



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, but its footprint remains relatively modest. This chapter documents the extent to which Brazil's economy remains fairly inward-looking and isolated from global markets, despite the modernizing reforms of the past generation. It then discusses some of the causes, which include both contingent economic factors and conscious foreign-policy choices. It concludes with a discussion of potential policy changes that could enable Brazil to bridge the gap between global ambitions and achievements.

Brazil's Significance in the World Economy

Brazil has enjoyed political and economic stability and an increasingly favorable external environment during the past two decades, but its economic 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

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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 6.5 percent of the world’s total, and includes just five percent of the planet’s arable land.¹ Its territory is relatively lightly settled, such that Brazil’s 200 million residents account for less than three percent of the world’s total population, significantly less than China’s 19 percent and India’s 17.6 percent shares of total. Brazil’s production of goods and services, even once adjusted for purchasing-power differentials, 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 over 15 percent of global output.

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

Rank	Land area*		Population**		GDP***	
1	Russia	16.4	China	1,357.4	United States	16.8
2	China	9.3	India	1,252.1	China	13.4
3	United States	9.1	United States	316.1	India	5.1
4	Canada	9.1	Indonesia	249.9	Japan	4.7
5	Brazil	8.5	Brazil	200.4	Germany	3.2
6	Australia	7.7	Pakistan	182.1	Russia	2.6
7	India	3.0	Nigeria	173.6	Brazil	2.4
8	Argentina	2.7	Bangladesh	156.6	United Kingdom	2.4
9	Kazakhstan	2.7	Russia	143.5	France	2.3
10	Algeria	2.4	Japan	127.3	Mexico	1.8
	World	129.7	World	7124.5	World	87.0
	Of which: Brazil	6.5%	Of which: Brazil	2.8%	Of which: Brazil	2.8%

* Millions of square kilometers in 2012. Source: World Bank, *World Development Indicators*, 2014.
 ** Millions of inhabitants in 2013. Source: World Bank, *World Development Indicators*, 2014.
 *** Gross domestic product in 2013 based on purchasing-power-parity (PPP) valuation of country GDP, in trillions of U.S. dollars. Source: International Monetary Fund, *World Economic Outlook Database*, Apr. 2014.

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 \$1.5 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, and although this surge led to relative gains, and the country's market share rose, Brazil's nowadays accounts for only around 1.2 percent of total world exports.ⁱⁱ

Moreover, Brazil remains a particularly inward-looking economy even in comparison with other large, continental-sized nations, which naturally tend to be more self-sufficient and thus less dependent on cross-border trade and financial flows than medium-sized – never mind small – economies. In countries such as Canada, Mexico, South Africa and Russia, exports of goods and services are equivalent to around 30 percent of their GDP; and in India, Indonesia and Turkey, the export sector represents about one-quarter of their GDP. In Brazil, in contrast, exports of goods and services have represented less than 13 percent of GDP throughout 2009-13.ⁱⁱⁱ

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 exports 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 a mere one-tenth by 2012.^{iv} Even manufactured 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 solely the result of the intervening boom in commodity sales abroad; rather, it also reflected slow 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, a sign that Brazil is only marginally integrated into global production chains. For instance, estimates of the contribution of offshored intermediate inputs to the production of goods that are then exported show that Brazil is one of the most self-sufficient 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.^v

Brazil's self-sufficiency means that its economy is not as connected to global production as those of its peers, and thus the country is slow to benefit from quality improvements, technological upgrades and price reductions taking place elsewhere in the world. 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 modest 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, a further sign of the economy's marginal integration into the global market. 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 ruble (RUB), and 2.8 percent for the Mexican peso (MXN). Even the Indian rupee (INR), the Turkish lira (TRY) and the South African rand (ZAR) trade more frequently in the spot currency market than does the Brazilian Real.^{vi}

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.^{vii}

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 0.56 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.^{viii}

Brazil's foreign direct investments around the world (namely, investments entailing at least a ten-percent ownership stake) were estimated at about \$373 billion as of end-2012, and foreign portfolio investments at the equivalent of \$271 billion. To put them in proper perspective, these components of Brazil's international assets were 3.19 percent and 0.93 percent, respectively, of the world total of such cross-border investments.^{ix} 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.

