



New Directions in BRAZILIAN FOREIGN RELATIONS

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OPENING REMARKS

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PREFACE

A CONFERENCE held at The Brookings Institution on September 28, 2007 with the co-sponsorship of the Woodrow Wilson International Center for Scholars, Brazil Institute, gathered notable foreign policy scholars and practitioners to discuss recent developments in Brazil's foreign policy. Our goal was to better understand the domestic pressures within Brazilian society and its foreign policy establishment as it continues to promote economic and social development.

The principal challenge within Washington is relative ignorance of the choices facing Brazilian President Luiz Inácio Lula da Silva (President Lula), whose second term in office began in January 2007. The authors noted President Lula's outreach to Venezuela, Bolivia and Cuba and efforts to develop a South-South strategy during his first term, combined with lesser emphasis on the relationship with the United States and the developed world. This had produced little results and generated frustration and criticism within the Brazilian business community and the media. The nationalization of Petrobras assets in Bolivia, Fidel Castro's criticism of ethanol production, and Hugo Chávez's critical comments on the Brazilian Senate created uncertainty within Brazil on the future direction of its foreign policy as a tool of national development. In what direction would President Lula take Brazil's foreign and trade policy in his second term which extends until December 2010?

Aware that Brazilian trade policy is synonymous with its foreign policy, observers and policy makers in Washington watched President Lula create the G-20 at the World Trade Organization (WTO) Ministerial meeting

in Cancun in 2003 and assume a leadership role in the Doha Round of trade talks. It became evident to the U.S. Administration that President Lula sought leadership of the developing economies and a change in the norms and practices governing the trade round. In this, Brazil did not act alone, but rather as a member of a tri-partite alliance with India and South Africa (IBSA) created to assert the needs of developing countries in their negotiations with the European Union, Japan and the United States.

Observers of IBSA engagement understood that the three South-South leaders intended to modify negotiation dynamics with the purpose of increasing their voice within the Doha Round. It also became evident that President Lula brought to the international bargaining table his strong trade union negotiating skills. President Lula's statements at the June 2007 meeting in New Delhi called for greater clout in the trade negotiations and claimed that "[A]t IBSA, our three great democracies in the southern hemisphere have signposted their vision of a new world architecture based upon collective solidarity." In Washington, leadership of IBSA led to the assumption that Brazil, while insisting on a drastic reduction of tariffs in agricultural trade (not favored by India), could either break or resolve the impasse over access to industrial goods demanded by advanced economies.

At the United Nations and the Organization of American States (OAS), President Lula voted repeatedly against U.S. positions. As a result it became difficult to find ways to re-establish a collaborative policy with the U.S. This started to change in November 2005, however when President George W. Bush made his first visit to

Brazil. Although brief, the visit was described as successful by both sides and the term “strategic dialogue” entered into the Summit’s final communiqué. Out of this dialogue, the opportunity developed to work together on research into ethanol production and the development of cellulosic bio-fuels. This was affirmed in the Memorandum of Understanding (MOU) signed in São Paulo on the occasion of President Bush’s second visit to Brazil in March 2007. For the U.S. government, collaboration over bio-fuels provided both an opportunity to test the extent of a “strategic dialogue” with Brazil and to signal its newfound concern about climate change, by associating itself with the production of a clean and renewable form of fuel. For Brazil, it represented a way to respond to criticism about the lack of engagement with the U.S., as well as to highlight the country’s international leadership on bio-fuels. Going forward, what initiatives might the Lula Administration propose? The MOU and the scientific exchanges currently underway are tests of a new U.S. approach in Brazilian foreign policy, one that Brookings and the Woodrow Wilson Center sought to examine more closely through this conference. Recognizing that in Brasilia the developers of trade policy are the same as the drafters of foreign policy, it is necessary to examine together both aspects of Brazil’s foreign and trade policy.

Through Peter Hakim, President of the Inter-American Dialogue, we raised three questions for the panelists: what explains the growth of influence, presence and prestige of Brazil over the recent period; what has Brazil gained from this growth in international influence and prestige; and what changes would the panelists suggest in Brazil’s international strategy? To respond to these questions, we invited practitioners and academics. Antonio de Aguiar Patriota, Brazil’s Ambassador to the U.S., and Eduardo Campos, Governor of the state of Pernambuco, presented the government’s view of current foreign policy and its domestic implications. Professor Antonio Barros de Castro, an economist, provided the current facts and statistics of economic growth and trade, domestic needs and successes, as well as the projected growth from technological innovation. Academics were represented by Monica Herz and Riordan Roett, while consultant Amaury de Souza and Ambassador Sergio Amaral communicated the concerns of former senior government officials and informed observers of current developments.

All panelists agreed that economic growth in Brazil over the last four years has been strong and sustainable. The days of recognizing Brazil’s “unfulfilled potential” have passed. In their place, solid economic annual growth of 4 – 4.5 percent has been achieved. Professor Barros de Castro identified the five catalysts to Brazil’s growth in the 21st century: the ending of cycles of domestic and foreign indebtedness; the modernization of industrial plants with particular focus on mechanical and electrical engineering; expanded access to credit by both industry and Brazilian families; the emergence of a new middle class, from the C & D social groups, to become strong consumers; and finally, recognition within Brazil of the value of innovation and technical creativity.

Eduardo Campos, Governor of Pernambuco, reminded the audience that any expansion in foreign policy interests must take into account Brazil’s domestic socio-economic developments. Brazil’s remarkable growth in exports since 2004, the expansion of domestic consumption and acquired purchasing power, its social safety net and distributive policies, access to credit and growing respect for national assets provided the basis for the growth of Brazil’s influence on the global stage. Greater knowledge and understanding is needed of what is taking place within Brazil today, as well as an appreciation of how foreign governments and business can partner in this change.

The question then arose about how best to project Brazil’s interest overseas. Should foreign policy be focused on improved trading relationships within South America so as to strengthen MERCOSUR, or should Brazil assert its leadership of the G-20 and use that position to “reshape the economic order as well as international politics” (President Lula, New Delhi, June 2007) with a more global projection of its interests? Are these two roads incompatible? Would this leadership be asserted within the WTO, as well as the UN General Assembly with the purpose of reforming the UN Security Council? Did Brazil’s status as a “newly industrialized country” provide leverage to rally the developing countries in defense of their agricultural producer interests within the Doha Round? Related to this, should Brazil act as a broker between the developing countries and the industrialized states?

The participants diverged in their recommendations. Monica Herz raised the possibility that Brazil, together with its partners in the developing world, now had the capacity to adapt established international norms to counter the dominance of the North Atlantic. Working within IBSA, Brazil might seek to change the assumptions that underpin the workings of the UN Security Council, the WTO, and maybe the fragile Nuclear Non Proliferation Treaty regime. However, Professor Herz cautioned that current international legal norms had protected Brazil in the past and wholesale change carried a high risk of instability.

The expansionists within the Foreign Ministry envisaged a global reach for Brazil's interests that went beyond Brazil's traditional relations with its neighbors in South America. Ambassador Patriota highlighted Brazil's role at the United Nations, its leadership on efforts to reform of the Security Council and its participation in peacekeeping in Haiti. He emphasized Brazil's thirty-year program to develop ethanol and more recently to establish a strategic partnership with China and the European Union, as well as "a dialogue" with the United States. Brazil was eager to expand ethanol production and, within the MOU framework, joined Washington in signing production agreements with Haiti, El Salvador, the Dominican Republic and St. Kitts & Nevis. Furthermore, Brazil's agreement to purchase generic anti-retroviral drugs from India, as well as its work on malaria control in Sao Tome had the potential to expand Brazilian influence across the southern continents. Foreign Minister Celso Amorim was now fulfilling President Lula's goal to achieve a level of superior outreach and interaction with the world, one that went beyond relations in South America.

Sergio Amaral recognized the gains that Brazil's new wealth had acquired. However, he warned that the ideological policies of President Lula's first term with its alignment with countries, such as Venezuela, China and Cuba, as well as its confrontation with the U.S. at the UN, the OAS and the Inter-American Development Bank had incurred the irritation of Brazil's business community. Lula's first-term policies were in part symbolic and necessary to compensate for Lula's continuation of President Cardoso's market oriented economic policies.

However, Bolivia's nationalization of the Petrobras assets and Cuba's request at the UN for an investigation into ethanol production resulted in severe criticism from agro-industrial sectors that sought a more pragmatic foreign policy which supported their export goals. The business community preferred the resolution of internal regulatory constraints over broad global initiatives. It sought to streamline the bureaucratic licensing processes and curtail government regulation, both of which had resulted in an uncertain regulatory framework and judicial insecurity.

Amaury de Souza was more cautious in his assessment of Brazil's role in international affairs. Based on a recent task force and report published by the Brazilian Center for International Relations (CEBRI), he believed that Brazil lacked the committed economic and political resources to play a leadership role in the hemisphere. Venezuela now challenged Brazil to become the leader in South America, and consequently, Brazil's claim to regional leadership had been largely rhetorical. In the face of Venezuelan assertions as a petro-power and increased political turbulence in the region, Brazil had to clarify its national interests and develop a realistic strategy. In the day-to-day pursuit of its national interests, Brazil had failed to develop a coherent and realistic strategy for South America. No proper regulatory framework existed for the development of financial services, nor had the Foreign Ministry tackled the increasing flow of illegal immigration, goods and arms. The government had turned a blind eye to Venezuelan arms purchases—which were dangerous given the very sophisticated missile weaponry and naval capability that President Chávez sought to acquire. Rather than assume a global outreach, Brazil's leaders in foreign policy had to better understand the changes within the hemisphere and devote greater attention to relations with neighbors.

Riordan Roett, a close friend and observer of Brazil over the past forty years, recalled the *grandeza* days of 1967 when economic growth permitted Brazilians to believe that they would become a hegemonic power in the region. This ended with the debt crisis of 1982. A renewed period of *grandeza* had arrived with serious discussion on whether Brazil had acquired investment grade status. Economic and financial growth was a real-

ity, but Roett suggested that it might be more useful for Brazil to pursue membership of the G-7, composed of the largest economies of the world, rather than the UN Security Council. Roett also placed Brazil's foreign engagements within the context of a post-U.S. hegemonic era. As a result of the recent decline in U.S. influence, the hemisphere was marked by uncertainty. The future was unpredictable with new leaders being elected in South America in 2007 and 2008 with distinct priorities. These required focused and reasonable responses. Brazil, which borders on nearly every country in South America and had not invested in a large military, needed to focus on hemispheric trends and potential threats to the stability which provided the underpinning for its current economic success.

