

A View from Brazil

The Quebec City Summit of the Americas in April 2001 will be held six years after the Miami summit—when 34 heads of state and government of the Western Hemisphere decided to establish a Free Trade Area of the Americas (FTAA) and agreed to conclude negotiations no later than 2005. Building on the success of the 1998 Santiago summit, the Quebec City meeting is an opportunity both to take stock of the progress made so far in the FTAA negotiations and to indicate future directions for the ongoing process. For Brazil in particular, the importance of the summit derives from the fact that it will be the last hemispheric presidential meeting before Brazil and the United States assume in 2003 the cochairmanship of the FTAA negotiations.

In this article, I will focus on three basic topics: (1) the evolution of the Brazilian strategy toward regional integration; (2) the role of Brazil in the FTAA negotiations; and (3) prospects for the Quebec City summit and for future negotiations to establish the FTAA, as viewed from the Brazilian perspective.

Beginning with Mercosul

Since signing the Treaty of Assuncion in 1991, establishing the Southern Cone Common Market (in Portuguese, Mercosul, or in Spanish, Mercosur), the expansion and consolidation of Mercosul has been the highest priority of Brazilian foreign policy and the main foundation of its strategy for regional integration. Mercosul—which comprises Brazil, Argentina, Paraguay, and Uruguay—is now the third-largest trading pact in the world and the most significant trade group in Latin America, noted both for its institu-

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tional framework and for its rapid and continual growth. Trade among these countries increased more than 400 percent from 1990 through 1998, when it reached more than \$20 billion. In 1999, trade among the four countries declined because of the economic difficulties they all faced. In 2000, however, Mercosul resumed its historic pattern of increasing flows of trade and investments and growing interdependence.

As Brazil has made clear from the beginning, integration among these four countries is not a goal in itself. After all, Brazil and its partners do not intend

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to prevent foreign competition. On the contrary, Mercosul is a mechanism to promote better integration into the international economy. The twin objectives of domestic strength and external integration are complementary. The more the Mercosul countries deepen their economic, political, social, and cultural integration, the more they will increase exposure to foreign competition. Integration is an instrument for more far-reaching goals: it not only creates favorable conditions for economic develop-

ment and political stability in our countries but also allows us to seize the opportunities—and to reduce the risks—of an increasingly open and unstable international economy.

Because of these reasons, the international agenda of Mercosul is multifaceted and comprehensive. In 1996, Mercosul established free-trade agreements with the two “associated” countries, Chile and Bolivia. The bloc is also currently negotiating with the other Andean countries to establish a free-trade area. Additionally, Mercosul is negotiating free-trade agreements within the Western Hemisphere (the FTAA) and with the European Union (EU), Mexico, and South Africa. In the case of the FTAA, we have been stressing that the FTAA and Mercosul should maintain distinct and mutually supportive dynamics, as they have so far. For example, Mercosul has been strengthened by its participation, as a unit, in discussions on the FTAA. Similarly, progress toward the FTAA has been aided by Mercosul’s contributions and proposals.

This outward approach and wide array of international negotiations indicate that Mercosul practices an “open regionalism.” From the Brazilian perspective, open regionalism—combined with other cardinal principles of its economic diplomacy such as strengthening the multilateral trading system—manifests Brazil’s fundamental interest in preserving balanced trade and financial ties with the various regions and countries of the world. Reflecting

this strategy, Brazil's main trading partners in 1999 were the EU (28 percent), the United States (22 percent), and South America (20 percent).

Expanding throughout the Continent

Along with the consolidation of Mercosul, strengthening the many ties to its neighbors in South America is the other priority on Brazil's integration agenda. Negotiations leading to an association between Mercosul countries and the Andean nations are well under way. When the economic and political importance of the countries of Mercosul and those of the Andean Pact are taken into account, signing a free-trade agreement would represent a landmark on the path toward an increasingly integrated South America.

Throughout most of the continent, the integration process has gained momentum since the early 1990s. One of the most significant aspects of this recent push has been physical infrastructure integration, especially in energy, transportation, and telecommunications. It is as if South American countries have suddenly rediscovered the extraordinary potential of their own neighborhood and decided to add action to the traditional rhetoric, a long overdue and certainly most welcome development.