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

	<u>Amount (\$ billions)</u>	<u>% of World Total</u>
Merchandise trade, 2013	487	1.27
Merchandise exports, FOB	242	1.21
Merchandise imports, CIF	245	1.34
International assets	731	0.56
Official international reserves	373	3.19
Outward foreign direct investment	271	0.93
Outward foreign portfolio investment	22	0.06
International liabilities	1,583	0.73
Inward foreign direct investment	745	2.57
Inward foreign portfolio investment	639	1.30

Source: International Monetary Fund, *International Financial Statistics*, June 2014.

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 \$1.6 trillion as of the end of 2012. This figure is likewise

more 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 \$1.6 trillion captured by Brazil represents a mere 0.73 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.^x

In sum, despite Brazil's recent rise in global rankings of gross domestic product (on a purchasing-power adjusted basis), which moved the country from eight in the world in 1990 to seventh place by 2013, a comeback from the sixth place it had held back in 1980, the figures above document the continued inward-looking nature of the economy.^{xi} Brazil is one of the most self-sufficient economies in the world. To state this in less positive terms: it is one of the least internationalized of the large economies, with its manufacturing base increasingly marginalized from global production chains. While Brazil's scale provides it with the luxury of a large and expanding domestic market, the rapid rise of a modernizing China and the increasing competitiveness of East Asian, Western and Eastern European, and Latin American countries suggest that Brazilian industry is and will likely remain at a disadvantage despite well-meaning policies enacted in Brasilia.

Brazil's Economic Statecraft

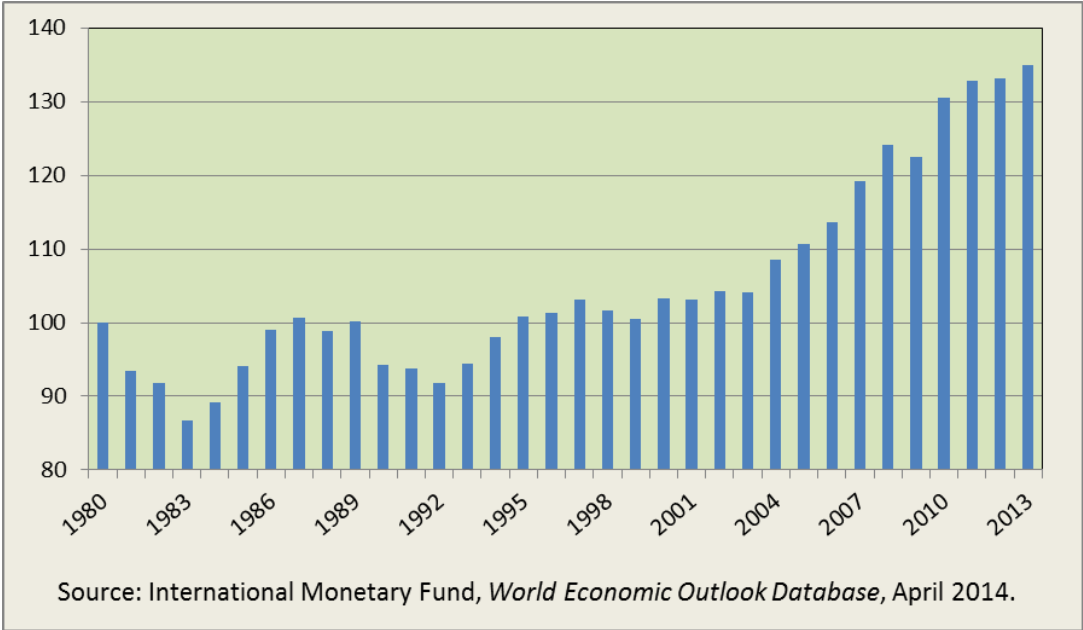
How has this come to pass? Brazilian policymakers, after all, came to recognize during the 1980s the limits of state-led, import-substituting industrialization. They have since sought a "middle way" between the continuation of past nationalist, interventionist economic policies and the neoliberal alternative that became fashionable in much of Latin America – never

mind in the formerly Communist countries, most of which embraced free-market capitalism with gusto. This section suggests a number of causes for Brazil’s economic policy choices, some more strategic than others, which have culminated in Brazil’s relative isolation from global markets, and for the adoption of public policies that are not up to the task.