Out of the conference proceedings emerged the call for increased U.S. attention to developments within Brazil.

Diana Villiers Negroponte
Visiting Fellow
The Brookings Institution

Building upon the bio-fuels MOU, the U.S. government faced a welcome climate for increased cooperation on matters of mutual interest to both countries, such as further scientific collaboration, information technology, and the environment. However, it was evident that until a resolution of the outstanding industrial and agricultural trade problems is achieved in the Doha Round, expanding the strategic dialogue may be difficult. While the trade talks have remained the litmus test of real cooperation between the Americas' two most populous democracies, we argue that a meaningful strategic dialogue between Brazil and the United States must encompass multiple areas of common interest and not be limited to bio-fuels or the trade talks. Such dialogue should allow for the isolation of an issue in which there is disagreement in order to permit progress in other areas, and thus maintain collaborative arrangements on a broad range of shared interests.

Paulo Sotero
Director, Brazil Institute
Woodrow Wilson International Center for Scholars

PROCEEDINGS

Carlos Pascual, Vice President and Director, Foreign Policy, The Brookings Institution

GOOD MORNING. Welcome to the Brookings Institution.

It is a great pleasure to be able to share this morning with you focused on Brazil. I want to extend a special thanks to Mike Van Dusen, Vice President of the Woodrow Wilson International Center for Scholars, which has worked very closely with us throughout the process of shaping this conference.

Let me express special appreciation for a number of corporate sponsors, including Petrobras, Embraer Aircraft Holding, and Banco Itaú.

The focus on Brazil should be obvious and yet simply hasn't been obvious enough in the conduct of American foreign policy. The United States and Brazil have a fundamental self-interest in closer ties in a globalized world. It has almost become a cliché to say that in this world, where we don't know the meaning of borders, where there aren't boundaries that are defined by national sovereignty, where we have come to understand that money and capital and people and knowledge can move around the globe in almost instantaneous ways, that we need to develop new relationships. In this context the relationship between the United States and Brazil is particularly important.

There is an opportunity side to this relationship and that opportunity entails the potential for global finance, the exchange of technology, and the development of markets. Furthermore, for the United States, it entails a recognition that those positive interrelationships are not just from a perspective of the United States giving, but also

the United States learning. As we open this conference, let me take a minute or two to reflect on the importance of the relationship between Brazil and the United States and the four global risks that we both face.

On the existential question of proliferation and the risk of nuclear proliferation, Brazil has been and can be a leader. There are very few countries in the world that have given up nuclear weapons programs, a rejection enshrined in the Constitution in 1988. Brazil has to be a leader in the development of a new non-proliferation and disarmament regime that can take into account the complexity of the global environment and which can embrace countries as diverse as India, Iran, and North Korea. Having given up its nuclear weapons program, Brazil has both credibility and experience to lead in this effort.

On the issue of climate change, Brazil has been a leader. There is no better subject to demonstrate the global nature of our interdependence. It does not matter where that next ton of carbon comes from, it ends up in the atmosphere and it mixes together; we all feel the effects and the impacts. For the last thirty years, Brazil has played an important role in the development of ethanol, but that development has not turned itself into a change of practice in the United States, unlike Brazil's change in automobiles where 80 percent of new cars now run on some form of flex fuel. The implications for the rain forests are tremendous. The rain forests and deforestation actually account for 25 percent of greenhouse gas emissions, and the irony is that the more greenhouse gases that are emitted, the more negative the impact that

they actually have on the forests. It was in Rio de Janeiro that the UN Framework Convention on Climate Change provided the very foundation for today's discussions on climate change.

Third, on questions of conflict and peace, Latin America has not developed deep organizational capacity for international peacekeeping. However, that has started to change. Today we see a Brazilian as the Commander of UN Forces in Haiti, exemplifying the willingness of Brazil to take a leadership role in dedicating its military to the promotion of peace in the hemisphere.

Finally, we should recognize that poverty and disease also present global threats. Here we have come to understand the power of Brazil's engagement in the world

economy and how that has lifted millions of people out of poverty. A critical part of this strategy is the institution of the "Bolsa Familia," the targeted social program that focuses on those who would be left behind. Furthermore, the role that Brazil has played on issues such as health care, especially in Africa, are important.

If Brazil is playing this kind of central role internationally, we must ask whether Brazil is given an adequate voice in our institutional and multilateral structures? By this I mean Brazil's participation in the United Nations Security Council and other structures of the international security system. Is Brazil's present-day power and leadership given adequate representation in the international system? These are some of the questions that I hope we can address during our discussion and debate today.

The Honorable Antonio de Aguiar, Ambassador of the Republic of Brazil to the United States

BRAZIL IS often looked at from an inter-American or, as they call it here in the United States, a "Hemispheric" perspective. I thought that, given Brazil's foreign policy interests in other regions of the world and its increasingly global reach—something that is recognized by Secretary of State Condoleezza Rice and others in the U.S. government—it would be interesting to look at Brazil from a wider perspective.

To summarize what is specific and interesting about the present moment is that Brazil is enjoying a time of unusual promise. We have managed to reconcile economic growth while deepening our democratic roots and diminishing inequality. This seminar can help us showcase this promising moment and hopefully improve the understanding of the American public on developments currently taking place in Brazil right now.

Economic performance is the strongest in recent memory. Growth has been around 5 percent for the second quarter this year; exports have gone from \$60 billion in 2002, to an expected \$152 to \$155 billion in 2007. Inflation is under target at approximately 3.5 percent. The crisis associated to the foreign debt has been overcome. Reserves stand at around \$160 billion. Rather than going from crisis management to crisis management,

Brazil finally can look to the future and plan ahead. This has opened tremendous space for diplomatic activity. President Lula's foreign policy has not only focused on the region but more broadly, worldwide, in ways that reconfigure the geographic framework within which we operate. Special emphasis is placed on MERCOSUR and the building block represented by the relationship with Argentina—which is today the best in recent memory. Beyond that, Brazil is working hard for South American integration at a moment when all governments are democratically elected and all governments have a social agenda, so there is a strong common foundation to build upon.

But what is perhaps most innovative and creative is the way that the foreign policy of the Lula government has looked to other regions, by establishing partnerships with South Africa and India through the India-Brazil-South Africa Forum (IBSA), which brings together the three multi-ethnic democracies of the three developing regions of the world: Latin America, Africa, and Asia. This coalition has been instrumental in its coordination within the WTO and the creation of the G-20. Independent of the results of the Doha Round, the G-20 has already succeeded in modifying the dynamics at the WTO, making it more democratic, less of a club where

the United States and the Europeans precooked possible consensus and then presented it to the rest of the membership for cosmetic modifications. We have made the Doha Round more of a truly interactive environment for more legitimate consensus building.

Relationships with other African countries have developed. We are today the country in Latin America whose capital has the largest number of African embassies and with the largest number of embassies in Africa. This was not the case until recently. President Lula will visit another group of African countries in October, his seventh trip to that continent since he took office. He is already, by far, the Brazilian President who has most visited Africa.

The strategic partnership with China, which dates back to the mid-1990s, has developed into a complex relationship where we continue to have a number of interesting complementarities—along with new challenges. China is poised to become Brazil's second-largest trading partner this year. At the same time, it is a country with which we have developed the most ambitious South-South cooperative project in science and technology, namely the China-Brazil Earth Resources Satellite (CBERS).

Independent of what opinion one may have on the focus of South American relationships and bridges toward Africa and the developing world in general, Brazil has attained a level of superior outreach and interaction with the world at large as compared to previous periods. It is interesting to note that this has not taken place to the detriment of relationships with traditional partners in the developed world. Much to the contrary, this year Brazil has become a strategic partner of the European Union (EU), making it the first Latin American country to be included in this category. The EU already had strategic partnerships with India, South Africa, China, Russia, among others. This new status opens up new possibilities for political dialogue and economic cooperation with the EU—which, as a group, is our main trading partner.

The relationship with the United States is going through a particularly interesting and, I think, promising chapter as well. This began in 2004 and 2005. I remember in 2005, when I was Under Secretary for Political Affairs, I attended the UN General Assembly where I was ap-

proached by Under Secretary Nick Burns who said, "We would like to develop a strategic political dialogue with Brazil; this is something we only have with four or five countries." At the time, the strategic dialogue with China was under the responsibility of Deputy Secretary of State Bob Zoellick, while Nick Burns was in charge of contacts with countries which held a strategic partnership with Europe. That same year, President Bush came to Brazil (November 2005), and the concept of "strategic dialogue" was incorporated into the final press communiqué. On the same occasion, an interest in biofuels on the U.S. part became manifest and led to the signing of the Memorandum of Understanding in 2007. I have just come from New York where President Lula and President Bush met for the third time this year. Perhaps this is an historic first: three encounters in one year between the Presidents of Brazil and the United States, essentially to discuss a positive agenda—bilateral, regional and global. Discussions in New York centered on the Doha Round; it seems that we are making progress and that some flexibility has been introduced into the U.S. position on domestic support for agriculture, which in turn will impact constructively on the exercise as a whole.

Brazil's economic performance is sometimes compared unfavorably with the fast-growing Asian economies. We are very happy that the Asian economies are growing at high rates and that large portions of their poorer populations are being incorporated into the economic mainstream, but this comparison leaves out some important distinctions. For example, Brazil is a thriving democracy with no internal inter-ethnic or inter-confessional conflict to speak of. We live in an era of peace and cooperation.

We have given up military nuclear capacity, which also sets us aside from the other BRICs (Brazil, Russia, India and China). In terms of the human development index, Brazil and Russia are quite a way ahead of China and India. In fact, President Lula stated last week at the General Assembly that several years ahead of the target date set by the Millennium Development Goals for 2015, we have already reached one of the main objectives which is reducing poverty by half. Our leadership role in combating HIV-AIDS was also mentioned here today, and of course, the economic performance itself is a strong one.