One of the most important yet less heralded features of the region is that South America is self sufficient in energy (oil, natural gas, coal, and hydro-power). The strategic significance of this economic characteristic for the region cannot be overemphasized. In the past decade, Brazil—which borders all but two South American countries—has dramatically changed its foreign energy sources. Oil imports have shifted from the Middle East to Venezuela, Argentina, and Ecuador. With the new gas pipeline now operational, Bolivia has become a major source of natural gas. Paraguayan electricity produced at the binational Itaipu dam continues to supply most of the energy required by Brazil's southern and southeastern states. Venezuelan electrical power is now being used in the Brazilian states in the Amazon region. Moreover, prospects are good for new joint endeavors, particularly involving Peruvian and Argentine gas. As a commodity, energy will continue to play a major role in regional trade expansion.

It was once said that Brazil has two types of borders. In the south, Brazil has always had dynamic borders with the countries that today are partners in Mercosul. These countries are densely populated, with a great deal of interaction among the local communities. In the north, however, it used to be an entirely different picture, with the jungle and predominantly sparse populations contributing to a sense of isolation and distance. That demographic has changed. Borders are becoming more dynamic in the north as well, with the advent of an improved infrastructure and greatly enhanced communication

links allowing for growing interactions, both in economics and among individuals and groups. New roads linking Brazil to Guyana and Venezuela are recent examples of this new attitude among neighboring countries.

In light of such positive developments, Brazilian president Fernando Henrique Cardoso was convinced that the region's many common features and shared concerns provided a strong basis for convening a specific forum. In a spirit of friendship among neighbors, he brought together the heads of state of 12 South American countries in the fall of 2000 to openly discuss matters of mutual interest.

To keep the meeting as productive and action-oriented as possible, just a few key items, such as strengthening democracy, expanding trade, improving the integration infrastructure, and drug trafficking and related crimes, were on the agenda. In a major step toward regional integration, the presidents decided that the Mercosul countries and the Andean Pact would establish a free-trade area no later than January 2002.

The leaders reaffirmed "their support for the process of expanding and deepening economic integration in the [h]emisphere." They welcomed the results of the fifth ministerial meeting of the FTAA in Toronto in November 1999 and reiterated "their engagement in the gradual establishment of a free trade-area of the Americas, the negotiation of which should be concluded by no later than 2005, on an equitable and balanced basis that will ensure the effective access of South American exports to markets."

Looking toward the Hemisphere

Brazil has been an active player in the ongoing negotiating process aimed at establishing an FTAA. The Brazilian government has pursued these negotiations in earnest since the initiative was introduced and shares the will to conclude them successfully by 2005.

In the nine negotiating groups established for the FTAA process, Brazil and its Mercosul partners worked hard on constructive proposals to have a preliminary draft agreement ready for the ministerial meeting in April 2001 in Buenos Aires, as the 34 countries decided in Toronto in November 1999. In some negotiating groups, Brazil and Mercosul have presented proposals more ambitious than those of the United States, such as in the group on agriculture.

Brazil believes that, for the FTAA to become a reality, it must be perceived as a two-way street by all the countries of the hemisphere, large and small, developed and developing. A zero-sum approach would kill the dream of a free-trade area extending from Alaska to Tierra del Fuego.

To understand the Brazilian perspectives on this issue, one should consider the different attitudes of the countries in the region. The basic inter-

ests of the 34 countries vary according to their own goals for the FTAA negotiations. Whereas the United States seeks trade liberalization from non-North American Free Trade Agreement (NAFTA) countries, the objectives of the other countries are determined to a great extent by how dependent their foreign trade is on the U.S. market.

Three categories of countries exist in the hemisphere in terms of their trade relations with the United States: those highly dependent on the U.S. market (for more than 75 percent of their exports), intermediate countries (for more than 50 percent of their exports), and those less dependent on the U.S. market (for less than 25 percent of their exports).