Economic Performance

First and foremost, Brazil’s footprint on the world economic stage is light because, whether as cause or consequence, its economic performance has been mixed by world standards. In the long period from 1980 through 2013, per capita incomes in Brazil, measured on an inflation-adjusted basis, increased by a total of 35 percent. The economy actually experienced a contraction in per capita GDP in 12 out of the 343 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.^{xii}

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



Meanwhile, during the same 1980-2013 period, the simple (unweighted) mean performance delivered by 109 emerging and developing countries excluding Brazil was a doubling of their GDP per capita – specifically, a 105 percent cumulative surge – and the median performance was a 60 percent increase. China was the star performer by a long shot: the country managed to multiply its 1980 per capita income by 16 times during the intervening 33 years, never experiencing a single recession year. 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 2013, despite becoming victims of the Asian financial crisis; Chile registered a more than time-and-a-half (170 percent) increase – impressive only by Latin American standards; and Poland doubled its economic standard of living even though it went through a wrenching transition from communism to capitalism.^{xiii}

Neo-developmentalism

Second, as Vilela and Maia and Taylor (this volume) also note, despite the changes of the past generation, Brazilian policymakers have followed an economic development strategy that remains heavily influenced by the structuralist-inspired policies of the 1950s. Although policymakers in the 1980s and 1990s recognized the futility of autarchy and began to work toward opening the economy and lessening the burdensome role of the state, Brazil has embraced this policy set less than enthusiastically. Policymakers have retained the most important state-driven mechanisms of development, including the substantial role of the

national development bank (BNDES) as the large-scale source of subsidized-credit for companies deemed strategic, as well as the granting of tax breaks and protection from imports as tools of industrial promotion.

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 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 (Rojas, 2013).

Most recently, this tendency is epitomized by the effort to build a domestic shipbuilding industry in the northeastern state of Pernambuco, as part of the drive to exploit the pre-salt oil finds in Brazilian coastal waters. The Brazilian government has been the principal investor (through a subsidiary of Petrobras), has implemented local-content restrictions, and has borne the costs of a production process that has been longer and considerably more expensive than purchasing ships from international competitors – all in the name of developing local shipbuilding capacity that might later be used in developing the (state-owned) coastal oilfields (DuBois and Primo, 2013).^{xiv}

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.^{xv} 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 percent and 25 percent for affected imports. According to a recent report by the European Commission, Brazil, together with Argentina, South Africa, and Indonesia, are responsible 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.^{xvi}

All of these efforts have been given theoretical backing by a revised version of state-fostered economic development known as “neo-developmentalism,” a term coined by Brazilian economist and former policymaker Luiz Carlos Bresser-Pereira to define a 21st-century alternative to the “Washington Consensus” orthodoxy (Ban, 2013; Bresser-Pereira, 2009). Harkening back to the heady growth of the late 1960s and early 1970s, Bresser-Pereira describes a national developmentalist policy set that combines nascent industry protection

and state promotion of investment in potential industrial champions. The objective is to promote export-led industrialization supported by government intervention (including keeping the exchange rate competitive), in what appears to be a reprise of the East Asian model of development in the 1970s and 1980s.

The siren song of neo-developmentalism and the practical policy choices of the Lula and Dilma administrations have set Brazil on a path reminiscent of the inward-looking policies that dominated policymaking from the 1930s through the debt crisis of 1982, albeit perhaps with slightly more emphasis on export promotion than on sheer import substitution. As Musacchio and Lazzarini (2014) note, these policies have developed their own homegrown constituency of proponents, including state-owned firms and their employees, as well as the large private-sector firms that have benefited from these policies and from various forms of government support, including national champions from diverse fields, from major construction multinationals to various banking giants. Furthermore, as we have already seen, the boom in commodity exports since 2003 provided the most sustained growth in per capita GDP since Brazil's return to democracy, at least until it petered out in 2011. Correctly or not, this growth spurt was credited to the neo-developmental agenda, providing it with credibility that is proving increasingly difficult to sustain now that domestic and international circumstances are no longer as favorable, and given limits to expansionary fiscal and monetary policies in Brazil.