If I were to summarize the continuity and distinctions in foreign policy between previous periods, I would say that there is a degree of continuity in one fundamental aspect which has oriented Brazilian foreign policy for most of the past century, namely enlisting foreign policy to the service of Brazilian economic and social development. Broadly speaking, this is an agenda that succeeding governments have embraced. But what is perhaps new is that Brazil, under the Lula government, has also embraced an ambitious political-diplomatic agenda, regionally and worldwide; and one which not only reinforces pre-existing relationships but is also “transformational.” For example, it is transformational in working toward South American integration. South America as a concept had been present under an initiative called “IRSA,” which looked at integration in terms of communications, transport and roads, but before now it lacked an agenda for increasing political dialogue and integration.

Furthermore, it is transformational in our involvement with the only item in the Americas that is currently on the Security Council agenda: Haiti. It is also transformational in reaching out to Africa and Asia and organizing a summit between South America and the Arab League countries. Care was taken to explain to others that this was essentially an exercise in economic and cultural cooperation, and I may add that our relationship with Israel has thrived in the past years and Israel is negotiating a preferences treaty with MERCOSUR. Ultimately there was appreciation and understanding for the fundamentally peaceful goals of the initiative, including by U.S. authorities.

It is also transformational in the sense that being a country where democracy has taken strong roots, Brazil today is strongly committed to transforming international decision making into more democratic processes. This was very visible not only in the creation of the G-20 at the World Trade meeting in Cancun, which helped to modify the negotiating dynamics within the WTO, but also President Lula’s initiative of traveling directly from the Social Forum in Porto Alegre to the World Economic Forum in Davos, thereby illustrating to members of the G-8 that it is impossible to look at economic issues today without looking at the challenges posed by poverty, hunger, and exclusion. This in turn provoked the

G-8 countries to invite large emerging economies such as Brazil, China, South Africa, India, and Mexico to their annual summits. Now we hear President Sarkozy of France speaking of a “G-13,” a concept repeated by President Sarkozy to President Lula last week in New York.

Brazil has been transformational in placing emphasis on United Nations reform and on the reform of the Security Council. Independent of the results (of course, it has been a frustrating exercise that has not yielded results within the timeframe that we imagined initially), there is growing recognition that for the Council to remain effective and authoritative it must become more equitable and representative. We need to include developing countries as permanent members. Brazil is ready to assume responsibilities in this regard.

Having emphasized an innovative political agenda that I believe is new in Brazil’s foreign policy, there are some interesting conclusions to be drawn. One of them is that not only has this political agenda offered us increased opportunities for dialogue, for learning more and interacting more with the rest of the world, it has also had very beneficial economic and trade effects, more so than if we had insisted solely on the economic and trade agenda. It is interesting to note, for example, that when Under Secretary Burns came to Brazil last July, we had just placed a request for consultations with the U.S. at the WTO on agricultural subsidies. A reporter asked, “Is this going to create some tension for your visit here? Is this going to create turbulence of any kind?” He replied, “Not at all; today with Brazil we have a very wide agenda of issues which we discuss; it is absolutely natural that we should have disagreements at the WTO; the WTO is a place to solve problems and not to create them, and we also resort to the WTO in the same spirit, so this is not at all a preoccupation for the U.S. government.” (I am quoting from memory, of course.) The point I am trying to make is that the widening of the political agenda has helped to dilute possible irritants on the trade and economic front.

Not only has this broader agenda helped to boost trade and economic cooperation, exports to the Middle East have increased by more than 200 percent, to Africa by more than 200 percent, and to Argentina by almost 400 percent, it has also helped to shield Brazil from finan-

cial turbulence. This point was highlighted last week at a conference organized by *The Miami Herald*, where the Brazilian situation was compared favorably with that of others in the region. Interestingly, when a questionnaire was handed out to the participants, “Which economy in the Americas do you look at with greatest optimism in terms of growth and increased relationship with the United States?” Two-thirds of the respondents named Brazil, Chile came in second, and Peru, Colombia and Panama thereafter.

So with these thoughts, let me thank you again for giving me the opportunity to share some ideas with you, and I look forward to a day of very productive and interesting discussions. Thank you.

PANEL I

Mônica Herz, Director, Institute of International Relations, Pontifical Catholic University, Rio de Janeiro

FOREIGN POLICY has become a theme in Brazilian politics and is now occupying a major place in the public sphere. This is a very peculiar feature of the present situation that I am immensely happy to be part of.

Since Brazil's transition toward democracy, the insulation of the Brazilian Foreign Office has decreased significantly due partly to domestic pressure from non-state actors, Congress, and the internationalization of public policy. Many factors explain this new reality: globalization has changed social interactions in a dramatic way, facilitating worldwide contact and knowledge about the wider world and international relations in particular. Greater knowledge exists about international norms and their effect upon our lives; the development and diversification of Brazil's international trade in recent years; the growth in Brazilian investment abroad; access to information via the media, including the government's discourse on international affairs; and finally the existence of an active academic community that was not a factor in studying international relations in Brazil fifteen to twenty years ago.

At this point, unions, parties, Congress, specialists, and social movements spend time and energy discussing Brazil's role in the world, and this is a very significant change. As is often the case, the debate tends to be framed in terms of two camps and two labels, which simplifies the world. We should therefore look beyond these labels.

I would like to mention some of the dichotomies that have framed the current debate: autonomy with participation versus autonomy with diversification; a foreign policy that

reacts to the external environment versus foreign policy that is developed domestically; an independent foreign policy reborn versus a policy subordinated to American hegemony; a foreign policy based on regionalism versus a policy based on globalism; an emphasis on South-South relations versus an emphasis on relations with the West; neoliberal foreign policy versus a foreign policy linked to a strategy of economic and social development; and finally a nationalist foreign policy versus an internationalist foreign policy. All of these labels allow the debate to acquire colors, light, and life, but they also simplify the world in the way that inevitably all labels do.

These same labels were used to oppose the foreign policy of Fernando Henrique Cardoso's administration as well as the policy of the present Luiz Ignácio Lula da Silva administration. Of course, we all know that there is more convergence and continuity between the two periods than the political leadership and even diplomats would like to admit.

There is one dilemma that faces our governments, whichever party is in power: how does a country that is on the periphery of the global distribution of power and is seeking to change this position in the present context of internationalization of authority behave, react, and construct a discourse? This is increasingly seen as a principal interest, due to our own reflections on the internationalization of power and authority, and crystallized in the global web of international norms. A clear concern about Brazilian participation in the international decision-making process can be detected in the policies adopted by the Cardoso and Lula governments.

In spite of the socioeconomic realities of the country, there are several arguments put forward against Brazil's marginalization: it is a country of cultural and ethnic diversity and of cultural and ethnic peace; it is a mixture of a first world and a developing country; there exists the tradition of a coherent foreign policy and a sophisticated diplomacy to sustain the peaceful nature of the country's international relations. Given the size of the country, its population, and level of industrialization, there is a deeply embedded expectation that Brazil should play a greater role in world affairs. Both Presidents Cardoso and Lula share this widespread goal despite the dissonance between the country's potential and real power. When Lula assumed the reins of power, this dissonance acquired new relevance in the international image of Brazil and the strategy of the government. The gap between the country's territorial, economic, political, and population attributes and its actual influence is stressed over and over again.¹ It is true that this has always been a problem that has faced both governments. A crucial point is the distinct international context differs in which the Cardoso and Lula Administrations work.

President Lula works with a much longer timeframe than that of Cardoso not thinking in terms of months or years, but in terms of destiny. This administration is influenced by a view that Brazil has a certain destiny, not a manifest destiny as is believed in sectors of the American society, but a destiny that is not fulfilled, which demands a more active posture in terms of strategic planning in order to be realized.² The issue of dissonance becomes stronger when you consider it in terms of the different timeframes.

In order to answer the question of how to deal with this Brazilian dilemma between expectations and actual influence (and obviously this is not only a Brazilian dilemma) the answers available are diverse. In both cases the resources of the State, be they regional and transregional coalitions, national economic and technological development are brought to bear.

In the Brazilian case, the most obvious answer to this dilemma has been the involvement in multilateral forums.

The previous government treated it as a central goal, a policy followed by the current government. Thus, the Brazilian foreign office has been seeking to actively participate in the debate on the regulation of international commerce, reform of the United Nations, regulation of the environment, and many other multilateral agenda items. The country's candidacy for a permanent seat at the Security Council is the most obvious expression of this emphasis. The longstanding legalist tradition matches the strong emphasis on multilateral forums and the view that international norms protect Brazil, to a certain extent, from the influence of the North Atlantic distribution of power.

As a medium power with unrealized capabilities, Brazil's foreign policy guidelines accept the norms generated at the core of the international system. Basically, both administrations accepted the norms, or at least the principles upon which the norms are based, which are generated at the core of the system, and both sought wider participation and greater autonomy. Brazil, for example, now abides by virtually all formal and informal norms, treaties, rules and regulations that govern, however imperfectly, international security affairs.

But here we find one additional difference between the two governments: the present government challenges the agenda that leads to the formation of international norms (although when these are embedded in international culture they tend to be seen as a reality that Brazil must adapt to). This challenge is related principally to the tension between the socio-economic inclusion or exclusion of domestic forces both within Brazilian society as well as at international levels. The existence of wide sectors of the world's population that are currently marginalized from economic and technological development has imposed itself as a central theme for Lula's government.

Both parties subscribe to both the realist tradition, according to which international norms are created insofar as they express the interests of the most powerful states in the system, and the Grotian tradition, which stresses the roles that norms play in conforming international society. However, each administration placed

¹ For example: Sebastião Velasco e Cruz e Ricardo Sennes O Brasil no Mundo: Conjecturas e Cenários *Estudos Avançados* n. 56, 2006

² For example, Luiz Alberto Moniz Bandeira, "Brazil as a Regional Power and Its Relations with the United States," *Latin American Perspectives*, 148 n.3 May 2006.

different emphasis. The Lula government tilts the balance between realism and the Grotian tradition in the direction of the first. Looking at the changing international distribution of power, in particular the role of China and great agricultural exporters, Lula's government favors greater diversification and seeks to examine the changing power relations and the opportunities they create for Brazil. The G-3, IBSA, and the G-20, are clear examples of translating the Grotian tradition into practice, transforming ideas into strategic plans. Rhetorically, they use of labels such as globalism or "autonomy with diversification."

