



Brazil, a South American State Among the Key Players

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Brazil, 1985. After twenty-one years of dictatorship, democracy is restored. The difficult task of reconstructing stable political institutions against a backdrop of soaring inflation and economic recession occupies centre stage. Diplomatic ambition and dreams of grandeur are not a priority of this continent-sized country. Hard hit by the debt crisis, Brazil, in spite of its size and resources, still seems—as a spiteful cliché would have it—like an “eternal country of the future”.

Two decades later, the leaders of the G7 member countries suggest including it among this club of “rich countries”. Bankers rank Brazil among the major emerging markets of the BRICs along with China, India and Russia. Indeed, its GDP is now on a par with the latter two. What is more, the most reliable forecasters anticipate that before 2050, Brazil will be the world’s fourth largest economy. Conscious of the country’s position and role, and with the support of several other countries, its leaders are demanding a permanent member seat on the United Nations Security Council, as are Germany, Japan and India. At the dawn of the 21st century, Brazil’s status appears to have truly changed—as if the giant has awakened or at least that the eternal country of the future has finally embraced the present.

How did the biggest country of Latin America, known for its cyclical prosperity and its glaring “contrasts”, become a major emerging country? What were the contributing factors to this rise in power? Are we witnessing a new economic cycle, one that is by nature transitory, or a promotion into the international arena that is bound to last?

‘A country of the future’: resources and driving forces

Brazilians are well aware that nature has blessed their country. In fact, historical as much as geographical factors helped to preserve the unity of the huge Portuguese





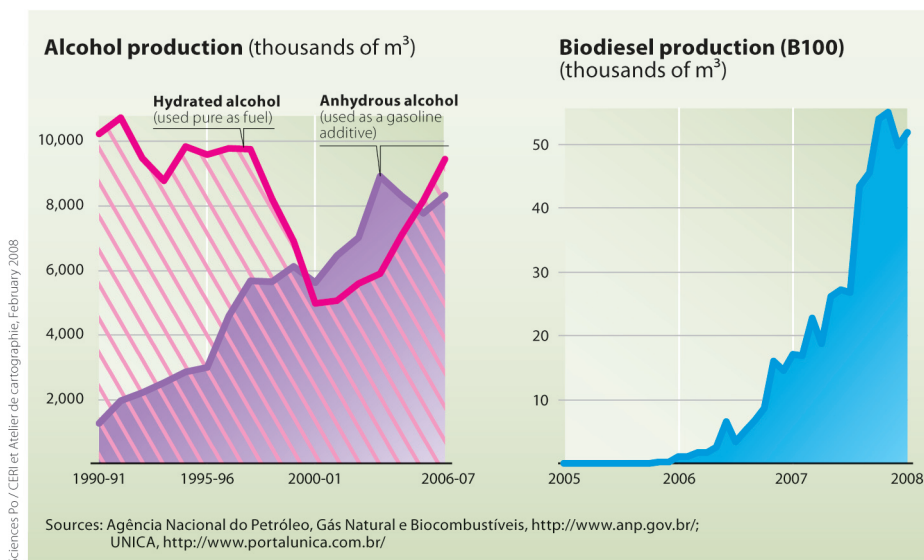
colony. The flat expanse of space unbroken by any natural barrier, a central monarchical power and the huge and menacing presence of slave labour together saved 19th-century Brazil from breaking up into independent republics like Spanish America.

The “largest tropical country in the world” is also endowed with exceptional natural resources. Fertile soils, sunshine and abundant water supply enabled it to achieve high agricultural yields with low production costs. If we add to that an “agricultural border” of around 90 million hectares (not counting the forests) and highly capable agronomical research structures, thanks to which it has been able to cultivate shrubby savannas and scrub thorn deserts, it is easy to see how Brazil has become one of the world’s leading agricultural powers.

