bi a empreiteiras brasileiras," *Valor Econômico*, March 5, 2014, available at www.valor.com.br/internacional/3450136/venezuela-deve-us-2-bi-empreiteiras-brasileiras#ixzz2v6XvqKjQ.

[28] Regional trade arrangements cannot flourish in the face of high levels of macroeconomic instability – exchange-rate instability, in particular. In practice, this means adopting sound monetary policies backed by a clear and coherent operating strategy, such as inflation targeting and central bank independence, backed by a serious commitment to prudent fiscal and financial policies (Eichengreen 2004, 22).

It would behoove Brazil to engineer a strategic distancing from Argentina and Venezuela at the same time that the country pivots toward 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. As things stand, the special arrangements with Mercosul and various countries in Africa 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 develop a larger global presence. Indeed, during the couple of decades that Brazil has chosen to wait for the consolidation of a block of regional supporters in order to sit down and negotiate key trade and other issues with the likes of 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 attained impressive economic-statecraft objectives.[29]

Consider the case of bilateral trade agreements. Chile and Colombia have negotiated preferential trade agreements with about 60 countries each, and Mexico and Peru with some 50 countries each.[30] They all have free-trade treaties with the United States, the European Union, and all but Mexico also with the most important countries in Asia. They also have

[29] An important objective is poverty reduction on the basis of employment growth rather than government handouts. Empirical studies simulating the potential effect of liberalized trade in Brazil illustrate that while protectionism favors capital-intensive manufacturing relative to production in agriculture and manufacturing that is intensive in unskilled labor, trade liberalization raises the return to unskilled labor relative to capital and helps the poor disproportionately. "The percentage increase in the incomes of the poorest households is three to four times greater than the average percentage increase in income for the economy as a whole" (Harrison et al. 2004, 314).

[30] Chile: Dirección General de Relaciones Económicas Internacionales, Ministerio de Relaciones Exteriores, available at www.direcon.gob.cl/acuerdos-comerciales; Colombia: Ministerio de Comercio, Industria y Turismo, available at www.tlc.gov.co/publicaciones.php?id=5398; Mexico: Sistema Integral de Información de Comercio Exterior, Secretaría de Economía, available at www.siicex.gob.mx/portalSiicex/SICETECA/Tratados/Tratados.htm; Peru: Ministerio de Comercio Exterior y Turismo, available at www.acuerdoscomerciales.gob.pe.

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 only with a handful of other South American countries and with Israel.[31] Brazil has also negotiated few, and has ratified no, bilateral investment treaties of the kind that have become very popular around the globe. Trade negotiations between Mercosul and Europe have dragged on for nearly two decades with little to show for them, and now European trade preferences are expiring for all Mercosul countries except Paraguay, since Argentina, Brazil and Uruguay are deemed to be too well off to deserve them. A deal with Europe has been held back by Argentina and Venezuela, which are not ready to make the same concessions that their Mercosul partners are willing to entertain.[32] Since "Brazil can't be [held] hostage [by] Argentina or Venezuela," as Amb. Rubens Barbosa rightly declared in representation of the powerful São Paulo Federation of Industries (FIESP),[33] the time seems ripe for Brazil to forge ahead even without Argentina and Venezuela.[34]

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[31] The country's "South-South [trade] agenda has left Brazil without preferential access to the world's major markets, while failing to sign enough and significant South-South agreements to at least reduce the disadvantages of not making inroads in the North. Even Brazil's most significant achievement in the South, Mercosur, faces significant problems of misguided expectations and dysfunctional incentives, the latter due in great part to Brazil's unfinished job in opening its economy" (Moreira 2009, 155). Data on trade agreements from Ministério do Desenvolvimento, Indústria e Comércio Exterior, www.desenvolvimento.gov.br/sitio/interna/interna.php?area=5&menu=405&refr=405.
[32] See "Mercosul tenta fechar proposta de acordo com a UE," *Veja*, March 5, 2014, available at http://veja.abril.com.br/noticia/economia/mercosul-tenta-fechar-proposta-para-a-ue.
[33] "Brazil Can't Be Hostage of Argentina or Venezuela in Mercosur/EU Trade Negotiations," *MercoPress*, January 29, 2014, available at http://en.mercopress.com/2014/01/29/brazil-can-t-be-hostage-of-argentina-or-venezuela-in-mercosur-eu-trade-negotiations.
[34] An econometric study confirms that Brazil's agricultural sector would be a major beneficiary of an agreement with the European Union which would liberalize the entry of foodstuffs into the European market (Vieira and Carvalho, 2009). The question is whether Brazilian industry would accept the government entering into a deal that would open it up to greater competition from European industry.

And then there is the issue of what Brazil should do about the major regional trade blocs currently being formed around the world. In Latin America, the most exciting recent development is the Pacific Alliance, which was created in mid-2012 by Chile, Colombia, Mexico and Peru. 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 and Panama are in the process of accession and some 30 other market-friendly economies (from Canada to Uruguay, and others mainly in Asia and Europe) have observer status.[35]

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

There is also the Trans-Pacific Partnership (TPP), which involves the United States plus eleven other countries from Australia and Canada to Japan and Vietnam, including Chile, Peru and Mexico. It is looking like the most important economic initiative to unite the Americas with South-East Asia, and Korea may well join the group in the near future.

[35] See The Pacific Alliance, available at http://alianzapacifico.net/en/observer-states-of-the-alliance-key-companions-in-the-process-of-regional-integration.

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, like rules for free trade in services and technology. As of early 2014, they had gone through nearly 20 negotiating rounds, making significant progress on an accelerated track toward conclusion of a comprehensive agreement in 2013.[36] 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 about 40 percent of global GDP.

Finally, there is the Transatlantic Trade and Investment Partnership (TTIP), in which the United States and the European Union are engaged since mid-2013. 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 costly non-tariff barriers, including on agricultural goods, and on differences in regulations and standards that impede the free flow of goods and services across the Atlantic ocean. They had three negotiating rounds in 2013.[37]

A reset of Brazilian economic statecraft must therefore entail an acknowledgment that the world may be 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.

[36] See Office of the United States Trade Representative, available at www.ustr.gov/about-us/press-office/fact-sheets/2011/november/united-states-trans-pacific-partnership.
[37] See European Commission, available at http://ec.europa.eu/trade/policy/in-focus/ttip/#negotiations.

If Brazil wishes 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's agenda. To be consistent with this bet on multilateralism, Brazil ought to develop and display a new and constructive – namely, less protectionist – attitude in the wake of the recent WTO ministerial which took place in Bali in December 2013.[38] 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 marginalized in a world that is going to be increasingly dominated by trade super-blocs.

In choosing a strategic partner from the "First World," Brazil should certainly consider the potential advantages of gaining instant global recognition by entering into a partnership with the United States. This is a highly controversial – even heretical – proposition among intellectual elites and political leaders in Brazil who have long sought to keep the United States as far away as possible. However, the time has come to recognize 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.

The time is ripe for Brazil to change course and aim high.

[38] "Brazil must contribute not only to the maintenance of multilateralism, but also to its renewal and re-launch in a manner that is compatible with the demands of the global agenda" (Castello Branco et al. 2011, 48).

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