One similarity between both administrations is the lack of interest in developing defense capabilities. Brazil stands among regional powers such as India, Indonesia and Egypt, but it is a much more fragile country in terms of its military capability. You can look at the American hemisphere and call it a peaceful region, a zone of peace, even a security community, but in fact, there is no debate on the degree of peace or insecurity. Now there is social pressure for this debate to enter the public realm and for people to be able to express their opinion on this subject clearly. To date, foreign policy and defense policy have been detached in Brazil resulting in a concern for the military, but also for several other sectors. This debate has to be faced, and if we have decided not to develop certain capabilities, there should be a wider consensus regarding this choice.

First, this debate is often phrased in terms of Brazil's reaction to the nonproliferation regime. Brazil has chosen not to develop nuclear weapons. It is considered, together with South Africa, the best example of nuclear rollback. But the fragility of the regime, the fragility of the norms and the lack of legitimacy of the regime puts this debate also in the public realm. The more we debate it, and the more we talk about it, the more we shall decide wisely. The discriminatory nature of the nonproliferation regime and the need to move further toward disarmament has always been discussed by various sectors of the Brazilian society. This theme has greater resonance within nationalist circles that have acquired more influence during the Lula government. The recent incident regarding IAEA inspections at the nuclear facility in Resende only highlights this point. However, the choice made by previous Brazilian governments and maintained by the present administration regarding the acceptance of the nonproliferation of weapons

of mass destruction regimes has not acquired the necessary roots within Brazilian society; in other words it is a policy lacking a reliable social constituency. A regime that has been questioned in the developing world since the Cold War and has most clearly been challenged by India and Pakistan cannot robustly sustain policy options in countries such as Brazil. Thus a national debate is paramount.

Second, the focus of resources available to a state is always vital. In the Brazilian case, the focus has been on international commerce. The relation between foreign policy and a wider project of economic development acquired a new contour in the 1990s as the commercial dimension was stressed in the context shift towards neoliberal economic policies. In fact, the search for a wider international presence in the commercial sphere has been the main focus of our international strategy. The similarities between the macro-economic policies of both administrations has had a significant effect on foreign policy and on the country's international postures.

Third, Brazil's role as a mediator and its traditional deference towards international norms and legality is still seen as an important asset, but the capabilities of the country are increasingly debated.

Fourth, the diversification of efforts stem from the idea that power is fungible, and I think this is a characteristic of the Lula government more clearly seen than under Cardoso. Cardoso stressed that Brazil had become a responsible player in the international community and "responsibility" seems to be more fungible than power. In fact, many of the failures of the current Brazilian foreign policy stem from a false expectation about the fungibility of power. If Brazil is a very important player in terms of international agricultural commerce, this does not make it an important player in every other area and it does not furnish the country with leverage in every negotiation. Whereas the image of a responsible member of the international community may be fungible, actual resources are not, and a clear discussion and understanding of which resources are available, which resources should be prioritized and developed is extremely relevant.

Fifth, the role played by the international image of a country cannot be denied and the Brazilian decision making elite has been very conscious of this fact, par-

ticularly since Cardoso's tenure. In order to acquire a significant role in international politics, different Brazilian governments have sought one or more ideas that could symbolize the country's presence, influence, and power. Since the late 1990s democracy has played this role, having been added to the image of an international law abiding country. The concept can be found in the definition of bilateral relations and of Brazil's role in international forums. The defense of state sovereignty has been translated into respect for the autonomy granted by democratic processes. On this point, there is clear continuity regarding this understanding.

Finally, regionalism is an answer to the Brazilian dilemma. Regionalism fits well with the hegemonic perspective where regional hegemons have a role to play regarding the maintenance of stability and order. Brazil has to a certain degree fulfilled this role, but only to a certain degree. The role of mediator in crisis situations both domestic and international has been a choice of both governments. The regional project has been built gradually over the last several decades aiming at Brazil's regional leadership which should provide an important leverage in the wider project for greater international influence. MERCOSUR is at the core of this project.

The obvious question is what are the delimitations of this region; is it MERCOSUR, the Amazon region, South America, Latin America or the Americas? Different institutions, of which Brazil is an active member, represent distinct visions of "the region." There are several regions and several forms of cooperation from the OAS, which incorporates all 35 countries of the Americas, to MERCOSUR, which incorporates the countries of the Southern cone. Both administrations dealt with these different forms of

association, but Lula's government has clearly prioritized South America over all others. During the present administration the idea of a South American region, which incorporates both the countries of MERCOSUR and of the Andean Pact, acquired greater relevance. The problem lies in the fact that this region has the weakest links and many unresolved conflicts. It is thus difficult to translate the discourse of regional integration into reality.

The idea of a connection between regional integration and economic development is much stronger in Lula's government. The development of a regional infrastructure, though launched during the previous government, is very much a part of the current government's project.

In spite of the discourse on a regional common destiny and the turn toward the left in many countries, this is a region deeply divided. South America, as well as the broader Latin America remain deeply divided in terms of concepts of democracy, different economic models, different relations with the United States, and different attitudes toward international norms. However, although both Lula's and Cardoso's governments focused on the region, systemic and domestic conditions have not allowed Brazilian political leadership to put forward a successful project. Domestically, many sectors have lost interest in regional efforts because Brazil has not been capable of making the investment in terms of compensating smaller countries and in terms of building institutions, both of which are necessary to create a firm regional base.

This has created a reaction against regional efforts. The public debate continues and Brazil does not question its geographic borders, but its people question a lot of other things, a debate that we welcome and encourage.

Antonio Barros de Castro, Chief Economist, National Bank for Economic and Social Development

AS MANY of you know, the Brazilian economy grew very quickly in the past: more than 6 percent on average in the 1950s, approximately 6 percent in the 1960s, and then nothing less than 8.6 percent in the 1970s. This is one of the reasons why it is highly inappropriate to compare rates of growth in Brazil, China, and India today. Brazil has already gone from a primary economy

to an industrialized one. In 1980 the Brazilian economy already had what might be called a complete industrial system. Let us keep this in mind.

The second point I want to raise is that although we had a remarkable victory over inflation with the Real Plan, and then, a few years later, we escaped the 1998-1999 major

crisis adopting a state-of-the-arts regime of macroeconomic policies, economic growth did not come back. In fact, at the beginning of the present century, we had the worst growth performance in Latin America. It was frequent then to hear that the Brazilian economy had already gone beyond a “point of no return.” Why? Basically because we had a very short-term public debt of more than 50 percent of GDP, largely dollar denominated, in a context of severe balance of payments constraint.

Let’s go now to a third and largely positive point. The Brazilian industry gave a strong answer to the late opening of its economy, which only happened in the 1990s. The manufacturing system was then truly revitalized, without losing its characteristic diversification. Some enterprises, and even some industrial segments, disappeared. But basically an effective manufacturing system was maintained—and this is quite different from what happened elsewhere in Latin America. The economy did not go through a process of specialization. Instead of a labor-intensive specialization like in Mexico and Central America, or instead of natural-resources specialization like in Chile and Peru, a very diversified industrial structure was kept alive in Brazil. In other words, the big natural-resource processing industries born in the 1970s were maintained, as well as the highly diversified electro-mechanical system and some skill-intensive industries. The Brazilian industrial fortress survived the test of international exposure.

The obvious proof of this came from the growth of manufacturing exports after the 1999 devaluation. If you take the very first years of this century it looks as if the Brazilian economy was being converted into a sort of late NIC (newly industrialized country). Brazil was a leading NIC in the 1970s, and we somehow came back to that position at the beginning of this century. We tended to become the supplier of manufacturing goods in Latin America; in fact, a manufacturing hub in Latin America. This can be easily noticed in the remarkable year of 2004, the best year as far as this tendency (or possibility) is concerned. My fourth point is that in an effort to update final products and increase its competitiveness, the Brazilian industry took as its reference the American and European industries. Looking back, this was a serious mistake. Furthermore, Brazilian firms (and the government) did not take into account that a giant was imposing himself all over the manufacturing world. Even more, in the nine-

ties and the first years of this century, Chinese industry experienced an extraordinary process of industrial diversification. It could count on cheaper labor, cheaper capital, larger scales, and a fast improving infrastructure. Curiously enough, as in the Brazilian case (and contrary to what happened in Korea), no major effort was made in China, until recently, to develop new technologies. But the results of diversification showed themselves to be immensely favorable to China, whose current account surplus jumped from 1.3 percent of GDP in 2001 to 9.2 percent of GDP in 2006.

The fifth point I want to raise is that China, directly and indirectly, brought (or helped to bring) many new opportunities to the Brazilian economy. The best example is ethanol, whose links to the capital goods industry are quite diversified. It is not easy to draw the line between what has been favored or truly endangered by the Chinese (direct and indirect effects) on the Brazilian economy. In the short run several manufacturing activities are obviously being damaged, but even here one must be careful. For instance, as far as the capital goods industry is concerned, gains and losses are widespread—and, surprisingly enough, the capital goods industry as a whole is growing at around 16 percent this year. Ultimately, the worst Chinese effects on the Brazilian industrial competitiveness come through its contribution to the valuation of the exchange rate. Brazilian economic growth is presently showing undeniable signs of a moderate acceleration—but for the first time in modern history, manufacturing has been lagging rather than leading overall growth.

Finally, as some of you may know, Brazilian exports doubled between 2003 and 2006. Under the new circumstances, the long-lasting cycle of foreign indebtedness came to an abrupt end. One set of data synthesizes the dramatic change: foreign debt dropped from 33 percent of GDP to 3 percent of GDP in 2007. I do not think this happens often in history. In 2008, the Brazilian economy will achieve the unprecedented condition of a modest creditor of the world economy.

Some of the positive aspects of the new situation have apparently started to feed back on the new picture. Let us take an example. During the 25 years of semi-stagnation, firms were clearly under-leveraged, whereas families had

negligible net debt. The situation is presently being corrected and we are going through a fierce movement of credit expansion. Of course this is not only a movement back to normality, but also a way back to growth. It is being combined with the emergency of new layers of consumers, the so called classes C and D.

The emergence of the C and D classes of consumers is a truly remarkable achievement in a country like Brazil, known for its high level of income concentration. The government is aware of the exceptional opportunity that was brought about by leaving behind a long period of quasi-stagnation and high instability, and it is consciously trying to help this positive change.

But the undeniable improvement of the basis of our social pyramid, decidedly searched by the government's social policy, has also been favored by an undesired and controversial mechanism. Poor people are being clearly helped by it. The reason is quite obvious: people are selling untradables (including their own services) and buying tradables.