The mixing of foreign policy and economic policy

A third and perhaps unexpected motivation for Brazil's inward-looking development policies results from choices made in the realm of economic diplomacy. Brazil is somewhat paradoxical in this regard. On the one hand, 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, for reasons that often have less to do with economic motivations than geopolitical strategy, the government has responded to the centripetal forces of regionalization by constraining itself via commitments to Mercosul, and to a lesser extent to Portuguese-speaking Africa.

As other contributors to this volume note, Brazil has long pursued the resolution of world problems through multilateral approaches to economic development, international trade, and international security issues. In economic policy, Brazil has sought both greater influence and greater autonomy with some success, increasing its quota share in international financial institutions and building up the G20 into an influential participant in global economic policymaking. 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, p.168-73).

Indeed, as Miles Kahler (2013, p.721) notes, Brazil has high capabilities in global economic governance. Through coalition building, the use of informal norms, and the extensive employment of formal dispute-resolution mechanisms, Brazil has become one of the most active and influential participants in the WTO. Despite failure to build consensus on a comprehensive trade deal, the earnest efforts of Brazil's envoy to the WTO, Ambassador 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.^{xvii} While resuscitating the moribund Doha Round is likely to be a herculean task, Azevêdo's election is nonetheless a sign of Brazil's ability to build influential coalitions within global economic institutions.

Simultaneously, however, Brazil has committed to regional economic organizations that constrain its ability to participate effectively in global institutions. The reasons for doing so often have more to do with geopolitics than with economic self-interest. Perhaps most emblematically, in the last several decades, Brazil has 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. Adoption of more orthodox domestic economic policies led to coincidental trade-liberalization initiatives in both countries during 1988-91, whereby tariff walls were cut in half. This made it possible for 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, p.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.

From the outset, Mercosul was as much a regional economic bloc as it was an effort to tame historical tensions with Argentina. Soon after the treaty came into effect, however, 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, perhaps in Portuguese-speaking Africa (Bernal-Meza, 2002). Mercosul provided 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, p.237). Besides,

multilateralism “does not have the universality [of application] that it had hoped to achieve some day” (Souto Maior, 2004, p.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, p.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 together with Argentina, pushed forcefully to include Venezuela in Mercosul, achieving full-member status in 2012. Simultaneously, it joined the newly founded Union of South American Nations (UNASUR) to pursue regional integration projects (Gomes Saraiva, 2010).

The geostrategic realities of Brazil’s expanding role in the global South, and particularly within Latin America, have placed it in the awkward position of being forced to absorb some important economic losses. Some of these losses have been taken willingly: 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. 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,

p.99; Pereira da Costa and da Motta Veiga, 2011). But Brazil sought influence in Africa, and was willing to spend a portion of its national wealth on this geostrategic priority.

Other losses have been less willingly entered into. Over the past two decades, as Brazil has sought the role of regional and Southern leader, it has not infrequently found that its erstwhile partners were not welcoming of its new leadership role (Kahler, 2013, p.725). The nationalization of Petrobras refineries in Bolivia in 2006 angered the Lula administration, for example, but it decided that in the name of regional comity, and so as to avoid the appearance of being an imperious regional hegemon, this slap would be tolerated.

The most complicated 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.

For reasons that are described in greater detail in previous chapters, Brazilian policymakers have not sought to interfere in the internal workings of these countries, even when failing to do so has had an increasingly deleterious economic impact on Brazil. Beyond the impact on bilateral trade and tourism of restrictions on imports and controls on access to foreign exchange, there has been the damage done to Brazilian investments, as seen in the

