

# 10

## Challenges of Brazilian Foreign Policy

# Table of Contents

Foreword from CEBRI .....	3
Foreword from the Konrad Adenauer Foundation.....	5
Letter from the Executive Editor .....	7
Towards a New Brazilian Foreign Policy Doctrine .....	11
A Foreign Policy for Attracting Foreign Investment .....	19
The Problem of Foreign Trade .....	33
Anti-corruption Diplomacy .....	48
Security and Defense.....	55
Brazilian Foreign Policy and the New Geopolitics of Energy.....	67
Public Goods, Interest Groups and Foreign Policy .....	77
Global Health Diplomacy.....	88
Promotion of Democracy and Human Rights .....	94
Strategic Analysis for International Relations in Brazil.....	105

## Foreword from CEBRI

Throughout its 18 years of existence, the Brazilian Center for International Relations (CEBRI) has established itself as one of Brazil's most important centers for critical reflection on international relations.

As a result of Brazil's accession on the international stage in recent decades, Brazil now enjoys a position of appropriate prominence within the global scenario. As one of the most important international relations think-tanks in the country, CEBRI has an important mission to fulfill, and to shed light on the main contemporary global issues in an independent, nonpartisan and pluralistic way.

To ensure it reaches its mission of enhancing discussion on international relations, enriching public opinion, and contributing to the formulation of public policies, CEBRI works in partnership with renowned institutions to form a network of actors, drawn from the public and private sector, as well as from academia and civil society, with the goal of building a positive agenda for Brazil.

In this way, we seek to establish partnerships with important institutions on the national and international stage, which can complement CEBRI in knowledge creation in regards to the key contemporary global issues and the impacts and challenges such matters generate for Brazil.

In Brazil, the Konrad Adenauer Foundation (KAS), an institution with extensive experience in the area of international cooperation, serves as key partner for implementation of high-quality strategic projects, with the capacity to generate insightful and impactful actions, and the ability to influence opinion makers and support public policy formation. In a context of increasing bilateral economic, technological and commercial cooperation, what is most essential is engagement in projects of common interest, ranging from international trade, global health, security and defense to anti-corruption diplomacy.

Therefore, we proudly celebrate another successful project with KAS, the creation of the CEBRI Thematic Programs on International Relations and Brazilian Foreign Policy. This enterprise recognizes the importance of diversifying methods of knowledge creation, investing not only in the production of specialized studies, but also proposing strategic reflection on the challenges and perspectives of Brazilian foreign policy, with clear and objective language for the general public, guaranteeing wide dissemination of content about Brazil's integration on the world stage.

Brazil is now a global player involved in major international events, and follows the historical principles of Brazilian foreign policy, such as respect for international law, conflict resolution, pragmatism and the appreciation of multilateralism.

The transformations that the contemporary world is currently experiencing has resulted in new challenges for decision making at the national level, both within the State and in the private sphere. Factors such as globalization of markets, financial crises, the emergence of new actors with significant weight in international relations, serious humanitarian crises and concrete threats to world peace and security are resulting in a new, not yet fully defined, framework for the international order. In addition, the increasing difficulty of international institutions in providing

timely and effective responses to the challenges we face intensifies the complexity of the international agenda and brings to the forefront a pressing need to reflect on contemporary global issues and their impacts on Brazil.

Additionally, the political and economic crisis that has taken root in the country creates an urgent need to chart the course of the country's international relations, focusing on the broad development of its society and guaranteeing its values of justice and democracy.

To this end, we have invited renowned specialists to provide their expert and critical thinking, and to participate in the debate on international relations in Brazil. The ten chapters contained in this publication are the result of the intellectual capacity of the authors, and discussion with the very actors who are key players in debating Brazil's international role.

We believe that dialogue of this kind contributes to a better understanding of the possible scenarios, with the goal of assisting Brazilian society in selecting the most appropriate means for its political, economic and social development, and in understanding the importance of Brazil's activities being properly aligned with its prominence and interests.

*Rafael Tiago Juk Benke*

*Emeritus Vice-President of the CEBRI Board of Directors*

## Foreword from the Konrad Adenauer Foundation

Konrad Adenauer today remains an international symbol of freedom and dignity, which were the ideals sought by Germany during the post-war reconstruction period, and that still serve as the basis for Germany's growing international influence. The activities of the Konrad Adenauer Foundation (KAS) in Brazil began in 1969, in the midst of important political events during the Brazilian military regime, and were guided by the same values of freedom, justice and solidarity. During these 47 years of history, the representative office - now in Rio de Janeiro - continues to work to promote democracy and rule of law, to promote a social market economy, to promote political education, to strengthen dialogue in international politics, and to promote areas such as the environment, climate and energy. These are important topics in regards to Brazil's development, and are aligned with the Foundation's global engagement in projects in more than 100 countries, embodied in the search an increasingly fairer, ecologically sustainable and economically efficient international society. Through the Forte de Copacabana International Conference, an event organized by the Adenauer Foundation, in partnership with the Brazilian Center for International Relations (CEBRI) and with the support of the European Union Delegation in Brazil, the topic of international security has been a focus of the work developed by KAS-Brazil over the past 13 years, and renews Adenauer's historic effort in the quest for a more peaceful world.

With a new global order emerging in recent decades, Brazil has become an essential partner for major issues on the international agenda. Such a status was officially recognized by Germany through the creation of High-level Intergovernmental Consultations, and in August 2015 President Rousseff hosted Chancellor Merkel in Brasilia to discuss and strengthen this rich partnership in different areas: climate change, international trade, science, technology, innovation, culture, media, education, urban development and health. Brazil is the only Latin American country with this level of cooperation established with Berlin. There are already more than 30 working groups established with the European Union; European investments represent, in turn, almost half of the total foreign investments made in Brazil. In regards to environmental issues, it is now imperative that international negotiations take place with the presence of Brazil. Germany and Brazil have crafted numerous joint documents on cooperation for sustainable development and the countries reaffirm their mutual interest via intense exchanges at climate conferences.