At the present moment, we are going through two-and-a-half great transformations: a credit revolution, the emergence of C and D classes as modern consumers, and the spread of innovation as a competitive behavior. There are only a few signs or suggestions that innovation is being widely converted into a competitive weapon, and I may be accused of wishful thinking on that. But I could present some evidence—and mainly, it is necessary to understand that both the menaces and the opportunities brought by the Chinese ask for a more innovative behavior.

As for the future, some are trying to develop new images of what the Brazilian economy might become. At

the Brazilian Development Bank (BNDES) we have a small group working focused on that issue. Our hypothesis is being organized and developed in two scenarios. The first one is the “reactive scenario,” defined as things that are being accommodated or exploited, as they appear to the economic agents. Even the government is reactive in the sense that once pressures arrive, they are filtered and answered as financially and politically as possible. Under such conditions we think that growth in the near future might fluctuate around an average not smaller than 4 percent a year and not greater than 5 percent a year. If this happens, the gap with the developed countries will gradually be diminished. According to the Goldman Sachs projections, within 30 years Brazil would then be the sixth largest economy in the world. It would then have reached a sort of equilibrium position, since we also would have the fifth largest population, living within the fifth longest territorial area.

But then there is the “strategic scenario.” This is a transformation-scenario, in which neither private firms nor governments are going to be (only) reactive. They would be really creative on grasping and truly imagining new possibilities. In order to build this scenario we are taking into account possibilities that have somehow already been detected—but whose implications might bring us much beyond the present day overall situation. Ethanol, for instance, might not be only a fuel whose production can be multiplied, but also a matrix of bio-products, and the vehicle to entering a new world of biotechnology in which Brazil has plenty of reasons to be well located and a leader in some aspects. In this case, we would perhaps be fighting for the fourth place in the world economy, leaving for the United States, India, and China the three leading positions. Please notice I did not say the order.

Paulo Sotero, Director, Brazil Institute, Woodrow Wilson International Center for Scholars

It is a special privilege to be here today. I learned a lot as a journalist coming to Brookings' events for more than 25 years. It is gratifying to have the opportunity to give back by helping organize a conference that is useful to people.

The lineup of this first panel is typical of what the Wilson Center does. It is our mission to bring together the

worlds of policy and the world of ideas. We have today with us the Governor of an important state in Brazil, the Governor of the State of Pernambuco. A few of you may know that Pernambuco is my second home in Brazil. I am from Sao Paulo. But it was in Recife, Pernambuco's capital, where I had my first job as a reporter. And it was also in Recife that I graduated as a History major in 1971

at the Catholic University of Pernambuco. Finally, it was in Pernambuco that I applied for and received a scholarship that brought me to the United States and opened new horizons for me.

In his presentation, the Governor will do something that I hope will be very useful to all of us. Most of the time we talk about foreign policy from the perspective of federal capitals, ministries of foreign affairs, and the diplomats of international organizations. The Governor, who was Minister of Science of Technology and is an accomplished politician, is going to talk about what foreign policy means when you are governing a state. In Brazil

in the last few months, we have had a major discussion about the direction of our foreign policy. The Governor commented yesterday evening that he receives offers of investments from different places, including Venezuela. At the same time, he has decided to come to Washington and invite Americans to take a good look at the map of the Americas and consider the possibilities for trade, investment, and tourism offered by the Northeast region of Brazil. His perspective helps us translate foreign policy priorities in terms of the reality and challenges confronted by a leader of a local government. Please, welcome Governor Eduardo Campos from the beautiful State of Pernambuco.

Eduardo Campos, Governor, State of Pernambuco

MY STATEMENT is political in nature. For those of us who live in Brazilian politics all of the time and belong to a generation that sees the future of Brazil with a great deal of optimism, it is important to underscore that our country is experiencing a very favorable political and economic juncture. We see the role of Brazil being recognized internationally not only by U.S. authorities, but by American intellectuals who came to the realization that Brazil no longer plays just a sub-regional role but has acquired strategic importance and is able to contribute to greater balance in the world. This is certainly constructive for the Brazil-U.S. bilateral relationship in the context of the history that has brought us together.

It is important to underscore that in the last few years life in Brazil has moved toward a mature Brazilian nation. Number one is our commitment to democracy. Our democracy is still incipient. Historically speaking, we only started a few years ago. Our young democracy has, however, demonstrated considerable maturity in terms of alternating power among different political parties and also in terms of the operation of institutions, which have been restructured and reinforced in the process that led to our democratic Constitution of 1988.

It is important to realize that there is a new generation of politicians in Brazil who have greater influence on the national thinking and are now vying for political office and power. These are politicians who not very long ago

had gathered together, guided by the common objective of building a democracy and setting the economic foundations to enable the country to enter the cycle of growth that is now being experienced by Brazilians. Some countries may have a stronger international presence than Brazil. Our commitment to democracy is, however, an important differentiating factor between Brazil and those countries. Democratic values are deeply embedded in the souls of the Brazilian people.

Another important aspect is the fact that we come from experiencing 20 years of great difficulty in the Brazilian economy. We are very aware of the problem of poverty in our country and conscious of the state of economic fragility in which we lived for many years. That fragility was particularly evident in Northeastern Brazil, the part of Brazil where I come from and that closely resembles other areas in Latin America. In the last few years, Brazil and its Northeastern region have reacquired the conditions that made it possible to revive the country's old aspiration of prosperity.

In the first Lula government, the average growth rate was not very different from that of his predecessor, Fernando Henrique Cardoso. The higher rates of growth we see now, in Lula's second administration, are explained by two basic drivers in our economy. On the one hand, there is the highly visible growth of our exports. On the other hand, we see an expansion of domestic consumption as

a corollary of a reacquired power of purchase derived from three main sources: higher minimum wages, the social safety net and an income distribution system such as the “Bolsa Família” program, as well as the extremely important introduction of new forms of credit for people who had no access to financing. In Brazil’s interior, as we were working toward economic stability in the 90s, hundreds of regional and local banks were forced to close their doors. We ended up with many cities and towns that did not have even a branch of a bank, not to speak of a credit policy that would take into account the regional and socio- differences in our country. The first Lula administration corrected this situation.

In the current economic cycle we want to combine growth with quality in the process of growth, by introducing policies of socio-inclusion to offset the disparity that still exists within Brazil. Quality of growth is fundamental for the democratic stability of Brazil. The consolidation of this path in Brazil will have very positive results not only in Latin America, but also in the rest of the world.

Thanks to our social policies, we now are experiencing a rate of growth that is twice as high as the average in the last 20 years. As we grow the economy in a way that reduces disparities in all regions of the country, we are also taking into account and respecting the enormous natural assets in Brazil. Efforts to achieve better standards in education, investments in science, technology and on innovation complete this policy to improve the quality of this cycle of growth.

Finally, I would like to say that the Brazilian foreign policy is not only a source of great encouragement and joy for us, but also a challenge. Part of the challenge is to explain Brazil’s diversity in a way to make the country and the opportunities it offers better known, especially beyond the regions that Brazilian investors are already familiar with. It is my understanding that Americans have studied Brazil far more in-depth in the past than they do today. In fact, Americans were far more concerned with the social realities that we faced in the past than

with those we face now. I had an opportunity to say this to [United States] Ambassador Clifford Sobel when he visited me this past January, six days after I took office. With the best of intentions, Ambassador Sobel made a point of calling upon the Governors of the Northeast. At the end of our meeting he told me that he shared my concerns about the health situation in my state, and that a U.S. hospital-ship would make a call to the harbor of Recife. I told him that I was very grateful, but that he should take the ship elsewhere. I said, in a very clear and polite manner, that the important thing was for him to really understand what Brazil and the Northeast are about. I told him that in order to work toward and establish a good, productive relationship Americans should pay attention and cooperate in areas that offer enormous potential, such as tourism. Although the most beautiful beaches in the Northeast are located in Pernambuco, I do not see American hotel chains present in my state. Our international airport is really world class. It is very beautiful, but is not used by a single U.S. flagged carrier.

American companies that established a base in Pernambuco are very positive about the experience. Alain Belda, the CEO of Alcoa, told me that his company achieves the highest levels of productivity in my state and that the best workers of Alcoa are in Pernambuco. When I visited Atlanta, Coca-Cola’s CEO told me that the bottling plant of Coca-Cola in Suape has the highest productivity of all the Coca-Cola bottling plants in the world. I tell you these stories to point to the type of opportunities that could enable us to enhance our infrastructure regionally, making it possible for the growth of Brazil to occur in other countries in a balanced fashion, that benefits society as a whole, so democracy and its values are not seen only as the values of the official part of Brazil, but rather as something that reflects the beliefs of the Brazilian people. This is the challenge before our president. This is the political and historical mark of President Lula’s government following the Fernando Henrique Cardoso administration. It is not a matter of one leader, or one government upstaging the other. It is about all of us working together toward the construction of the Brazilian nation.

QUESTION AND ANSWER:

The Honorable Antonio de Aguiar Patriota, Brazilian Ambassador to the United States

IN RESPONSE to the hypotheses presented in the first panel I would like to make two essential points. The first illustrates the usefulness of having a debate at an institution such as Brookings, which doesn't only analyze Brazil within an inter-American perspective. If you look at the rest of the world—and I think we need to have that kind of perspective when we study international relations—South America is today unique in being ruled only by leaders who were democratically elected. Elections are not the entire story, but without elections, you can't even begin to claim to be democratic.

At the same time, governments are trying to confront the challenge of dealing with social inequality. And we know that democracy will not be sustainable in profoundly unequal societies.

Sergio Amaral made an interesting comment about social movements, and how some countries in the region are capable of absorbing those movements into the political party system, which is a more desirable model, while in other instances this has not taken place. The aspiration for social justice is a trend that is here to stay, and I think it is predominantly progressive. It is bringing about greater empowerment for the excluded, whether in Bolivia, Venezuela, or other parts. And without empowerment of the excluded, we will have very, very fragile social-political situations, as we had in the past.

For example, if we look at the Far East, the tensions in the Korean Peninsula, tensions between China and Japan, a potential crisis involving the PRC and Taiwan if Taiwan declares independence. Or let's look at the Indian subcontinent: a nuclear arms race—something which is unthinkable in a region such as Latin America—which was the first region to proclaim itself a denuclearized zone.