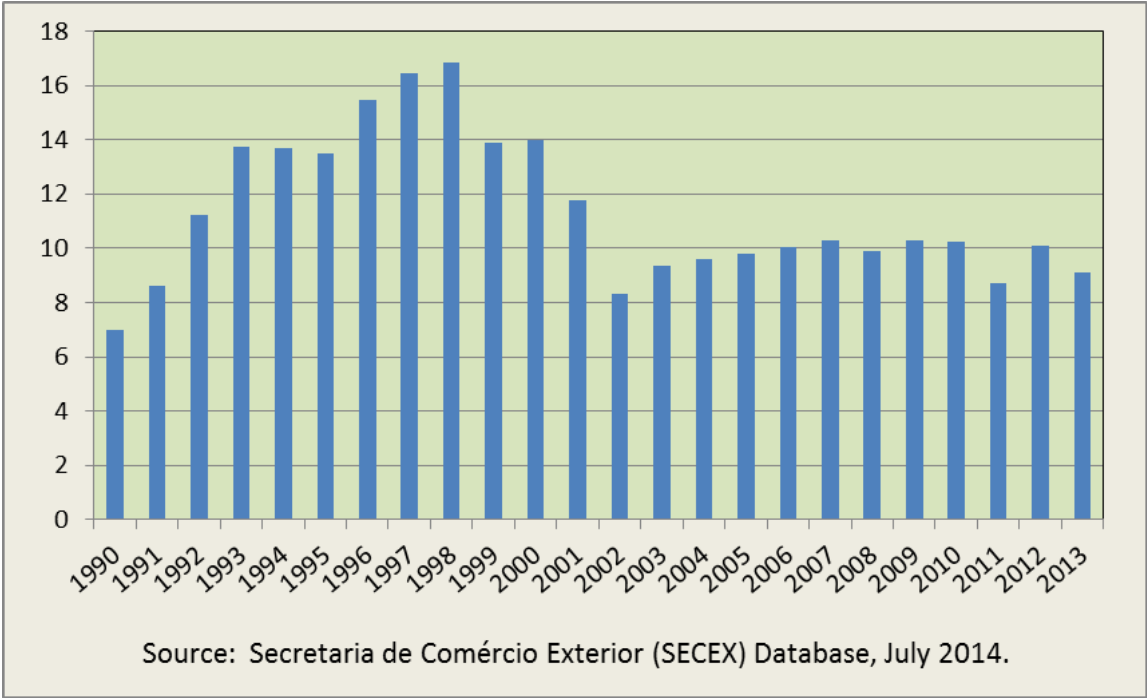
high-profile cases of Vale, Petrobras and América Latina Logística-ALL (*Valor Económico*, 2013). Brazilian companies with still sizeable trading relationships and investment in Argentina and Venezuela are currently finding it hard to get their bills paid (*Valor Económico*, 2014).

The relationship with Bolivarian Venezuela has been the most complex of all bilateral relations in the region, leading Brazilian diplomats into a series of potentially expensive regional commitments – such as the creation of the Banco do Sul, an “energy ring” of gas pipelines, and a joint Brazil-Venezuela oil refinery in Pernambuco – which coopted the late Hugo Chávez and reduced his most confrontational postures, but could be gradually whittled away by inaction. As Burges (2013, p.588-9) notes, this was a calculated strategy: “Brazil adopted a more co-optive negotiating attitude in order to slowly suffocate unwanted Venezuelan initiatives and proposals. [President] Chávez was left free to talk and dream with little in the way of commentary from Brazil. The Brazilian approach was to let the weight of technical details rein in Chávez and quietly maintain Brazil’s pre-eminence.” The UNASUR and CELAC groupings, similarly, were seen as a way of simultaneously removing the US and Canada from regional discussions, increasing Brazilian influence in the hemisphere, and coopting some of the Bolivarian discourse into a larger regional grouping that ideally would be headed by Brazil.

While these geostrategic objectives may seem worthwhile to Brazilian policymakers, there can be little doubt that they are expensive, particularly in terms of foregone opportunities elsewhere around the world. With the benefit of hindsight, one can certainly question whether the South American and African countries on which Brazil has hung its

hopes have made a tangible contribution to whatever influence Brazil has gained in the world in recent years. For example, 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.^{xviii} 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 to a greater role in global trade.^{xix}

Figure 4: Brazil’s Merchandise Trade with Mercosul (percent of total trade)



This contrasts sharply with the economic strategies followed by other nations in the hemisphere. 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.^{xx} Therefore, beyond the efficiency effects which this trade alliance has generated, it can be said that NAFTA has been useful in terms of helping to maintain U.S. leadership in global trade.