Germany and Brazil will certainly continue this link to achieve common international relations goals. There is intense convergence of the two countries' Foreign Policies and this process needs solid partners, engaged in egalitarian and democratic development on the stage of the nations. Through its select group of partners and contacts worldwide, the Brazilian Center for International Relations (CEBRI) has for years contributed to the international debate at a high level, playing an important role in Brazil-Germany relations and serving as a fundamental institution for the international work of KAS. The dialogue between CEBRI and KAS is constant and ongoing, which often results in joint events that are increasingly recognized in Brazilian society. It is also worth noting the special status that CEBRI enjoys in the KAS universe worldwide, being one of the few institutions to have direct cooperation contracts with the KAS

headquarters in Berlin. This gives CEBRI special recognition in the European International Relations context, guaranteeing autonomy and further strengthening the ties of both institutions.

Solid and respected institutions must be willing to contribute to formulating new ideas and charting new courses for action. Brazilian diplomacy has undergone transformations in recent years and this context naturally ushers in changes. The CEBRI-KAS partnership understands its responsibility in this scenario and therefore seeks to directly respond to recent Brazilian Foreign Policy dilemmas, presenting new actors and producing qualitative intellectual content for an expected revival period in Brasília. The hope is that in the medium- and long-term future there will be new public policy actions and increased contribution of the private sector, to create a more confident scenario for Brazil and its increasingly important role in the world.

*Dr. Jan Woischnik*

*Konrad Adenauer Foundation Representative in Brazil*

## Letter from the Executive Editor

This publication presents ten foreign policy problems that plague Brazilian society, hinders the country's development, compromises its position internationally, and further delays the slow, but required, process of socially-just economic modernization. Among the ten examples selected for this exercise, the difficulties that emerge from them are both profound and long-standing. Solving such issues requires creativity and innovation, since the range of diplomatic options inherited over the last thirty years of Brazilian democratic existence is not enough to solve such matters. The demand for new strategic thinking is clear, and this effort is a step forward for promoting informed public debate, with the hopes that we do not end the second decade of the millennium tied to old doctrines that are in decline or are already outdated.

A reassessment of Brazilian foreign policy, focused on practical solutions to the problems herein posed is imperative, as Brazil cannot afford another cycle of setbacks. Our social debt is so vast, and the problems so ingrained, that a new path for the country's international relations is now urgent. Without such a new course, a whole generation will be doomed to zero progress. It is worth noting that, in areas such as economic, fiscal, and social policy, there is today an enormous intellectual effervescence in Brazil, with new ideas and proposals enlivening public debate in newspapers, magazines, televisions and classrooms; the same cannot be said, however, about foreign policy and the conduct of international business. The chapters presented here are an attempt to promote collective discussion on the subject.

If there is a central thesis to unite the following chapters, it would be this: foreign policy is an essential instrument for the recovery of economic growth alongside social justice, because the international system fully affects the capacity of national authorities to conduct effective policies. Unlike in the past, however, the ties of interdependence that bind Brazilian society to the rest of the world make the autarkic solutions typical of the last authoritarian period impossible, many of which still cast a shadow even today. Therefore, the authors in this work conceive of foreign policy as a tool to leverage the Brazilian government in the world, to exercise the country's special responsibilities in global governance and in the geographic environment, and at the same time to reform national public policies.

The conception, derived from the ten chapters presented here, suggests that the actions of the Brazilian State abroad may help Brazil remedy its backwardness, be it measured in terms of commercial isolation, smuggling and drug trafficking, endemic corruption, basic sanitation, and urban and police violence. Just like other public policies, foreign policy also has redistributive effects on Brazilian society. They need to be made explicit for a vigorous and well-informed public debate on the range of options for external action.

In the coming years, it will undoubtedly be necessary to craft an up-to-date foreign policy doctrine which will serve as a guide for international activities for governments to come. A doctrinal construction of this nature is always a collective effort, one requiring patient and long-

term effort, given the difficulties inherent in the undertaking. But past generations have been able to conduct this process well, for example, consider the intellectual effervescence in the area of foreign policy during the Second Reign, the Old Republic, the early 1960s, and during the FHC and Lula years. Now, it is up to our generation to draft the basis of the doctrine to come.

Until then, we must urgently determine, in clear and direct language, the central problems of foreign policy. This is precisely what this exercise in strategic reflection intends to do: it is an analysis of ten critical problems related to Brazil's position in the international system, followed by practical recommendations that are cost-effective and easy to implement. The volume's ten essays may be read together or individually or collectively.

The chapters are organized in the following way. The volume opens with Matias Spektor's analysis of the ideas and concepts that guide Brazilian foreign policy. He argues that the doctrine inherited from the twenty years of co-dominance among the PT and PSDB has expired due to profound transformations in Brazilian domestic politics and in international relations. The chapter identifies the challenges inherent in the exercise of designing a new doctrine, and the processes that could facilitate this process.

Carlos Góes evaluates the necessary reforms so that Brazil can attract foreign investments, through financial diplomacy efforts. Despite the massive inflow of foreign resources into the Brazilian economy during the three decades of the New Republic, this is an area in which the demand for modernization is evident, given the marked transformations through which the international system passes and the new demands for foreign savings that are currently imperative to reverse the current economic picture.

Diego Bonomo assesses Brazil's foreign trade problem as the most closed economy among the G20 countries. Without falling into the easy and empirically incorrect temptation to direct our limitations in this area to the genuine protectionist impetus that is gaining momentum worldwide, the text assesses the barriers that the country has imposed on itself, self-limiting its participation in the global economy, and generating benefits for few a well-organized groups, to the detriment of the majority of citizens.

Marcos Tourinho considers the outlines of potential anticorruption diplomacy aimed at updating the Brazilian position on the subject within the context of the Lava Jato Operation of the Federal Public Prosecution. The scandal that has shaken the Brazilian Republic imposes unprecedented constraints on Brazilian foreign policy, not just because of a moral issue, but also due to profound transformations in the global regime to fight against financing of illicit activities, terrorism and tax evasion.

Érico Duarte presents the Brazilian problem in the areas of international security and defense, after a decade in which Brazil developed a national defense strategy, subsidized national industry with public credit and carried out its largest military mobilization since World War II in Haiti. The



author identifies emerging threats that call for a swift revision of the principles that guided this area of government action in recent years.