Brazil has long been known for its coffee, which between 1880 and 1929 accounted for up to 70% of its exports. Today it represents only a very meagre share of its trade. However, Brazil is still the world’s leading coffee producer and exporter. But the country is now also in the lead or among the top ranks for production and export of many other agricultural products: sugar, soya beans, citrus fruit, orange juice, beef, maize, tobacco, cotton, cellulose. And its wealth is not limited to agriculture. Brazil is also the leading exporter of iron ore, the fourth or fifth for tin and aluminium.

What is more, while during the 1970s nearly half of its trade revenue went to paying its oil bill, Brazil has become practically self-sufficient in hydrocarbon resources largely thanks to its state-owned company’s technological capabilities in deep water extraction. Another reason is a bold experiment in fuel substitution that began with the first oil crisis; the country is also a leading world producer of ethanol, and its biofuels, produced mostly from sugar cane, enjoy competitive

figure 25: **Biofuel production in Brazil, 1990-2008**





costs without jeopardizing the country's food security. With huge, partly unexploited hydraulic capacity, and major offshore and biomass oil resources, Brazil has an enormous energy potential.

But this agricultural power is also an industrialized country. Sixty per cent of its foreign trade is made up of manufactured or semi-finished goods. Since the year 2000, transport equipment and metallurgical products have accounted for a quarter of its exports. Its state-owned aeronautical company Embraer, the fourth largest aircraft manufacturer in the world, is the country's largest exporter. Brazil has a production capacity of 3 million motor vehicles. Moreover, most of those on the market today have two fuel engines (flex-fuel) designed using local technology—because this country, with R&D expenditure on a level with that of some developed countries, boasts quality research institutes and universities whose work has never been affected by the vicissitudes of its political life.

Lastly, the importance of cultural factors in Brazil's rising trajectory must not be underestimated. Brazil's geographical vastness and the abundance of its natural resources represent a source of pride and hope for Brazilians, largely explaining their inveterate optimism. It is true that owing to its immensity, its initially small population and the absence of any major pre-Columbian civilization on its territory, Brazil really is a new country, a space waiting to be occupied. This "American nation" in constant transformation does not dwell on its past. Eighty per cent urban, it has proved its dynamism by creating several *ex-nihilo* cities in the 20th century. Brasilia, a monumental "capital of hope", has become Brazil's most accomplished symbol in less than fifty years.

The political aspects of Brazil's international advancement

Nonetheless Brazil has for a long time been a disappointing hope. Its takeoff lacked stamina and steadfastness. Sudden recessions followed periods of high growth. Periods of rapid expansion were thwarted by bouts of inflation. This seesaw evolution has been termed the "permanent myth of Sisyphus". The political conditions for long-range development were not brought together, and economic volatility went hand in hand with a succession of weak governments and frequent military interventions. And the 21 years of the military regime that began in 1964 were no more successful at establishing ongoing development despite the triumphal years of the "economic miracle."

Democracy has been consolidated since it was re-established in 1985. It has now been in existence longer than the dictatorship. Political institutions in post-military Brazil have proved their strength: first by overcoming the crisis provoked by the impeachment of President Collor de Melo in 1992, then, in 2003, by allowing a political change of power (from centre to left) that was both dreaded and over-dramatized. This unprecedented constitutional stability enabled Brazil to put





its economy and finances somewhat back in order. From 1994 with the *Real Plan*, inflation was stemmed and the country, until then very closed, began to open up to improve its competitiveness.

Fernando Henrique Cardoso and Luiz Inacio Lula da Silva, two successive presidents from rival parties and with opposite political tendencies, have since 1995 pursued macroeconomic policies based on similar models. Above and beyond election promises, both administrations have carried out rigorous management policies aimed at reducing the exterior vulnerability of a country that exported little and was heavily in debt. The rise in exports even became the main economic goal of President Lula, who, moreover, never called into question his predecessor's opening-up of the economy and state reforms. While at the end of the 1990s Brazil struggled to pass the 60-billion-dollar mark for exports, by 2005 its foreign trade had doubled, reaching \$138 billion. This was low compared to its GDP (less than 15%) or compared to other states on the continent, but it still signifies a huge qualitative transformation for an economy that was long focused on its domestic market.