Unlike other major economies in the Americas, Brazil's foreign trade is evenly divided between a number of main partners: the EU (27 percent), the United States and NAFTA (26 percent), South America (especially within Mercosul) (25 percent), and Asia (12 percent). Its diversified trade and economic agenda stems from these circumstances.

Like other countries, Brazil's positions in the negotiations are dictated by the defense of its national interests, but our negotiating stance is also based on a set of fundamental principles approved by the heads of state of the hemisphere. These beliefs include reciprocity, decisionmaking by consensus, the single undertaking (i.e., nothing is agreed to until everything is agreed), and market access for all sectors.

The Future of the FTAA

Contrary to what some senior U.S. government officials claimed during the Clinton administration, Brazil neither opposes nor resists establishment of the FTAA. On the contrary, the main concern in Brazil arises from the impression that the FTAA could fail to tackle the most sensitive and important obstacles to a truly comprehensive free-trade area, such as the huge arsenal of barriers to agricultural trade and arbitrary antidumping decisionmaking. As it has always clearly stated, based on its national interests, Brazil can only envisage the establishment of a free-trade area if it is to obtain concrete and substantial access to highly protected sectors.

Both the upcoming Quebec City summit and the preceding Buenos Aires ministerial meeting in April 2001 have a special significance because they will take place when some clouds of uncertainty seem to hang over the FTAA process. Two key questions regarding the nature of the negotiating mandate of the U.S. government and the speed and timetable for the negotiations will be of special concern.

Brazil has already clearly stated its position on the issue of fast-track authority and the ability of the U.S. government to conduct genuine negotia-

tions that it will be obliged to honor at the end of the process. Brazil has accepted the assumption that fast-track authority is not necessary at this “preparatory” stage of the negotiations, because so far nothing concrete in terms of products or timetables has been on the agenda. It is absolutely essential, however, that all government representatives have full plenipotentiary negotiating authority from their countries when they begin to negotiate specific issues, such as lists of products, tariff-reduction timetables, and final draft texts of rules and trade disciplines. Otherwise, all other countries would be negotiating an agreement pending further changes and second thoughts by the U.S. Congress, which is not a viable scenario.

As for proposals to move forward to the end of the FTAA negotiations, scheduled for 2005, the Brazilian government has also presented a clear policy position. Brazil believes the timetable the heads of state approved in 1998 should be maintained and the negotiations should be concluded by

December 31, 2004. As Cardoso stated during the meeting of Mercosul presidents in Florianópolis, Brazil, in December 2000, Brazil can only talk about advancing the timetable if we receive strong signals and firm assurances that the United States and other countries are prepared to put on the negotiating table all sectors, products, and disciplines that are of interest to most countries, such as effectively liberalizing agricultural products, reducing subsidies, and enforcing stricter disciplines for antidumping measures, to name

just a few. Progress must therefore be achieved not only by reducing tariffs, but also by tackling the urgent and fundamental issue of nontariff barriers, such as duties, subsidies, and quotas.

Beyond the challenges of timetables, sensitive issues in the FTAA negotiations include labor standards and environmental rules linked to trade sanctions. Traditionally, Brazil has strongly supported the concept of safeguarding labor rights and protecting nature but cannot accept any proposal to link these safeguards and trade sanctions. If the new U.S. administration insists on including such clauses in the FTAA, there could be a deadlock similar to the one that stymied the World Trade Organization in Seattle in December 1999. Brazil will oppose such a move.

Thus far, all indications are that the FTAA and its necessarily comprehensive scope are generating considerable fear and resistance from strong protectionist sectors in U.S. civil society and in the U.S. Congress. There is no hope for a fast and sweeping pro-trade consensus that might justify moving forward the scheduled date for the completion of the negotiations.

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For two main reasons, Brazil has maintained these firm positions, advocating a balanced and comprehensive FTAA. First, contrary to other countries with less complex economies, Brazil has much at stake. We have a diversified industrial structure and specific needs that must be taken into account. Hemispheric integration must not become a destabilizing factor for national economies because of excessive and sudden exposure to new and increased levels of foreign competition. Gradualism and respect for distinctive national circumstances are two fundamental principles that must guide the negotiations. The future of the FTAA depends on its capacity to offer balanced results with equal benefits for all. Because we need to open our economy, Brazil expects substantial progress concerning improved access to the most highly protected sectors of the U.S. economy. Reciprocity is the name of the game.