João Augusto de Castro Neves analyzes energy diplomacy, which in recent years has moved from the Lula government's attempt to transform ethanol into a global commodity to the promotion of the pre-salt and nuclear program. Such initiatives are currently tainted by the corruption scandal that has been unveiled by Operation Lava Jato, while the energy sector is undergoing a restructuring that promises to forever transform the presence of foreign capital in the country's energy supply. The chapter presents alternative futures for foreign energy policy.

Eduardo Mello reflects on the distributive effects of Brazilian foreign policy: how do diplomatic options parcel out gains and losses to different social groups in the country? With a perspective that is rare in the examination of foreign policy, the author suggests that it is imperative to measure the domestic effects of the external options adopted by each government. Only efforts of this sort will give citizens a tool to assess the quality of public policy.

Umberto Mignozzetti traces a brief history of Brazilian activities in global health diplomacy, with a focus on identifying future scenarios, given that the dengue, Zika and Chikungunya outbreaks caused by *Aedes aegypti* have placed Brazil front and center in the international debate on transnational epidemics. It is an environment in which international norms, as a rule, clash head-on with national practices, making it difficult to manage the problem intelligently at the regional level and in global governance. What are the most plausible practical solutions for Brazil as it moves forward?

Oliver Stuenkel explains how the progressive end of the political cycle, resulting in the left's fall from power in South America, is being accompanied by a new debate about the resilience of democracy in the region. Dilma Rousseff's impeachment in Brazil and the political and humanitarian crisis in Venezuela have escalated the issue, opening up a new set of questions about the stability of democracy in the region. This chapter assesses the impacts of this on Brazilian foreign policy.

Finally, Matias Spektor presents a text on the role of strategic analysis in foreign policy. The chapter analyzes the institutional and political obstacles that hinder strategic planning in this area, and identifies models that Brazilian authorities could implement, with the resources that are today available to the government.

This paper is published under the auspices of the Brazilian Center for International Relations (CEBRI) with the generous support of the Konrad Adenauer Foundation, institutions with long-standing commitment to promoting public debate in the area of foreign policy. On behalf of the authors, I thank these entities for the invitation to participate in this much-needed exercise. A word of thanks goes also to the members of the Group for Analysis of the International Scenario at USP (GACINT) who so kindly read and commented on the chapters presented here during an event organized for that purpose.

*Matias Spector*

São Paulo, November 2016

# Towards a New Brazilian Foreign Policy Doctrine

*Matias Spektor holds a Ph.D. from Oxford University and is a professor at the FGV School of International Relations.*

Brazil is experiencing a moment of national emergency. Within three years there was a growing political crisis launched by popular protests (2013), the start of a long economic recession (2014), the expansion of Operation Lava Jato (2015), the fall of Dilma Rousseff, and the electoral implosion of PT (2016). After a virtuous cycle lasting more than a decade, Brazil's trajectory is a negative one.

The backdrop to this transformation was a low-growth global economy, an increase in our economic dependence on China and the global wave of neopopulism, which resulted in a vote for the UK leaving the European Union, and Donald Trump winning the Presidency of the United States.

This is the context that imposes the need to modernize Brazilian foreign policy doctrine. Such an effort is essential because the international strategy of recent years, with both its successes and failures, is outdated. Brazil's actions abroad demand deep and urgent discussion, because the domestic and international conditions that shape our behavior have changed.

The Temer government began its mandate reviewing the diplomatic foci of the PT, and the new president promises to inaugurate a new style of conducting foreign business. However, there are no indications that it will update the basic concepts that underpin the country's action on the world stage.

The adaptation of foreign policy to this new internal and external era, when it occurs, will be a very difficult task: there is no consensus on what to do, nor are there resources available for major undertakings. In addition, inertia is a factor here - the natural tendency among a good portion of the communities responsible for thinking about Brazil's place in the world are steeped in old paradigms in regards to the global scenario.

This chapter argues that it is necessary to begin the process of designing a new foreign policy doctrine. As such, the chapter is divided into four parts. First, I explain the differences and similarities of the international strategies adopted by the PSDB and PT parties during the last twenty years, and the end of the consensus between the two parties regarding Brazilian foreign policy. Second, I assess the conditions that tend to shape any new doctrinal foreign policy concept. Following this, I then offer an interpretation of the parameters that should support strategic reflection on Brazil's public expenditures and fiscal structure, which are the governmental concerns of the moment. Finally, I provide some recommendations on the processes that could facilitate public debate in this area.

## **The end of the consensus**

During the last twenty years, foreign policy has become one of the main battlegrounds between the PT and PSDB, the two parties elected by popular vote for the presidency of the Republic. Few public policies were so polarized and controversial.

On the one hand, the PT saw in the Lula administration much more daring diplomacy. With his activist foreign policy, Lula elevated the position of Brazil to one of a great emergent power. According to this view, his predecessor, FHC, represented the exact opposite: the capitulation of the elites surrendering to the hegemony of the United States. The image that this group likes to recall is one of the last PSDB foreign ministers, Celso Lafer, removing his shoes for a security check at U.S. airports.

On the other side of the ring is the PSDB, who saw FHC, the president-sociologist, as normalizing relations with the world, removing Brazil from the isolation accumulated during the military dictatorship and period of economic backwardness. For them, the PT's diplomacy was a function of the overbearing vanity of Lula and his team. For the PSDB, the image that this group recalls is one of Lula in Tehran, fist in the air, challenging the great powers, hugging Iranian President Mahmoud Ahmadinejad.

The fundamental schism between the PSDB and PT's international lens is simple to understand. While the former conceives of foreign policy as an instrument of adaptation to globalization, the latter imagines diplomacy as an instrument of resistance.<sup>1</sup>

This was because the two parties developed opposing views on the meaning of globalization - the flow of capital, ideas and people in an integrated international economy. For the PSDB, globalization was an inexorable force. "Whether we want it or not," said FHC, when he arrived at Planalto Palace in 1995, "globalization is a new international order. The world can be divided into regions or countries that participate in the process of globalization and enjoy their fruits and those that do not participate".<sup>2</sup> Either Brazil would adapt itself to this new world, or condemn itself to be left behind. FHC saw Brazil as too weak to resist what he called "the winds of the world". The international system did not offer much space for such maneuvers.<sup>3</sup>

For the PT, however, globalization was not an inescapable fact, but a political project crafted by the great powers of the North Atlantic. Globalization, therefore, could and should be resisted and negotiated. According to the dominant thesis at the time, no one could do this better than large developing countries such as Brazil, with the capacity to extract concessions from the most powerful in exchange for its adherence to international norms and institutions.<sup>4</sup>

Lula was able to do so, as he arrived at the Presidential Palace with a country stabilized and on a steady rise. Since 2003, the international system opened up previously unimaginable opportunities for Brazil: from the disaster of the American intervention in Iraq to the rise of China, there was renewed space for Brazil.<sup>5</sup>

These differences led the PSDB and PT to develop alternative plans. For the PSDB, if Brazil wanted to participate in globalization, it would need "credentials of good international conduct".