A decade of financial restraint and export incentives has given Brazil a new standing, that of a country which offers satisfactory conditions of political stability and continuity. This new image is largely responsible for attracting a considerable flow of foreign direct investment, which has reached as much as \$30 billion per year. But other aspects have probably contributed to Brazil's renewed appeal and expansion, the first being the particular prestige of its last two presidents.

Fernando Henrique Cardoso and Luiz Inacio da Silva, who have successively governed the country since 1995, are two very contrasting characters who have both enjoyed considerable popularity outside Brazil. Cardoso is an academic, a sociologist of international renown who comes from an old family. Lula is the son of poor peasants from the arid Nordeste. A metal worker and then a trade union leader, he was a founding member of the Workers' Party.

Both these presidents, each outstanding in his own way, have taken a very similar approach to foreign policy, albeit with very different styles. For Cardoso, Brazil's main goal was to achieve competitive integration into the international market. As for Lula, he wants to "change the world's trade map", in other words to take things even further in the same direction in order for Brazil to take its rightful place in the concert of nations. Both of them in fact speak out against the asymmetry of the international order and the inequalities among states.

In the pursuit of these goals, the role of Brazil's diplomacy must not be underestimated. Officials with Itamaraty, the Brazilian Foreign Relations Ministry, are reputed for their quality and worth. The competence of this meritocratic elite is no small asset for the country's foreign policy. It should also be noted that, since 1995, the Foreign Relations Minister portfolio has been held by career diplomats for ten out of the past twelve years.



Brazil, an unrivalled regional power

The largest of the sub-continental countries (nearly four times the size of Argentina), Brazil has common borders with all the South American states except Chile and Ecuador. This geopolitical location defined democratic Brazil's primary sphere of foreign activity. Strengthened ties, even reconciliation with neighbouring countries, was essential following twenty years of a military dictatorship suspected of expansionist goals.

Brazil's first move was therefore to establish a "strategic alliance" with its historic rival, Argentina. The two countries have converging interests. Their recently re-established democratic institutions are still fragile. This lends them solidarity, and hence it was urgent for them to normalize relations to avoid any bilateral tension that might destabilize them both. The two governments first reached an agreement on particular confidence measures in the nuclear arena, each country suspecting the other of using nuclear power for military purposes. In 1988 they signed a free trade agreement, the first step towards the creation of Mercosur, together with Uruguay and Paraguay, through the 1991 Treaty of Asunción.

The process of regional integration at first appeared an economic success. Between 1991 and 1998, gradually liberalized "intrazone" trade increased five-fold. In 1996-97, Brazil became Argentina's principal customer, selling it twice the amount that it sold to the United States and as much as to the entire European Union. The regional market absorbed over 15% of Brazil's exports, mainly high added-value manufactured goods.

But in 2000, Mercosur experienced a crisis. This was partly the result of the severe financial crisis in Argentina due to an unworkable fixed exchange rate mechanism, and partly of the sudden, unanticipated devaluation of the Brazilian currency. As Mercosur had no institutional mechanism able, if not to ensure a minimum of macroeconomic convergence, at least to facilitate the conciliation of diverging interests, the integration process began to back-pedal. Mercosur functions on a strictly inter-governmental level, Brazil being particularly reticent, despite what its leaders claim, about any supranational mechanism.

Furthermore, the organization's partners and associated countries that could become partners (Chile in particular) fear Brazil's unilateralism. They are not far from considering that, even if Brazil claims "Mercosur is its destiny", the South American giant does not intend to share decision-making powers with its "humble" neighbours. It seems, on the contrary inclined to "seek maximum profit with minimum commitment".