A geographic perspective can help to highlight the positive traits of the South American context. Those who consider that perhaps there is not sufficient leadership or coherence to Brazil's South American policy should per-

haps compare it with other times. There has never been as much interchange and contact, at all levels, between members of academia, civil society and among South American countries as in recent years.

And if we want to look at trade, for example, the figures are absolutely daunting and very impressive. With Argentina, trade grew by 388 percent from 2.4 to 11.7 billion. With Latin American countries, Association for Latin American Integration (ALADI) members, 218 percent from 9.9 - 31 billion.

Investment is growing. Professor Castro, was just showing me a list of projects financed by the Brazilian Development Bank (BNDES) in Venezuela, Ecuador, Peru, Chile, Argentina and Uruguay, all dealing with infrastructure. This is something entirely unprecedented in the region as well.

Without minimizing or ignoring challenges that do exist, I think there is much to be said about the current period as one of enhanced cooperation and enhanced relationship.

One final point: one doesn't judge foreign policy successes only by what is currently going on, but also by what was avoided. In South America there were three situations of governments toppled by popular manifestations: in Argentina, Bolivia and Ecuador. We know of the polarization of Venezuelan society. These situations could have deteriorated into serious disturbances. If it wasn't for very attentive and discreet diplomatic activity by Brazil in cooperation with others, we would have had to face much more difficult scenarios.

In Venezuela, polarization could have led to serious disturbances if it were not for the group of friends of Venezuela—and the group of friends of Venezuela was not the group of friends of President Chávez. They included the United States and Spanish President Aznar. Brazil was at the heart of such efforts. I think these are all indicative of leadership.

PANEL III

Peter Hakim, President, Inter-American Dialogue

LET ME start by saying that Brazil has clearly gained an enormous new expanded presence, influence and prestige in global affairs. This was amply illustrated in the first session. I think that this new found international standing first emerged during the presidency of Fernando Henrique Cardoso; it was continued, reinforced and strengthened during the government of Lula. It certainly reflects the rather special, perhaps extraordinary political leadership of Brazil in past 13 years—which will continue through 2010. There is no other country in Latin America that has had this kind of leadership over an extended period of time, ever. There is one fact that offers strong evidence of the growth of Brazil's international prestige. Out of the approximately 190 countries that are not permanent members of the United Nations Security Council, Brazil is today widely recognized as one of the top four strongest candidates should any new members be elected, along with Japan, Germany, and India. That is pretty rarified company. That, I assure you, would not have been the case a dozen years ago. This is a clear demonstration of Brazil's newly founded presence, prominence, and influence in global affairs.

I will now look to the panel to help me and our very impressive audience understand this emergence of Brazil as an international leader and discuss what it means for the country and world affairs.

First, what is it that, in fact, explains Brazil's emergence as a global leader? I suggested in my remarks that it had something to do with the quality and authority of its own presidential leadership in recent years—the fact of two extraordinary presidents following one another, and each serving two terms.

Another explanation that might be worth considering is the impressive progress that Brazil has made on many dimensions of national life. And I think there is another potential where Brazil has changed and has advanced on so many fronts in the past ten years: its economy has grown stronger and gained international respect. The scourge of inflation has been brought under control; the economy has been substantially opened to global trade and investment; and Brazil macroeconomic management is applauded across the world. Despite many problems of governance, Brazil's democracy is strong and growing stronger—and there is much praise for Brazil's increasing attention to social issues.

A third possible reason is the quality of Brazil's diplomacy, the power of its international strategy—both in conception and implementation. Are Brazil's geopolitical thinkers and diplomats (who are often the same people) responsible for Brazil's current international prestige and influence? Is Brazil's global strategy effective and constructive? Is, for example, Brazil's present focus on South America an appropriate framework for the country's foreign policy? Why choose that focus rather than Latin America or the hemisphere as a whole—or why not just MERCOSUR? I had a discussion with Ambassador Patriota on this very question recently.

What about Brazil's decision to emphasize the South-South relationship—rather than its relations with Europe, the U.S., and other developed areas? I am not claiming here that Brazil is in some way de-linking from the developed world; the point is about relative emphasis in its foreign policies. Aren't there more benefits for

Brazil in its ties to the world's major economies, markets and sources of investment capital? What, in fact, do Brazil and Brazilians get out of its South-South relationships? Shouldn't Brazil be working harder on building free trade arrangements with its biggest trade partners? What is the Brazil strategy? Has it added to Brazil's international prestige and influence? And even if it has, is it serving the interests of Brazil and its people?

The core question is what does Brazil gain by expanding its global presence, prestige and influence? How does this benefit the country's ordinary citizens? What would a permanent seat on the UN Security Council mean for the country's economic growth, for its trade and investment prospects, for good jobs for its workers?

Brazil has become very influential in the Doha Round of international trade negotiations. There is no question about that. Its success so far has mainly been in blocking what

it considered to be an inadequate or bad agreement—and that is what it also managed to do in hemispheric negotiations on the free trade area of the Americas. But we do not have a Doha agreement or a hemispheric agreement yet. Indeed, both negotiations seem stalled, or worse, for now. Brazil, in short, has not managed to push forward an agreement that would benefit the country and the world.

Even MERCOSUR, which Brasilia once considered the anchor of its international economic and trade policy, is badly strained—with obvious tensions among its members and a failure to establish and enforce its rules or establish effective dispute resolution mechanisms. The question is what has Brazil's new global role contributed to the country?

My final question for the panel is what changes, if any, are needed in Brazil's foreign economic or strategic policies to make them more effective?

Sergio Amaral, Former Minister of Industry, Commerce & Development

DESPITE PETER'S encouragement for a wider discussion on Brazilian foreign policy and diplomacy, I'll stick to the subject which is in the program, that is to say, new directions in Brazilian foreign relations, particularly changing relations with South America.

I agree that relations are changing and there are many reasons for that, some of them coming from the fact that Brazil and other South American countries opened up their economies. When I used to talk about Brazil in the countries where I served as Ambassador, I always pointed out that everybody knows Brazil was discovered in 1500, but very few people realize that Brazil only found out that the world exists very recently, around 15 years ago. And this is a big change.

The second source of huge transformations in South America, and particularly in Brazil, comes from the emergence of social movements. Despite deep differences on the continent, Latin America tends to evolve in waves. In the '80s we had democratization; in the '90s economic reform; and now in the 21st century the important change is the emergence of social move-

ments. They brought about important and positive consequences. In countries where such movements met solid institutions, their demands were absorbed by political parties. This is the case of PT, the Workers Party, in Brazil.

Where social movements met weak institutions and weak parties, they tended to bring about populist governments. Such governments not only have different approaches to domestic policy, they also have a strong impact on foreign policy. This is the case, certainly, of Bolivia and Venezuela.

In Brazil, the first Lula government brought innovation and change to foreign policy. The first aspect was that Lula, in order to pursue an orthodox economic policy, was forced to resort to all symbolic options available in order to keep communication with and support from some important segments of his party who did not agree with the economic policy of the Minister of Finance. To some extent, an ideologically engaged foreign policy was a kind of compensation for an orthodox economic policy.

The new vision of Brazilian diplomacy also reflected the itinerary of President Lula as a trade union leader. If you read his speeches, you'll notice that the President quite often calls on developing countries to unite in order to negotiate in better conditions with the developed world.

It also coincides with some "ideological affinities" of the Workers Party with Cuba, China, Venezuela, and Bolivia. This set of elements tended to restore a North-South perspective to Brazilian foreign policy, and reflects the assumption that political and ideological affinities should play a central role in foreign affairs. Such new ingredients of Brazilian diplomacy brought about new approaches to different regions. On the one hand, ties with Europe and with Africa became closer; on the other, there was some cooling off in relations with the United States.

At the beginning of Lula's first mandate divergences seemed to prevail over convergences. While the United States, under the trauma of 9/11, resorted to unilateral action, Brazil more than ever was committed to a multilateral approach, a tradition of Brazilian diplomacy. Divergence with respect to UN reform and the enlargement of the Security Council; divergence on Iraq; and divergence on the protection of some universal principles, such as the environment and human rights, mainly with regard to the International Criminal Court.

We were on different sides for the most important international elections, at the WTO, OAS, and IDB. And we had considerable differences on hemispheric affairs. While the United States promoted FTAA, Brazil favored an enlargement of MERCOSUR and its merging with the Andean Community as a way toward South American integration. There was no serious conflict, but as a former U.S. ambassador used to say, it was difficult to connect, to engage on joint projects. Some observers of Brazil-U.S. relations would call it a missing relationship. Peter Hakim, if I remember correctly, would point to the missed opportunities.

After a few years, the political realities imposed themselves on both sides, and a correction of the road map started to take place both in the U.S. and in Brazil. For the U.S., the Iraq deadlock pointed to the need for new responses to unconventional threats, the advantages of

multilateral consultation on the complex issues of the international agenda, the importance of diplomacy, and of building up consensus and mobilizing support. Soft powers in many cases proved to be more successful than military action.

In Brazil, a vision of the world along the lines of a North-South perspective and ideological affinities showed its limits. It was China together with Africa, not the U.S., that blocked the road toward a permanent seat at the Security Council, the ultimate goal of Brazilian diplomacy. Surprisingly, it was Cuba that requested an investigation on ethanol at the United Nations. It was Evo Morales, whom Brazil supported at the beginning, and who occupied with military police and then nationalized a Petrobrás plant in Bolivia after tough and unreasonable negotiations.

In the meantime, compañero Chávez had turned from an ally into a liability. During a MERCOSUR Council meeting in Rio de Janeiro, at the beginning of 2007, the Brazilian government didn't hide any longer its impatience with regard to the media star profile and never-ending speeches by Chávez.

A few weeks later an open argument broke out between the Brazilian Minister for Communication and the Venezuelan Ambassador in Brasilia on the legitimacy of the constraints imposed by Chávez on television in Venezuela. The public criticism of the Brazilian Senate mobilized the parliament and President Lula himself against the Venezuelan President.

The so-called Bolivarian initiative is one of the reasons for a stalemate in South American integration. Chávez went to the point of assigning to Venezuelan ambassadors the unusual role of mobilizing Bolivarian groups in Peru, Uruguay, and Argentina. Proposals like Banco Sur and the continental Gas Pipeline were received with skepticism in Brazil even if the former was eventually accepted, despite the fact that nobody knows whether and how it might work.