---

<sup>1</sup> SPEKTOR, Matias. 18 dias: quando Lula e FHC conquistaram o apoio de George W. Bush (Objetiva, 2014).

<sup>2</sup> CARDOSO, Fernando Henrique. Relações Norte-Sul no contexto atual: uma nova dependência. *In*: BAUMAN, Renato (Ed.). O Brasil e a economia global. Rio de Janeiro: Campus, 1996. p. 12.

<sup>3</sup> LAMPREIA, Luiz Felipe. O Brasil e os ventos do mundo: memórias de cinco décadas na cena internacional. São Paulo: Editora Objetiva, 2010.

<sup>4</sup> AMORIM, Celso. Conversa com jovens diplomatas. São Paulo: Benvirá, 2011.

<sup>5</sup> BURGESS, Sean. Brazil in the World: the International Relations of a South American Giant. Manchester: Manchester University Press: 2016.

This was what FHC's diplomacy sought in areas such as human rights, nuclear non-proliferation, the environment and international trade, signing foreign commitments that the military regime had previously roundly rejected. The goal was not to change the world, but to use international standards as a lever to reform a country still marked by painful accumulated authoritarian legacy dating back to the Vargas era and a history of hyperinflation. FHC traveled the globe to align Brazil with new international rules that allowed the country to embark on a new cycle of capitalist development.<sup>6</sup>

The PT view called upon Brazil to leverage the cracks in the political project of globalization, which were evident in the Seattle protests (1999) and in the US government invasion of Iraq without authorization from the United Nations (2003). In the PT mindset, there was a worldwide demand for alternative voices, as suggested by the slogan: "Another world is possible". The ambition was explicitly reformist.<sup>7</sup>

The PT's international activism began with very high-profile visits to Cuba, Iran, Libya and Syria, as well as numerous visits to Africa and Latin America. This was followed by the creation of the BRICS (the acronym for the group formed by Brazil, Russia, India, China and South Africa), the IBSA (India, Brazil and South Africa) and the formation of the G20. The PT opted for a maximalist negotiating style in the Doha Round, in the battles over FTAA, and in an attempt to reform the UN Security Council. In Haiti, Brazil sponsored the largest mobilization of its troops since World War II and created unprecedented initiatives for the Middle East.

The differences between PT and PSDB are therefore real. But if we are to advance the public debate on foreign policy with an eye on the future, it is crucial to truly understand such differences. And here, the distinction between PT and PSDB diplomacy requires more than a simple black-and-white analysis.

FHC adhered to liberal Western norms in a slow, partial, and often negotiated fashion. There was no PSDB departure in Brazil toward neoliberalism, as was the case in Menem's Argentina, Pérez's Venezuela or Salinas' Mexico. The PSDB government tepidly pushed forward the FTAA and sponsored the expansion of Mercosur. At the WTO, FHC sponsored the revisionist policy of breaking patents, transforming the role of large pharmaceuticals in the world. The strategy of bringing Chavez closer to Brazil was created by the PSDB, as was the decision to protect the authoritarian regime of Alberto Fujimori in Peru in the OAS.

The most inflammatory Brazilian discourse by a Brazilian president in relation to American hegemony was not proffered by Lula, but FHC. "Globalization reduces the freedom of countries," said the PSDB leader. And he warned with prescience: "This speculative capitalism can damage the very heart of the system."

For his part, Lula adopted a revisionist foreign policy, but, most of the time, he advanced with caution. Instead of denouncing Brazilian debt with the IMF as being non-legitimate, he paid it.

---

<sup>6</sup> LAFER, Celso. *A identidade internacional do Brasil e a política externa brasileira: passado, presente e futuro*. 2. ed. São Paulo: Perspectiva, 2004.

<sup>7</sup> HIRST, Monica; LIMA, Maria Regina Soares; PINHEIRO, Leticia. *A política externa brasileira em tempos de novos horizontes e desafios*. Nueva sociedad, v. 1, 2010.

Instead of clashing with some of the questionable actions by the Bush administration, he approached the White House as no other Brazilian president had. When Brasilia proposed a Defense Council for UNASUL, the PT Minister of Defense did not begin his tour in South American capitals, but in Washington. And in the riskiest of PT diplomatic bets - the Doha Round and the Tehran Declaration - Lula attempted conciliation with the Americans up until the last moment.<sup>8</sup>

Over the last twenty years, the PT and PSDB had much in common in regards to foreign policy. Both focused on building regional coalitions, seeing Mercosur as an instrument to resist hemispheric integration proposed by the United States and as a tool to leverage the regionalization of Brazilian capitalism. Both imagined regional integration as a business opportunity for the defense industry and for Brazilian construction companies, supplied with cheap credit from BNDES. Together, the PT and PSDB rejected the demands of neighboring countries for dense regional institutions, preferring minimalist commitments that would allow Brazil to react unilaterally when it deemed it useful or necessary.

The PT and PSDB also reduced the conflict with the United States as much as possible, seeking support from the White House, while avoiding playing the Washington game in South America. Both parties, when in power, refused to place pressure on Chavismo in Venezuela.

The PT and PSDB also avoided the accelerated opening of Brazilian commerce. They kept trade negotiations afloat, without threatening the protectionist interests of an influential part of national industry, even when it was to the advantage of just a few, and to the detriment of the majority.

For issues such as drug trafficking and climate change, the PT and PSDB opted for minimal international commitments. They did not use foreign policy to enforce a reform of the military police, to stop the growth of drug trafficking, or to reign in the environmental impact of agribusiness or the automobile industry, nor to put pressure on a nation that continued to practice systematic crimes against the rights of its own population. Against these entrenched interests, there was no significant diplomatic mobilization.