Moreover, in face of the Mercosur crisis, Brazil seems to have chosen headlong flight. As it cannot envisage a deepening of the integration process, expansion has become its chief goal. It is as if the organization had been merely one step in a





major strategic project of South American integration conceived and carried out by Brasilia.

On 1 September 2000, President Cardoso invited the South American heads of state to Brasilia for their first summit. A second one took place at Guayaquil in Ecuador in July 2002. These presidential conferences had at least three goals: to assert a regional identity, launch an infrastructure integration programme and finally gain international recognition of Brazil's irreplaceable regional role.

The organizer of the sub-continental gathering also appears to have been its main beneficiary. The initiative for the Regional Infrastructure Integration programme (IIRSA), at the centre of discussions in Guayaquil, is the implementation of Brazil's historic project for an overland link between the two oceans. Programmes to build roads, pipelines and electric networks form a network of which Brazil occupies the hub, and which basically extends the main priorities of Brazil's indicative planning. Brazil thus seems intent on organizing the South American space in concentric circles with itself at the centre.

While Mercosur, an incomplete customs union and incomplete free trade area, was cracking apart, Brazil under Lula pursued its continental strategy. In December 2004, in Cuzco in Peru, the South American Community of Nations was created. It united Mercosur and the Andean Community (CAN) countries, with a view to merging them as well as three countries from the region that did not belong to either of those organizations.

The Mercosur partners did not show much enthusiasm for this expansion. The first summit of the new body, which took place in Brasilia in September 2005, was only a partial success. Some heads of state appeared to suspect Brazil of acting only in its own interest and twisting their arms. A continental integration process initiated and organized by the most powerful country was, however, not likely to go ahead without arousing some unease.

Some neighbouring countries fear this will get them into a North-South type of relationship with Brazil, in which heavyweight Brazil would play the role of the industrial North, buyer of raw materials and sensitive assets (in particular in the energy field). This is especially true of a de-industrialized Argentina for which such a regional division of labour is very menacing. As for the leaders of Bolivia, Brazil's main gas supplier, they speak out against what they deem asymmetrical, even neo-colonial relations. President Evo Morales' "nationalization" of hydrocarbon resources on 1 May 2007, declared symbolically at facilities of the Brazilian company Petrobras, says a lot about the strife and resentment that separates these two neighbouring countries.

This is the reason why the Argentine and Uruguayan governments in particular have supported Venezuela's request for membership of Mercosur even while Hugo Chávez's diplomatic goals are very far from the trade rationale of the Treaty of Asunción. They are counting on the oil-rich state to rebalance the grossly





inegalitarian regional organization. Beyond these speculations about Brazil's ulterior motives, the prevailing sentiment in the region is that Brazil, driven by its global ambitions, is also gradually moving away from Latin America.

A hesitant global player

With the end of the Cold War and the era of globalization, Brazil suddenly became aware of its isolation, the legacy of two decades of military rule. The country, cut off from the outside world for far too long, had to start increasing its presence abroad in order to have a say in major international decisions. A Brazil hoping to become a "global trader" can only guarantee its autonomy and defend its interests by taking part in international organizations and sitting at the negotiating table.

The most emblematic decision of this new state of affairs came in 1997 when Brazil joined the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), which for thirty years it had deemed grossly unfair and unacceptable. Having ratified the Treaty of Tlatelolco for the prohibition of nuclear weapons on the continent and renounced, with its 1988 Constitution, use of the atom for military purposes, to refuse to join the NPT and other similar multilateral conventions could no longer be justified. However, Brasilia remains opposed to an NPT that allows the five major nuclear powers to keep their nuclear weapons, and insists on the total elimination of all other countries' existing arsenals. Brazilian diplomacy works towards equality between nations and a reconsideration of the international status quo. This revisionism, it must be said, is expressed in a non-aggressive and non-confrontational manner. The tone may have changed and become more adamant with Lula's arrival in power, but Brazil's excellent relationship with the United States is proof that the traditional cordiality remains unaltered.