The accession of Venezuela - under Chávez - to MERCOSUR may bring not the Viagra Chávez had prescribed, but the kiss of death to the sub-regional integration agreement. MERCOSUR's basic assumption is the

integration of market economies. Chávez doesn't seem to lead his country in this direction. It is further to be argued whether Venezuela under Chávez conforms to the democratic clause of MERCOSUR. The Brazilian Senate will certainly raise the issue of the rather unusual procedures for accession: Venezuela may become a full member of MERCOSUR before some crucial issues like the terms, conditions and deadlines for the incorporation of MERCOSUR rules are agreed upon. Venezuela is certainly welcome to MERCOSUR. But it has first to conform to its rules.

Finally, Chávez has unleashed an unprecedented arms race in South America, by purchasing up to date military aircrafts, submarines, helicopters, 100,000 Kalashnikovs in order to organize a militia of one million people. What for? Against whom?

At the end of the first mandate of President Lula there was a vivid and open argument on foreign policy. The business community was unhappy for the lack of business opportunities and bilateral trade agreements. The national media was clearly against some aspects of foreign policy. The academy was confused and divided. Moreover, foreign policy had brought about much rhetoric but modest results on many important issues like trade agreements, South American integration, and MERCOSUR consolidation. Brazil ran the risk of losing the national consensus that had always prevailed on foreign policy.

The second mandate of President Lula started with corrections on the road map. A closer dialogue with the U.S. in many areas and a concrete project for cooperation on bio-energy were established. Instead of a strategic partnership a moderation role vis-à-vis Chávez; more assertiveness with regard to Morales; expanded cooperation with Peru; increasing relations with Chile, trying to prevent the country from looking elsewhere, namely in Asia, for what it was not getting in the region; finally and certainly more important, a more realistic approach to repair MERCOSUR. These are positive changes in the right direction.

I'd like to focus now on a specific issue mentioned in the program, namely integration in South America, mainly with respect to the area of energy. Integration requires a

shared vision and a basic convergence on main policies. What we have now in South America are three different visions: one is FTAA, which is supported by Chile, Peru, Colombia, possibly Paraguay and Uruguay. The second is the extension of MERCOSUR and the merge with the Andean Community, which has always been the aspiration of Brazilian diplomacy, and Bolivarian integration, sponsored by Chávez with the support of Evo Morales.

Jean Monnet, the father of European integration, used to stress that in addition to a shared vision, integration requires the setting up of a community of interests. Unfortunately, Chávez and Morales have jeopardized the most promising area for physical integration, which is energy. There is complementarity in South America between countries that have an energy surplus, like Venezuela, Bolivia and Ecuador, on one side; and countries that have a significant demand for energy like Brazil, Chile and to a lesser extent Argentina.

Which foreign investor will invest in regional energy projects with the participation of Venezuela and Bolivia? Who will invest under the prevailing uncertainty in the region with respect to licensing, stability of regulatory framework and judicial decisions?

Despite such question marks and uncertainties, trade and investment in the region are expanding significantly. It is not only trade with the outside world, led by an unprecedented commodity boom. Economic flows inside of the region are also increasing. Between 2001 and 2006, Brazilian trade with MERCOSUR grew 76 percent; with the Andean Community 100 percent; and with Mexico 123 percent.

Even more impressive are direct investments from Brazilian companies into neighboring markets. From 2001 to 2005, Brazilian investment in Chile increased 56 percent, in Venezuela 400 percent, in Peru 650 percent. There is already an important stock of Brazilian capital in Uruguay and Argentina. While total Brazilian direct investments abroad reached 28 billion U.S. dollars in 2006, those to Argentina represented 5.5 percent of that amount. In the last 30 months such investments may have reached 7 billion U.S. dollars. These figures show the potential for MERCOSUR and South American integration.

In some cases, Brazilian investments are already facing opposition from local public opinion. But they forge a real community of interest within neighbors. If the accession of Venezuela is to be approved by the Brazilian Senate, a large explanation for that comes from the role played by Brazilian engineering and civil construction companies in favor of such approval.

In conclusion, in the 21st century, globalization and regionalization go hand in hand, pointing toward hemispheric integration. FTAA, however, has been politicized. It has become a symbol of U.S. preeminence in the region. It was overburdened by high expectations for a WTO plus agreement in the area of trips, investment, environment and social issues.

South American integration, unfortunately, seems to be more remote than before. Countries are divided among three different visions; integration can no longer be led by states only. Petrobrás was challenged in Bolivia; and

Itaipú may be challenged by Paraguay soon. Investments by companies may be affected by government risk.

Despite such challenges, integration continues to be a cherished goal for public opinion, for the business community, and for politicians. Everyone knows what the way is: It's to build a joint vision of integration and a community of interests in the economy. But the road seems to be blocked, at least partially blocked, for the time being.

Governments go in different directions and hesitate on the way to take. Failure or success will show the way, but while such a commodity boom continues, all governments will be able to claim that their policies are in the right direction. When this boom declines, it will be possible to realize which policies are effectively moving in the right direction and which adjustments will have to be made. Areas of convergence will then be construed.

Amaury de Souza, Senior Partner, MCM Associated Consultants, Rio de Janeiro

IN ADDITION to my own views on foreign relations between Brazil and our South American neighbors, I wish to summarize a report that was recently released by the Brazilian Center for International Relations (CEBRI), a nonprofit think tank in the foreign policy area which is supported by private donors and foundation grants. I was honored to be chosen to be a member of a CEBRI's task force that analyzed Brazil's foreign policy in South America.

I am also presently conducting for CEBRI an elite opinion survey on Brazil's foreign policy in the region and I would like to report to you some views and thoughts that came to light in the task force, as well as what I have learned so far from several interviews with prominent members of what we might call the Brazilian foreign policy community.

Brazil and the South American region have changed in dramatic ways in the past years. The external environment for Brazil's regional strategy is no longer what it was under the Cardoso administration. But we don't seem to realize how deeply these changes affect the way we conduct our foreign policy in the region.

Let me illustrate this point with reference to a particularly hard decision: the admission of Venezuela into MERCOSUR. Yesterday, for the second time in a row, the Brazilian House Foreign Relations and Defense Committee decided to postpone the vote on the issue until October 24. The reasons presented by the Committee's Chairman were telling. Several Committee members had pointed out that Venezuela should first comply with the requirements set down in the Admission Protocol, such as taking concrete steps toward the adoption of MERCOSUR's Common Tariff (TEC) and to establish a trade liberalization schedule. Negotiations on this matter have been stalled since March. A working group has been created, but nothing has resulted thus far.

The other reason is President Hugo Chávez's harsh use of foreign relations to promote his domestic political ambitions. During a visit to the Amazon region a few weeks ago, President Chávez accused the Brazilian Congress of making decisions "under the heavy hand of the American empire." The reaction of the Brazilian legislators was predictable as they felt insulted by this uncalled-for

rudeness. The remarks also raised the issue of Venezuela's adherence to the Ushuaia Protocol which demands compliance with the democratic clause.

Our immediate neighborhood has changed into an area of increased turbulence, political and otherwise. And yet Brazil's foreign policy has been largely reactive, as CEBRI's task force on South America pointed out. Its conclusion was that the government has no clear strategy for the region, especially after the surrounding environment underwent such a sharp change.

The task force asked a simple question: What are Brazil's objectives in the region? What do we want from our neighbors? Which position do we aspire to have? What national interests should command our foreign policy in the region?

It is a question that seems to have not been addressed as often as it should have in the making of foreign policy. It is true, as Ambassador Patriota pointed out, that there has been a continuity of purpose to use international relations as a means to promote national development. But this is too broad a source of inspiration. The issue is what are Brazil's national interests in the region at this point in time and in the long haul? And how should foreign policy help to achieve them?

We have spent quite some time discussing the issue of Brazil's leadership in the region. However, it was only after President Chávez successfully off-bid Brazil in that role that we started to have second thoughts on the matter and to recognize that Brazil's claims to regional leadership have been largely rhetorical.

It reminds me of the story of the old lady that every week prayed to God to win the lottery. "Oh, God!," she said, "I have been a faithful servant of yours. Please let me win this week's lottery." The next day came and she didn't win. And she would pray again and again until one day God decided to answer. And He said, "I hear you, but at least would you buy a lottery ticket?"

Brazil wishes to lead the region but has not committed resources, economic or otherwise, to play a leadership role. The reality that we must cope with is whether we have what Brazilian diplomats have referred to as "a sur-

plus of power" to try and implement such an ambitious agenda in the region.

It is true that we have an increasing involvement with our neighbors. And that increased proximity has bred not only better and more friendly relations but also discord and conflict. It has progressed perhaps a bit too fast from an open regionalism view with a strong emphasis on trade to what might be called a profound view of integration covering non-trade areas and issues such as the environment, immigration, and the correction of social and economic inequalities in neighboring countries. The agenda also includes energy, infrastructure, and even climate change and its possible disastrous effect on the Amazon Basin. It is not for lack of new issues that Brazil has yet to develop a more coherent and realistic strategy for South America.

A great deal of this new regional involvement originated from increased investment by Brazilian companies in the region. Several financial, industrial and services companies are in a transition toward multinational operations. This fact has created new problems for Brazil's foreign policy. For one, we are beginning to understand that we need to promote a proper regulatory framework in order to expand and protect our investments abroad.

The new agenda also includes trans-border issues such as drugs and arms trafficking and illegal immigration. Of special interest are new collective security concerns as several of our neighbors such as Chile, Peru, and Venezuela have ambitious weapons acquisition programs.

We should not take for granted that part of it is just a normal Armed Forces reequipment cycle. Military hardware has a lifespan, and all over the continent time is running out for aircraft, ships, and tanks. But another part of it is an issue that we thought a few years ago to have been completely settled – a regional arms race. Some neighbors such as Venezuela are purchasing state-of-the-art aircraft and can actually claim to have air supremacy in the region at this point in time. Arms acquisitions have also included sophisticated missile weaponry and new naval capabilities.

These new issues require, and this is a conclusion of the task force report, that we should formulate a new strat-

egy for Brazil's foreign policy in South America. So far, the issue of a regional strategy has been in the competent and respected hands of Brazilian diplomacy, but it's time for Congress as well as the business community and civil society organizations to have their say in the conduct of foreign relations.