In recent historical experience, the right has sought to adapt Brazil for globalization, while the left sought to condition the pace and scope of this process, at a time when Brazil seemed strong enough to do so. Together, the PT and PSDB operated in foreign policy to adapt Brazil to a much more interdependent world. In the process, they produced different responses, but they drank from the same well.<sup>9</sup>

In addition to the raw differences in style and tone, also accentuated by the different personalities of FHC and Lula, the changes took place in the margins. When it came to foreign policy issues, the long social-democratic cycle under the PT-PSDB saw a foundational consensus among the ruling elites.

Something similar occurred in four other areas of public life, obtaining a consensus: macroeconomic policy to end inflation even when employment, growth and public spending suffered (a policy reverted by the PT as of 2009); social policy to eradicate extreme poverty,

---

<sup>8</sup> HURRELL, A. Lula's Brazil: a rising power but going where? *Current History*, Feb. 2008.

<sup>9</sup> FONSECA Jr, Gelson. *Constantes e variações: a diplomacia multilateral do Brasil*. UFRGS, 2016.

aligned with World Bank guidelines; centralization of public policies in Brasília following the fiscal spending spree of the governors; and construction of gigantic governing coalitions, since indiscipline and defections are inherent in the allied base in coalitional presidentialism.

It was that general consensus among PT and PSDB that produced electoral victories in 1994, 1998, 2002, 2006 and 2010. This was a common denominator that restored optimism in the country, as Brazilians had an improved quality of life. From daily consumption of protein to access to bank credit, from infant mortality to telephone ownership, from the possibility of traveling by plane to having treated water at home, the citizen won. Populist politicians, whose success depended on hyperinflation and fiscal irresponsibility, began to fight for survival. Backwardness lost, progress won.

Since then, however, consensus has broken down. The original cracks deepened with no chance of reversal. The "new economic matrix" implemented since the global financial crisis of 2008 buried the consensus on inflation, public spending and fiscal responsibility. Social policy, which was previously consensual, ran out of funding, and inequality increased again. The *mensalão* and Lava Jato scandals exposed the perverse methods that were used to manage the allied base, both on the left and right. In addition, the Lava Jato operation undermined the common understanding behind the diplomacy aimed at the internationalization of Brazilian capitalism, based on the export of services from large companies such as Petrobras and Odebrecht, financed by BNDES.

In this trajectory of decline, the strategic concepts that guided the foreign policy of successive PSDB and PT governments have lapsed. Now is the time to urgently devise an alternative formula for the future.

### **Conditions for a new doctrine**

The construction of a new foreign policy doctrine will require a species of supra-party consensus. It is a task that must be linked to the internal political process, and is not a short-term project. On the contrary, it is an effort that will require years of maturation, with ideas and concepts that, one day, may form a fairly coherent doctrinal framework.

The idea of a foreign policy doctrine is recurrent in Brazilian history. It was used by the Brazilian empire, in the "developmentalism" of the 1950s and 1960s, and by the industrializing authoritarianism of the military regime of Médici and Geisel. When FHC was an academic, he developed a theory of international relations to explain Brazil's position in the world, and with this base he derived coherent foreign policy proposals during his presidency. Lula, on the other hand, added to the ideas of his predecessor the thinking that was typical of Latin American leftist thinking.

Different governments have used distinct methodologies to translate doctrine into diplomatic practice. During the FHC government, for example, the process was developed by the president in recurrent informal consultations with a group of close ambassadors who, in addition to holding official positions, were personal friends of the head of government. It was common for members of this group to disagree with each other, generating alternative options for the presidency.

Lula, meanwhile, focused his reflection on foreign policy in his inner circle, especially in conversations with old party colleagues such as Marco Aurélio Garcia, José Dirceu, Luiz Dulci and Antonio Palocci. But in the first term, however, the foreign minister Celso Amorim gained ascendancy, giving diplomatic form - and sometimes discipline – to what emerged within the president's circle.

It is important to note that for both Lula and FHC, thinking about foreign policy doctrine was more than a mere intellectual exercise. For them, it was an instrument of government, as diplomacy was an essential pillar of their respective projects of power. But their ideas did not come from presidential circles. They were already circulating in Brazilian society prior to their respective installments as president.

In the process, the occupants of Planalto Palace are being confronted with some of the dilemmas inherent as related to the country's position in the world. For example, we want South American integration, but we do not want to pay high costs in the region. We want powerful Brazilian multinationals, but we do not want to be seen as an imperial power. We want American support for the UN Security Council, but we do not want to kneel to Washington and its allies. We want a South Atlantic without predators, but we do not necessarily believe that the great powers can offer protection. We want nuclear submarines, but we do not want to frighten our neighbors.

There is no easy answer to these dilemmas. Strategic thinking serves precisely to establish priorities, criteria and to select from the choices before them. A doctrine of foreign policy is a narrative about the best use of the diplomatic instruments available to promote Brazilian interests in the world, aware of the difficulty inherent in the endeavor.

And now, what next?

The process of generating foreign policy ideas and concepts demands critical mass and years of maturation. In Brazil, there is no natural fertile ground for the strategic thinking we need to do - such thinking has never been concentrated in a ministry or exclusive political group.

Creating and discussing new ideas is up to the entire Brazilian foreign policy community - rulers, entrepreneurs, professional diplomats, intellectuals and organized civil society activists.

Now the most pressing challenge is to ensure that the issue remains on the agenda of public conversation. Whether the results of such an effort will be palpable in the 2018 electoral process or whether they will only be visible by 2022 (or later) is impossible to know.

### **Parameters for reflection**

The reappraisal of Brazilian foreign policy comes in response to the severe economic recession that began in 2014, and the painful impeachment process that paralyzed Brazil in 2015, ending the political-economic cycle of the last twenty years. The PT-PSDB polarization that defined the political system is giving way to another framework that cannot yet be defined. Additionally, the long period of poverty reduction, which was the cornerstone of the last years of the PT-PSDB social democracy, has also come to an end. There is a reversal of expectations for the worse and this negative outlook is being seen for the first time in decades.