However, Brazilian foreign policy now aims to be a stronger and more visible force. And this means embarking on a strategy that looks beyond the regional sphere. Brazil's first move, in 2003, was to demand a permanent seat on the United Nations Security Council. The Brazilian leaders in fact believe that theirs is the only Latin American state that has the qualities and skills necessary to gain access to the club of key players on the Security Council, not as the representative of a regional group but in its own right. They asked their neighbours and friends to back their claim. By contributing the largest military contingent to peacekeeping operations in Haiti (MINUSTAH), Brazil aimed to prove that it was now able to assume its global responsibilities.

But it is probably Brazil's role in the World Trade Organization (WTO) that has really shown the world its newfound determination and its diplomatic ambitions. Because all member countries are on an equal level and because trade prob-





lems, in particular the liberalization of agricultural trade, are one of its priorities, Brazil has been very active in the WTO. This was the case, in particular, at the opening of a new round of multilateral trade negotiations in Doha in November 2001. It is in this context that in August 2003 in Cancún, Brazil led a group of emerging countries, the G20, to lobby against a minimalist compromise on the agricultural subsidies issue that grew out of a bargain reached between the United States and the European Union. Since then, Brazil has been one of the five major players (alongside the European Union, the United States, Japan and India) likely to organize the revival of the Doha Round of negotiations.

That Brazil (with Argentina's help this time) managed to block the North American project for the Free Trade Area of the Americas (FTAA-ALCA) is no less symbolic of the determination of its diplomacy to defend its national interests. This process was due to reach completion at the beginning of 2005, but the United States wanted to push the agricultural issues off the negotiating table. According to Washington these issues fall within the scope of the WTO. Brazil, a major actor in agribusiness, acted likewise regarding all the sensitive issues for its own economy (services, intellectual property, public procurement) that might be referred to the WTO. The Monterrey Summit of the Americas in January 2004 ratified a minimal agreement between the United States and Brazil, making the American strategy obsolete. In November 2005 in Mar del Plata, President Bush acknowledged that the FTAA—even a downscaled version—had little chance of succeeding. Without Brazil, a Free Trade Zone of the Americas cannot exist. It is interesting to note in this respect that Brazil, in its own way an “indispensable nation”, barely took into consideration the expectations and wishes of those countries of the continent in favour of the US project. Indeed the formation of G20 at Cancún did not mobilize all of the Latin American countries; neither Columbia nor Uruguay cared to be a part of it.

Brazilian foreign policy aims to form new alliances with countries of the South beyond its continent alone. Its critics even see in this a resurgence of outdated Third-Worldism, even of the spirit of Bandung. It is in accordance with this South-South approach that Itamaraty managed to make the G20 a durable entity. Most recent Brazilian diplomatic initiatives follow this trend. The strengthening of ties with India and South Africa in a three-way discussion forum, the first Arab-South American summit held in Brasilia in May 2005, the much publicized exchanges of presidential visits with China, and the desire for an active presence in sub-Saharan Africa, are all signs of a determined policy of “peripheral solidarity”.

It is not easy to understand the true significance of this diplomatic activism. Does Brazil want to play the role of global actor in order to ensure there is absolutely no doubt as to its regional leadership? Or conversely, is it aspiring to establish itself as indisputable leader of Latin America in order to gain recognition of its