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Second, we can and should voice our firm positions regarding the FTAA's scope and timetable because Brazil is an important player in the FTAA negotiations. After the United States and Canada, Brazil has the largest economy in the hemisphere and the tenth largest economy in the world. The gross domestic product (GDP) of Brazil is larger than that of Russia and India combined. Using the purchasing-power parity concept, the Brazilian GDP in 1999 was approximately \$1.4 trillion, which represents an income per capita of \$6,350. Brazil is also the most industrialized and economically diverse country in the southern hemisphere. That economy is backed by an impressive array of natural resources and a diversified infrastructure on the fast track to modernization.

U.S. companies, quick to realize where the best opportunities lie, invest more in Brazil than in China, Russia, India, or even Mexico. More than 400 of the Fortune 500 companies currently have operations in Brazil. As for trade, the United States exports more to Brazil than to China, Russia, or India, and Brazil has been identified by the U.S. Department of Commerce as one of the ten "strategic partners" of the United States in this new century.

On the economic front, Brazil long ago set aside obsolete notions of advocating "autarchic" development and has been largely successful in implementing so-called first-generation reforms. Opening the economy, trade liberalization, and the end of monopolies and restrictions on foreign capital, together with one of the world's largest privatization programs, have attracted a great deal of attention from many parts of the world.

Economic reforms, to ensure their sustainability and irreversibility, were combined with major groundbreaking efforts in crucial social areas such as

education, health, agrarian reform, promotion of human rights, and a reliable judicial system. The Brazilian government has been keenly aware that the choice between economic stability and social progress was a false dilemma. Both goals must be pursued together to ensure consistent growth, a requirement particularly applicable for a country such as Brazil, still faced with significant problems of inequality.

The sheer magnitude of the Brazilian domestic market, the basic features and strong fundamentals of the Brazilian economy, and the high stakes in terms of trade and investment should be more than enough to guarantee an important role for Brazil in the FTAA negotiations. Brazil is ready and will-

ing to assume its role as a catalyst for development in South America. The country's sustained growth will have a clear and positive impact on its neighbors, both in Mercosul and beyond.

The road to creating the FTAA is not free from obstacles, despite the genuine commitment by Brazil and other countries in the region to make it smooth and successful. In 2003, Brazil and the United States will become cochairs of the FTAA's Trade Negotiating Committee, playing a decisive role in

coordinating the negotiation process. They will jointly lead what is hoped will be the final leg of this journey.

Brazil and the United States share a desire and commitment to see this entire region prosper in economic terms and consolidate its democratic institutions. They share a vision of a common future with fewer inequities and more social justice for all the peoples of the Americas. They share a determination to see this hemisphere free from drug trafficking and other forms of organized transnational crime. They can and must work together to advance their shared goals.

Thus Brazil and the United States share the fundamental values that must be at the core of any meaningful integration process in the hemisphere: expanding democracy; promoting human rights; protecting the environment; and fighting against poverty, discrimination, and organized crime. Brazil and the United States have vital roles to play in the integration process that will be the basis for progress and sustained growth for all countries in the region.

Periodically, Brazilian and U.S. views may not necessarily coincide, but this circumstance should be seen as an extra incentive for the two countries to consult closely and seek a better understanding of their respective positions. It is of the utmost importance that Brazil and the United States inten-

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sify their dialogue, keeping it open and frank, to avoid the pitfalls of a past that have been, in the words of Representative David Bonior (D-Mich.), “more patronizing than respectful.”

Our respective governments have a tough job ahead in convincing our societies that the sacrifices that should be made to establish the FTAA will be outweighed by the benefits from free trade. Bearing in mind their future role as cochairs of the FTAA, the United States and Brazil, cooperating with all other countries in the hemisphere, must work to show that they are ready and able to reach a comprehensive and balanced agreement that will make the countries of the hemisphere more prosperous.