The solution to these problems will require a deep reorganization of public spending, with an ambitious revision of fiscal policy and the regulatory environment of the national economy. Faced with a brutal cut in government spending, it is time to reassess the redistributive effect of the country's main public policies.

The same should apply to foreign policy. It happens that no one in our history has measured the redistributive impact of Brazilian strategies abroad. Who wins and who loses, for example, with the Brazilian position on climate change or the different negotiating positions contemplated by the Brazilian authorities in relation to the MERCOSUR automakers agreement? Or with human rights and regional integration policies? Such questions have never been answered on the basis of robust empirical evidence.

This should not be the case. There exist excellent studies on how the tax system, educational policy, and social security affect income distribution and justice. We need the same for foreign policy.

Such an agenda, if implemented, will face resistance. After all, foreign policy needs to balance concern for the well-being of the population with other values and considerations, such as managing alliances with third countries and preventing unnecessary conflicts.

However, such an effort is a worthy one in a democracy whose fiscal viability has been questioned. This is particularly true for a democracy where rates of inequality remain alarming and immoral, despite remarkable wealth.

The time has come to understand how foreign policy impacts the trajectories of poverty and inequality on the basis of well-grounded empirical studies. An initiative of this nature is entirely feasible, since there are human and material resources for its implementation. In addition, new technologies permit exercises that were previously unthinkable.

Simply choosing some areas on the external agenda is a sufficient start. Once the task is completed, future generations will find it hard to understand why the task was not started earlier.

This exercise, when it does occur, must also accurately identify the impacts that global transformations will have on Brazilian society, and the existing maneuvering space for Brazil in the emerging international system. It is from this type of work that a more modern and better-equipped vision will emerge to deal with the international challenges of the country.

## **Recommendations**

This essay suggests that the time has come for Brazilian society to embrace new ideas and concepts that may, in the near future, contribute to revising Brazilian foreign policy. After all, the doctrine of international action developed during the last years of the PT-PSDB social-democracy has lapsed, due to political transformations both global and domestic.

It is recommended that this revision process should commence immediately, with empirically-based studies and debates in all sectors of national public life. Such a venture cannot, and should

not, remain confined to the government or the academy, but must involve the entire Brazilian foreign policy community.

It is recommended that this effort also take into account the redistributive impact of foreign policy. Certainly, the international action of a country is never guided exclusively by concern about the losses and gains of social groups back at home. But given our poverty and inequality rates, and within a scenario of budget shortages and intense fiscal tightening, this concern needs to be made more explicit.

If cognizant of how Brazilian strategies abroad affect national life, society will have better tools to judge the foreign policy options of its leaders. In turn, based on this information, professional politicians will be properly equipped to go to the streets, to ask for the vote of the citizens. In a democracy, this is the most appropriate way to conduct foreign policy.

## A Foreign Policy for Attracting Foreign Investment

*Carlos Góes holds a master's degree from Johns Hopkins University, is an analyst for the International Monetary Fund and is chief researcher at the Mercado Popular Institute.*

The strategy for Brazil's international economic integration over the last recent decades was guided by a view of the economy as a zero-sum game, a thesis according to which one player's gains are equivalent to the losses of another. The case was no different for foreign policy aimed at foreign direct investment (FDI). During the second half of the 20th century, attracting foreign investment was directed toward creation of a Brazilian industrial hub through the substitution of imports by "national production", even with products that were not competitive internationally.

While beneficial to politicians, multinationals, and trade unions, this type of FDI, as related to market distortions, such as subsidies and protectionism, does not maximize the wellbeing of most workers, nor does it align with the contemporary logic of international investment. Today, international production is distributed in "global value chains", where the productive potential of various countries is maximized through high-level division of labor and specialization.

Attracting FDI that is *not* the result of market distortions does, in fact, benefit the country's population, which receives the investment as external savings to increase the capital stock. This, in turn, tends to increase labor productivity and, with it, workers' incomes. In empirical terms, it is estimated that<sup>10</sup> in the last quarter of a century, the economy of developing countries has grown an additional 1.4% per year due to FDI. In the Brazilian case, in a time of high government and household indebtedness, where domestic savings capacity is limited, resorting to foreign savings can serve as an alternative to finance investments in the country.

Brazilian foreign policy can contribute to attracting foreign investment in two ways: i) accelerating multilateral and bilateral free trade agreements; ii) through adherence to regulatory frameworks of various international regimes that help to foment expectations by ensuring property rights, corporate transparency and compliance, labor flexibility, and equitable and fair treatment of foreign investors. The two causal vectors of these strategies lie in the fact that there is an empirical association between the reduction of trade barriers and FDI, and institutions that provide predictability and serve as a guarantee of property rights and rule of law; both tend to increase the flow of investments in the country.

---

<sup>10</sup>CLINE, William R. Financial Globalization, Economic Growth, and the Crisis of 2007-09. Peterson Institute for International Economics, 2010.

This chapter analyzes the Brazilian situation, taking into account rates of investment, productivity and attraction of foreign investments, through a comparison with other developing countries. It then assesses the advances of Brazilian foreign policy in attracting such investment in the recent decades, and makes recommendations for the future.

### **Why should we seek investment?**

Investment is an essential part of economic development. In the measure that a society is able to consume less in the present and save a portion of what it produces to increase its stock of physical and human capital, so increases the productivity of its workers. With this, there tends to be a rise in workers' real wages and final output, thereby increasing society's future total consumption capacity.

Intuitively, it is not very difficult to understand this. Imagine that a landscaping company has two employees and a lawn mower. Employees work from 8 a.m. to 6 p.m., taking turns in one-hour shifts. They receive a commission for each lawn they mow. At this rate, the machine will be used for ten uninterrupted hours, and each worker will have five hours of productivity. What happens if the company buys a second lawnmower - that is, an extra unit of capital? The workers will continue to work from 8 a.m. to 6 p.m. Now, however, there is no need to take turns on the machine. They will take their required two-hour lunch break and work from 8 a.m. to noon and from 2 p.m. to 6 p.m.

In this new scenario, with the increase in capital stock, the average productivity of workers increases from five to eight hours per day. The company will be able to service more homes, increase employee commission and still make more money.