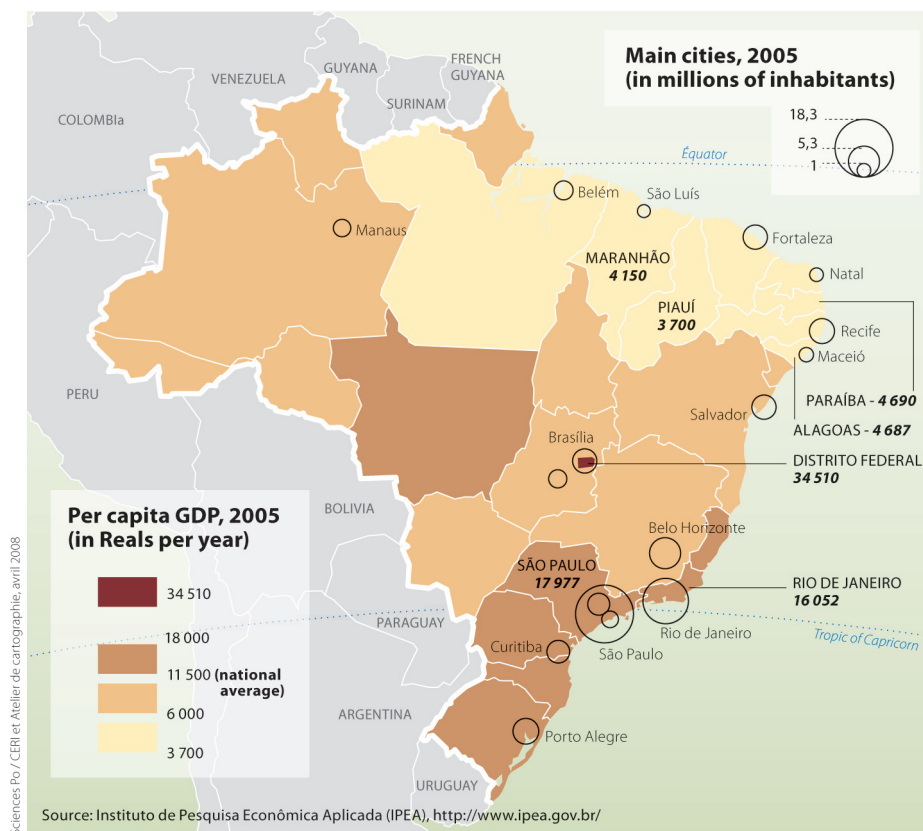
status as one of the “new key players”? Maybe it is simply at a crossroads, searching for a role and a status in a global order that promises to remain destructured for a long time to come.

An uncertain power

Brazil is the fifth largest country in the world in terms of size and population. But it ranks only 30th in participation in world trade (at barely 1%). What is more, the tenth largest world economy has been relegated to 64th place on the Human Development Index (HDI), while two-thirds of the world's countries have a lower per capita income than Brazil does. Indeed, despite recent progress in this country of incredible natural wealth, Brazil still has a high poverty rate. Nearly 50 million Brazilians live below the poverty line, a proportion three times higher than that of countries with similar incomes.

These are just a few statistical markers that set the framework for, and the limitations to, Brazil's promotion onto the international stage. It is true that “incon-