The geostrategic gains from Mercosul – including a claim to hemispheric leadership and the containment of Bolivarian Venezuela – are also offset by the considerable constraints that membership in the imperfect customs union places on Brazil's freedom of action in international trade. 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.^{xxi} By way of example, Chile and Colombia have negotiated preferential trade agreements with about 60 countries each, and Mexico and Peru with some 50 countries each.^{xxii} 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 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.^{xxiii} 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 been dragging on for fifteen years, and despite recent movement on this front, still have little to show. European trade preferences expired at the start of 2014 for all Mercosul countries except Paraguay, since Argentina, Brazil and Uruguay were deemed to be too well off to deserve them. A deal with Europe has been held back especially by Argentina and Venezuela, which are not ready to make the same concessions that their Mercosul partners are willing to entertain.^{xxiv} Since “Brazil can’t be [held] hostage [by] Argentina or Venezuela,” as retired Ambassador Rubens Barbosa rightly declared in his new role as representative of the powerful São Paulo Federation of Industries (FIESP),^{xxv} the time seems ripe for Brazil to forge ahead on its own, if need be.^{xxvi}

Indeed, in Mercosul and more broadly, Brazil seems likely to be forced into a rethinking of the priority it has traditionally ascribed to geopolitics over economic statecraft. Even defenders of the status quo seem to have recognized that the country’s economic potential is being hampered by its limited achievements on the international economic stage. The National Industrial Confederation (CNI), whose members have in the past advocated protectionist, inward-looking industrialization policies, has shifted gears in recent years to argue that Mercosul needs to be made more flexible, that other trade negotiations must

become a government priority, and that a bilateral agreement with the United States should receive consideration.^{xxvii} There seems to be increasing recognition by Brazilian companies that without further integration into the global economy, they will not 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.

Furthermore, there is a widespread perception among business leaders that Brazil may be left by the roadside in the current rush to form major regional trade blocs around the world. There is a deep irony here, not least because many of these groupings are coming together precisely in order to bypass some of the stickiest roadblocks to the deepening of WTO Doha-round negotiations: just when Brazil has gained a leadership role in the WTO and thus an opportunity to shape these negotiations, the world seems to be walking away from the WTO playground.

In Latin America, the founding of the Pacific Alliance in mid-2012, by Chile, Colombia, Mexico and Peru, is leading to the rapid elimination of trade barriers among its members and the increasingly 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 but not Brazil, and others mainly in Asia and Europe) have observer status – and some of the observers are likely to decide in favor of membership.^{xxviii}

Similarly, the Trans-Pacific Partnership (TPP) involves the United States plus eleven other countries, including Chile, Peru and Mexico, and there is a parallel negotiation between the United States and Japan on bilateral market access to the TPP. It is looking like the most

important economic initiative to unite the Americas with South-East Asia. 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 late 2014, they had gone through about 20 negotiating rounds, making significant progress on an accelerated track toward conclusion of a comprehensive agreement in the months to come.^{xxix} Brazil has so far expressed no interest in joining this bloc, even though the grouping looks on target to become the largest in the world, including countries representing at least 40 percent of global GDP (depending on Japan's incorporation).

Finally, there is the Transatlantic Trade and Investment Partnership (TTIP), in which the United States and the European Union have been 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 health and environmental regulations and standards that impede the free flow of goods and services across the Atlantic ocean. As of late 2014, the United States and the European Union had completed six negotiating rounds.^{xxx}

At some point, these developments will probably force a change in Brazilian economic strategy, although any such change will be constrained by domestic economic realities, previous foreign policy commitments, and the challenge of negotiating accession into previously formed clubs that may be suspicious of Brazil's latecomer status. Two paths

seem most plausible, and both will require Brazil to modify its current economic and geostrategic policy priorities.

The first path involves an acknowledgement that the world is 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. There is much to be gained from Brazil's joining a bloc such as the Pacific Alliance, which might open up the country to its western neighbors, and through them, further build bridges to Asia. Doing so, however, would require a serious commitment to phasing out Brazilian protectionist policies, as well as the dilution of its geopolitical ambitions for, and economic commitments to, Mercosul.

If Brazil wishes to stay out of the super-blocs, then the second path involves placing all its bets on a strengthened multilateral approach to global trade governance, in which case Brazil's private sector and political elites will have to double down on their support of Roberto Azevêdo and the WTO's agenda. To be consistent with this wager on multilateralism, however, Brazil would likewise have to tame its "neo-developmental" policies and be prepared to make serious liberalizing concessions.^{xxxii} In the wake of the last WTO ministerial which took place in Bali in December 2013, a fresh negotiating approach is needed, without which the Doha Round will remain moribund. The recent, limited progress in what is now a modest, WTO trade-facilitation agenda threatens to leave Brazil marginalized in a world that is marching on and does not seem to be constrained by a deadlocked WTO.