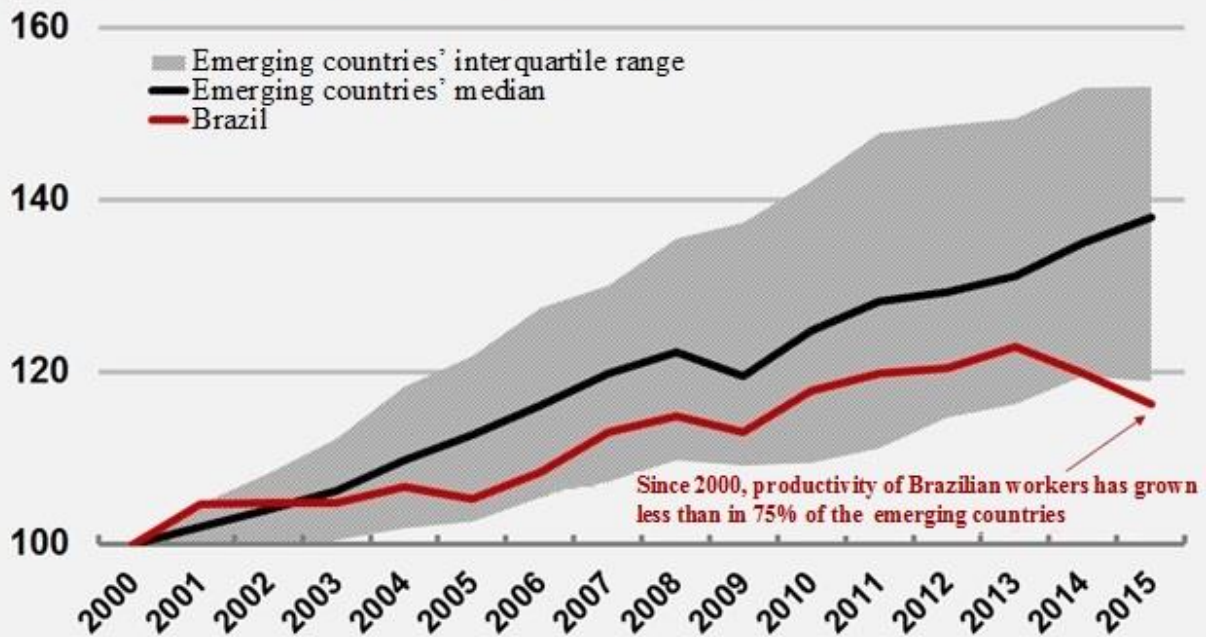
The increase in productivity tends to increase the total production (of houses served) and workers' real wages (through their commissions). According to the economist Paul Krugman<sup>11</sup>, the Nobel Prize winner, "productivity is not everything, but in the long run, it's almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to increase the output of its workers."

Since 2000, the productivity of Brazilian workers has grown less compared with growth in 75% of emerging countries. In this period, while half of the emerging countries had a productive growth per worker growth rate of at least 38%, in Brazil this growth was 16%. While these numbers are influenced by the deep recession the country is experiencing, the cumulative growth of workers' productivity was worse than emerging countries' average throughout the period 2003-13, which was an era of economic expansion and domestic consumption.

---

<sup>11</sup>KRUGMAN, Paul. *The Age of Diminished Expectations*. The MIT Press, 1997.

## EMERGING COUNTRIES: WORKER'S PRODUCTIVITY (Index, 2000 = 100; real GDP divided by workforce)

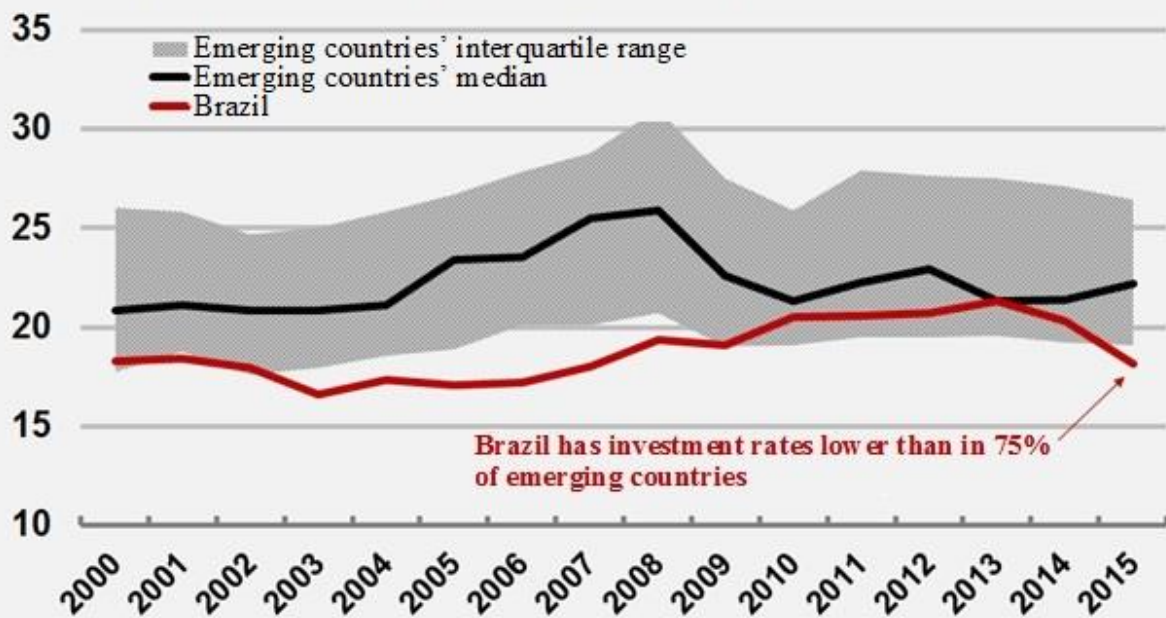


Source: Calculations made by the author of data from Haver Analytics and World Economic Outlook/ IMF. It includes 53 countries considered as emerging countries by the IMF.



Given the relationship between investment and increase of worker productivity, it is not surprising to find that investment rates relative to Brazilian GDP were also lower than those found in most emerging countries. In fact, during most of the previous 15 years, investment rates in Brazil were below those observed in 75% of emerging countries.