figure 26: **Per capita GDP in Brazil, 2005**





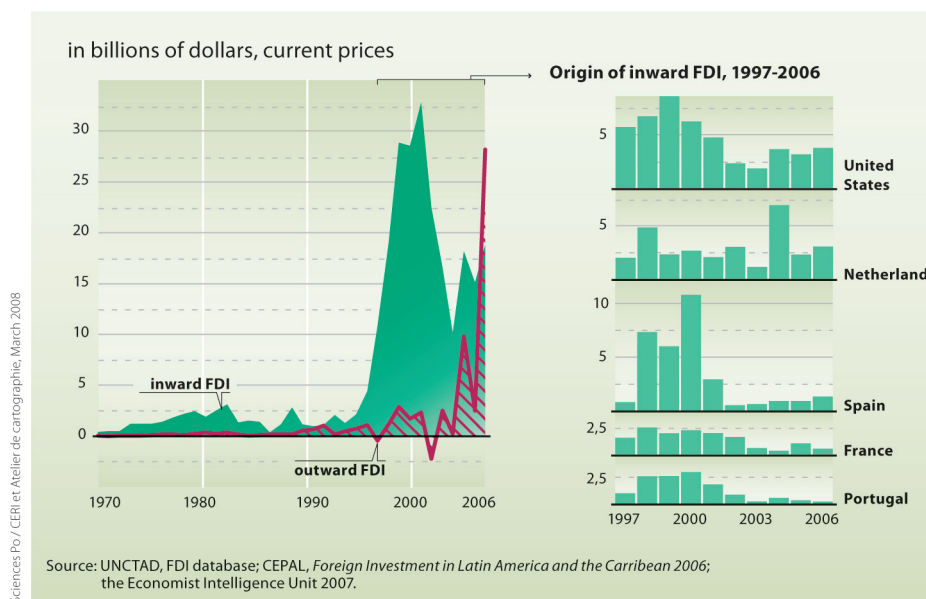
gruence of status” is common to all of the main emerging countries, especially the BRICs. But for Brazil, this giant with feet of clay, the challenges are accumulating. Severe regional disparities, age-old social inequalities, and the inefficiency, even obsolescence of its road, port and air transport infrastructure are all factors that significantly hamper its development.

What is more, the country has for the last twenty years been showing poor growth rates: 2.5% compared to 8.7% in the 1970s. Even during the boom years, its performance ranked lower than the Latin American average (4.3% in 2004 compared to 5.4% for the whole the continent). This is a far cry from the dynamism of the Asian economies.

And yet Brazil has benefited hugely from the vertiginous rise of India and China. In 2003, China increased its imports from Brazil by 80%. Over four years, trade with China has grown fourfold and has accounted for 6% of Brazil’s exports. In 2004, China became Brazil’s third biggest customer, after the United States and Argentina. It is not certain, however, that this strengthening of relations between the “world’s workshop” and the “world’s breadbasket” is entirely positive for the latter. China, insatiable consumer of raw materials and the world’s leading importer of soya beans, does little to help diversify the Brazilian economy. On the contrary this trade encourages it to slip back to a primary sector economy, thereby making it more vulnerable. Indeed, commodities (soya, cellulose, iron ore, orange juice) account for over 75% of Brazil’s trade with China, while Brazil mainly purchases machines and chemical products from China. The structures of the two countries’ industrial exports may not be identical, but that does not make them any less competitive in many sectors of third-party markets. And it is not certain that Brazil’s defence mechanisms will be able to resist the huge wave of Chinese manufactured products from low technology sectors for long.

However, even if there is no doubt that increased worldwide demand has contributed to Brazil’s growing strength, this growth is not just the result of a short-lived windfall. Democratic stability, financial stabilization and realistic macroeconomic management have all enabled the country to make the most of a favourable economic situation. Brazil, which in 2006 invested \$26 billion abroad, is less vulnerable to external financial crises today than it was ten years ago. Ambitious diplomacy has done the rest, without actually achieving truly decisive results in its priority fields (UN, WTO, regional integration). Brazil’s international status therefore depends as much on the fortunes of the other “major peripheral countries” and the development of world markets as on the virtuous continuity of its economic policy.

There is one crucial difference, however, between Brazil and its “counterparts”: that it is an “unarmed” giant. Brazil is indeed lacking one of the major instruments of power that each of its BRIC peers possesses: nuclear weapons. The pacifism of a nuclear-weapons-free Brazil is written into its Constitution. Not only has the

figure 27: **Inward and outward FDI in Brazil, 1970-2007**

country abandoned all claim to military use of nuclear power; it does not have the capacity to deploy its conventional armed forces abroad. Not having had to face any threat, it has reduced its military budget and armed forces and therefore cannot pursue a hegemonic policy. It is through the tranquil strength and confidence inspired by its “constructive moderation” that this cooperative state, preferring to oppose “power politics” and form coalitions, will maintain its role as a global player.

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