Another interesting point related to the task force—and here I end my presentation—is that we could not agree on what should be an adequate strategy for Brazil in South America. Rather, the task force remained divided between two models of regional integration: “Profound integration” was the first model. That was MERCOSUR's original dream of evolving from a customs union into a European Union-style common market. But MERCOSUR—or, better said, Brazil and Argentina which form the core of the regional arrangement—never made up

their minds on whether to deepen their own integration or to broaden the number of partners. This has effectively stalled integration in the Southern Cone and prevented it from evolving into a model of integration for the rest of South America.

The other model is what the task force chose to label “selective integration.” It is the recognition that a profound, European Union-style integration with our neighbors is not inevitable and may not be even desirable. In this view, Brazil should develop a very specific agenda and be very selective in regard to where we choose to invest our foreign policy resources and efforts.

The conclusions of the task force report mirrors to a large extent the very divisions that can be found among Brazilian elites regarding our foreign policy in the region.

Riordan Roett, SAIS, Johns Hopkins University

THE TITLE of this conference is an interesting one. For as long as I have followed Brazilian foreign policy, which dates back to my arrival in the midst of Governor Eduardo Campos' grandfather's campaign to be governor of Pernambuco in 1962, we have been debating the issue of a U.S.-Brazilian strategic partnership. When I got to Brazil in 1962, we were bemoaning the collapse of Jânio Quadros' independent foreign policy. Then there was João Goulart and his lurch to the left and subsequent collapse in 1964.

Then we saw the development of a special relationship with President Castello Branco for three years with strong ties to the United States for various reasons—the model adopted in 1964 by Roberto Campos and others. We then discovered “grandeza” (greatness) beginning in 1967.

Those were great days, the grandeza days, in which Brazil believed it would become a hegemonic power. I am not sure we used “hegemonic power” as a phrase, but by grandeza, that is what we meant. Later, when Brazil retired the World Cup in 1970, I was living in Rio de Janeiro writing my first book on Brazil.

That all collapsed in 1982 with the debt crisis. We then went through a feckless period until 1994, and the Real

Plan, and here we are talking about a new direction in Brazilian foreign policy. Why can we talk about a new direction in Brazilian foreign policy in 2007 when all the previous ones failed? In part, my good colleague Professor Barros explained why very clearly this morning: for the first time since 1962 we have a coherent set of economic and financial policies in place in Brazil.

I'll be chairing a panel in about two weeks on the topic: what does it mean for Brazil to become investment grade? Ten years ago we would not even mention “investment grade” with regard to Brazil in any serious meeting. We are now talking very seriously about Brazil achieving, within a relatively short period of time, investment grade status, which is an extraordinary path towards becoming a realistic ‘BRIC’ in terms of the 21st century.

Therefore, there is a great deal to be said about a new direction in Brazilian foreign policy. President Cardoso, in his memoirs, made a very interesting comment about Brazilian foreign policy when he said that another long-standing—this is a quote—“dream of Brazil was to have a permanent seat on the Security Council of the United Nations.” I supported this initiative. But I also mused that it would be more useful for Brazil to aspire to a seat

in the G-7, which is composed of the largest economies in the world. If Brazil were to succeed in growing its economy and alleviating poverty, then power and influence would come naturally.

It may well be that that is where we are today: the data is very clear that Brazil is reducing poverty for the first time in history. We indeed have achieved a set of economic and financial policies that work, that are not make-believe. In Argentina they are make-believe. In Venezuela they are make-believe. In many of the other countries in the region, the policies are make-believe; in Brazil, for the first time, they are not. Magical realism is dead in Brazil in terms of policymaking.

Let me make four quick points with regard to context - and we talk about context a great deal in this town. The context is that nothing is static, save for the Bush White House policy on Iraq. However, in the rest of the world, everything changes and everything is in flux.

The first point must reflect the great debate, which no one has mentioned, about the decline of the United States. Paul Kennedy at Yale University first raised this issue in his very interesting book on the rise and fall of the great powers, 10 or 12 years ago. We, in the United States, then went into a kind of a hegemonic slump in terms of the discussions about our rise and fall because we were, of course, the most important power in the world, the only power in the world, we thought, during the 1990s, after the end of the Cold War, the collapse of the Soviet Union, and the success of the first war in the Middle East, if you want to call that a success. It became a very important part of U.S. foreign policy that indeed there would be no rivals.

Recently, there have been a series of books by my colleagues Niall Ferguson and Charles Kupchan, and Andrew Bacevich, that have really raised the issue of the beginning of the decline of the empire. Now, that has real implications for a country like Brazil or India or China, because if the empire is declining—and one model may be the United Kingdom—apparently, we are not going to collapse. But if you take a look at the realities of America today, and you imagine what the next president has to deal with in terms of twin deficits, in terms of the war, in terms of the social deficit at home,

in terms of infrastructure and the other issues that will confront the next government, and the growing sense that we are now overextended and can no longer afford the overextension, then the context of international relations begins to change.

One example: Secretary Hank Paulson, our Treasury Secretary, is in charge of the strategic dialogue with China, basically to push the Chinese to do things that the Chinese do not want to do. There was a very important Chinese delegation here in Washington around May and the Vice Premier of China publicly stated: “Do not push us.” Fifteen years ago it would have been difficult to imagine that anybody would arrive in Washington and tell the Secretary of the Treasury and, indirectly, the White House: “Get off our back, do not push us.” Today it is happening, making the whole issue of decline relevant. As I said, nothing is static. Therefore, for Brazil, India, South Africa, and the other emerging developing countries of growing importance, the status and role of the hegemon has to be analyzed, in terms of their own insertion into the emerging and extremely problematic international context at the present time.

Second, as our former speakers have pointed out, nothing is static in world affairs, and nothing is static in regional affairs. As my colleagues already noted, we have two trends underway. One is the lack of achievement in terms of regional economic integration, which has been stymied in part by the collapse of the FTAA, and in part by the stalemate of the Doha Round of the WTO. The other trend, more on the ideological side, which Brazil is well aware of but needs to be constantly monitoring is that the anti-marketeers in the hemisphere are increasingly strong. Examples include Venezuela, Bolivia and Ecuador. We may even see Uruguay adopt a more anti-market stance. Tabaré Vazquez will not run again for a second term and the Frente Amplio has announced it wants to take Uruguay, after the elections, more toward the Venezuelan model.

We do not know what is going to happen in Peru, where Mr. Ollanta Humala is still a very strong factor. Regarding Paraguay, about which I did publish an article in *Foreign Affairs*, I would not give you 10 cents for Paraguay after the elections next year if we are going to get Mr. Ovedio as president. These are regional realities of which Brasília

must be very, very much aware. As my colleagues have pointed out, these inconsistencies are moving quickly, and I am not sure they are moving in the right direction. I will leave it for you to decide what the right direction is.

The third important trend is the increase in political and institutional uncertainties. The United States has always made the mistake of believing that if countries have elections, they are democratic. That, of course, is not true. We know very well that elections are formalities, and what really matters is the institutional realities behind those elections.

For example, the United States supported COPEI and AD in Venezuela for decades, believing that they were democratic parties in a democratic polity. They, of course, were kleptomaniacs, robbing Venezuela blind, which prepared the way for Hugo Chávez in 1998. But we clung to the belief that AD and COPEI, because they looked like us, talked like us, and dressed like us, were good people. We clung to the belief that nothing bad would ever happen in Venezuela. You may think nothing bad has happened in Venezuela, but, of course, this administration believes something terrible has happened in Venezuela. As Brazil consolidates its democratic institutions, a process that, as my colleagues have pointed out, is far from being over, we must be very much aware that the trend in other countries is not necessarily toward deepening democratic quality.

Take Bolivia as a case study. What if Bolivia did break up - which, of course, it will not - but what if Santa Cruz, in the south, became autonomous? Who are the largest soybean growers in Bolivia? Brazilians. Such a scenario in that part of the world and its geopolitical implications is something with which Brazil would have to become very much involved and very much concerned.

Brazil is obviously competent to deal with these kinds of geopolitical issues. However, it is the uncertainty and unpredictability of the post-Cold War, post-U.S. hegemonic presence in the region, with which Brazil is going to have to deal, as India has to monitor what is happening in Pakistan and as China monitors Japan and Korea. Each of the new emerging leaders has a set of concerns they are going to have to prioritize and address, whether it is coming up with a reasonable approach to the region,

or whether it is monitoring not just what is happening regionally, but internationally.

Finally, Brazil has to deal with, as we all do, a whole set of new players. I had a chance to exchange views with the U.S. Southern Command on Monday and there is deep, deep concern in the Southern Command about Venezuelan arms purchases. As Amaury de Souza pointed out, he would hope that the arms were turned against us, but the belief in the Southern Command is that the arms may be turned elsewhere south.

The implications of that for Brazil's foreign policy, the foreign policy of the United States, and for others are extraordinarily delicate. We have never found ourselves in this situation before: an oil-wealthy country, having all the money they need to buy as many arms as they desire without any clear prescription for their use, distribution, and/or their export elsewhere in the region. Therefore, a country like Brazil, as has been pointed out, without a large military budget or a belligerent military, but with borders that front on many countries in the region, needs to be concerned about such trends.

The president of Iran, of course, was recently in South America - a new actor in the region? All of these new actors which were not present during the Cold War - and many of us in Washington would welcome the Cold War back, it was a much easier time to deal with international affairs, whereas it has gotten terribly messy now - all of these new players need to be monitored by Brazil.

Why? Because Brazil is the focus of much attention, in terms of its economic and political leadership; its ability and capacity to begin to participate and to formulate alternative strategies, whether they be in the area of trade, or in the area of biofuels and conservation, as the ambassador mentioned this morning. These are all new realities in the 21st century that neither Brazil nor the United States have had to face before.

In closing, first, we must remember nothing is static. Everything is changing in rather rapid ways, some of which we cannot predict.

Second, the internal dynamics in many of the states of the region do not necessarily favor a clear, democratic

foreign policy. Since Brazil is one of the major players in the region, this is an even greater burden on the decision makers there.

And, finally, we in the United States, and you in Brazil, now have to contend with new players. This includes a self-arming Venezuela and a China interested in minerals, raw materials and foodstuffs, but also a China that is beginning to invest in the energy sector, and a China that, as it grows, will become more interested in the kinds of resources that the Latin American countries are able to provide.