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ⁱ Arable land for 2011 as percent of world’s total (5.2 percent) from World Bank, *World Development Indicators*, 2014.

ⁱⁱ Calculated from 2013 data in International Monetary Fund, *International Financial Statistics*, June 2014, available at <http://elibrary-data.imf.org>.

ⁱⁱⁱ Inter-Agency Group of Economic and Financial Statistics, *Principal Global Indicators*, 2014, available at www.principalglobalindicators.org.

^{iv} World Bank, *World Development Indicators*, 2014, available at <http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators#>

^v 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>.

^{vi} 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/rpfxfl3fxt.pdf.

^{vii} *Ibid.*, pp. 6-9.

^{viii} International Monetary Fund, *International Financial Statistics*, June 2014, available at <http://elibrary-data.imf.org>.

^{ix} *Ibid.*

^x *Ibid.*

^{xi} International Monetary Fund, *World Economic Outlook Database*, April 2014.

^{xii} Ibid.

^{xiii} Countries currently classified by the IMF as emerging and developing countries plus Hong Kong, Israel, South Korea and Taiwan, calculated from International Monetary Fund, *World Economic Outlook Database*, April 2014.

^{xiv} Estaleiro Atlantico Sul (EAS) has become Brazil's largest manufacturer of large-scale crude carrier and offshore platforms and structures, and is currently in the midst of numerous high-profile shipbuilding projects for Petrobras, including tankers and drill ships for oil and gas development. See Murillo Camarotto, "Dilma: Brasil pode ser o maior produtor de plataformas de petróleo," *Valor Econômico*, December 17, 2013, available at www.valor.com.br/brasil/3374390/dilma-brasil-pode-ser-o-maior-produtor-de-plataformas-de-petroleo#ixzz2vsZpt3Ql.

^{xv} See www.brasilmaior.mdic.gov.br.

^{xvi} 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.

^{xvii} The previous one was Thailand's Supachai Panitchpakdi (2002-05).

^{xviii} 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.

^{xix} An early empirical study found that Mercosul 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 Mercosur and under many circumstances may have reduced their welfare relative to an equivalent nondiscriminatory trade liberalization" (Yeats 1988, 25-6).

^{xx} 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.

^{xxi} 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).

^{xxii} 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.siiex.gob.mx/portalSiiex/SICETECA/Tratados/Tratados.htm; Peru: Ministerio de Comercio Exterior y Turismo, available at www.acuerdoscomerciales.gob.pe.

^{xxiii} 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.

^{xxiv} See "Merkel wants hurdles removed to EU-Mercosur free trade pact," *Reuters*, June 15, 2014, available at <http://www.reuters.com/article/2014/06/16/us-germany-brazil-mercosur-idUSKBN0ER05D20140616>.

^{xxv} "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>.

^{xxvi} 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.

^{xxvii} “The proliferation of preferential trade agreements in which Brazil does not participate erodes the access that Brazilian exports have in the markets of countries which are involved in the exchange of trade preferences included in said agreements.” Confederação Nacional da Indústria, *Mapa Estratégico da Indústria 2013-2022* (Brasília: CNI, 2013), p. 57, available at [www.fieb.org.br/Adm/Conteudo/uploads/Mapa-Estrategico-da-Industria-2013-2022_id_27_x16b1139d6caf4d0ba837f952e449b33e_1162013083441 .pdf](http://www.fieb.org.br/Adm/Conteudo/uploads/Mapa-Estrategico-da-Industria-2013-2022_id_27_x16b1139d6caf4d0ba837f952e449b33e_1162013083441.pdf).

^{xxviii} See The Pacific Alliance, available at <http://alianzapacifico.net/en/observer-states-of-the-alliance-key-companions-in-the-process-of-regional-integration>.

^{xxix} See Office of the United States Trade Representative, available at <http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/outlines-trans-pacific-partnership-agreement>.

^{xxx} See European Commission, available at <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1132>.

^{xxxi} “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).