## EMERGING COUNTRIES: INVESTMENT RATES (GROSS FIXED CAPITAL FORMATION) (% of GDP)



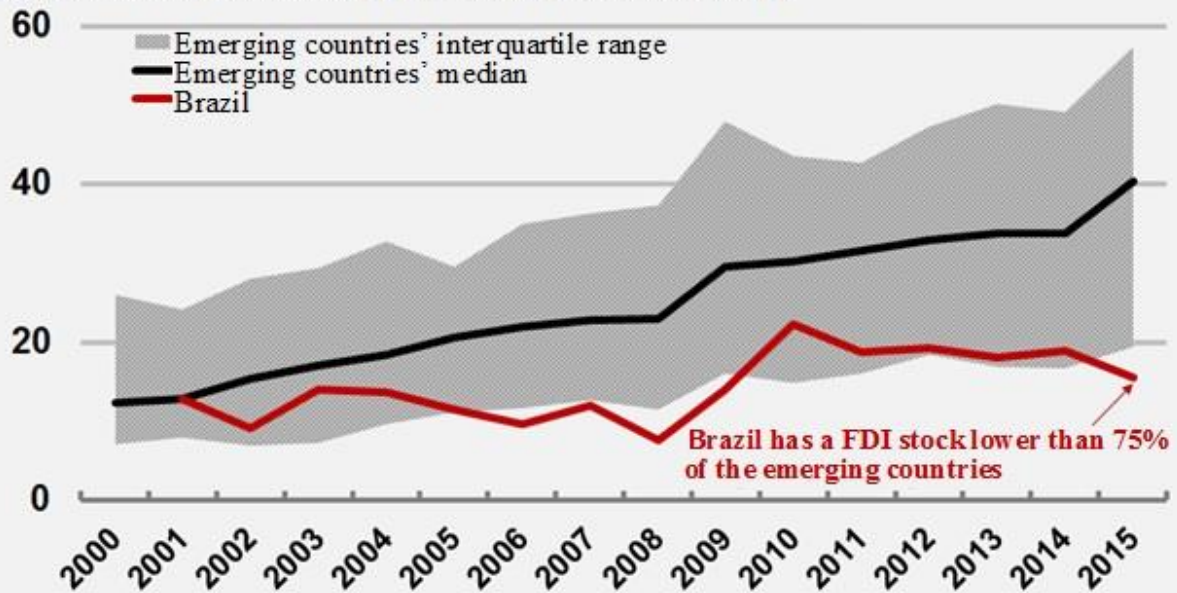
Source: Calculations made by the author of data from Haver Analytics and World Economic Outlook/ IMF. It includes 53 countries considered as emerging countries by the IMF.



There are two means of financing investments in a country. The first, mentioned above, is through members of the population saving part of their incomes to finance investments. This can happen directly, such as when a company reinvests profits, or indirectly, when those doing the saving then deposit their surplus in the bank and, through the financial system, those savings are accessible to those willing to take out loans to invest.

The second is to resort to foreign savings, by attracting foreign investment. In this respect, Brazil also has low net foreign direct investment stocks compared to other emerging countries. Although the country has, in absolute terms, very large flows when compared to the size of its economy, Brazil has net FDI inventories of less than 75% of emerging countries. This is an indication that there is room for more reliance on FDI as a method of increasing capital stock - and workers' income--in Brazil.

**EMERGING COUNTRIES: NET STOCK OF FOREIGN DIRECT INVESTMENT**  
**(In % of GDP, positive numbers mean domestic liabilities of FDI, international investment position of the country)**



Source: Calculations made by the author of data from Haver Analytics and World Economic Outlook/ IMF. It includes 53 countries considered as emerging countries by the IMF.



Intuitively understanding the role of foreign direct investment is also not a difficult task. In economic theory, it is established that factors of production (capital and labor, for example) are subject to "decreasing marginal returns". This means that the greater the relative scarcity of the factor, the greater the expected return with the increase of an extra unit of that factor. In this case, therefore, it would seem rational that if capital flows between countries were possible, investors would move from locations with a large stock of capital per worker (developed countries) towards those with lower capital stock per worker (developing countries), in search of greater returns on investment. This would benefit both investors (who would then have higher profits) and workers in the country who received the flow of investments (which would then experience a wage level increase along with productivity increase).

In practice, however, the direction of these flows is a bit more complicated. This is because there are: (i) restrictions on capital flows that are often not eliminated prior to investment treaties between countries; and (ii) important institutional differences among countries, which increase the risk of investment and inhibit the flow of capital to developing countries. The next sections of this chapter try to explain how Brazil has advanced in these two arenas, and what steps can be taken to expand foreign investment in the country.

## FDI, FTAs and IIAs: Empirical Evidence and Lost Opportunities for the Country

Global governance of investment flows cannot be separated from regulation of international trade. This is because, in general, Free Trade Agreements (FTAs), whether they be bilateral or multilateral, deal with national treatment of foreign investors (that is, the precept that foreign investors should have the same rights and obligations of those under the application of the most-favored-nation principle), and on legal disputes related to investment.

In the absence of a global multilateral treaty on investment, regulation on the issue becomes fragmented and complex. Brazilian foreign policy could make efforts to bring the matter to the agenda of the World Trade Organization (WTO), which established a Working Group on Trade and Investment after the Singapore Conferences<sup>12</sup> in 1996. However, the agenda seems to have stalled since then, encountering great resistance from developing countries. The reason is that the WTO principles of non-discrimination do not include the possibility of policies such as the minimum national content requirement for the resulting production of investment in a country - which, for ideological reasons and dynamics of internal political economy, are not positively viewed by these countries.

Given the limited possibilities for global multilateral advancement, an alternative is to try to expand the number of International Investment Agreements (IIAs) - whether they are specific investment agreements or provisions embedded into FTAs. Empirically, it is important to note that the flow of FDI to developing countries increases at the same rate as its participation in FTAs. Formal statistical analyses, with several controls, report similar conclusions<sup>13</sup>. The number of FTAs and bilateral investment treaties and the participation of countries in the WTO are associated with greater flow of FDI. This association is also apparent<sup>14</sup> when the analyzed sample is restricted to Latin American countries.

---

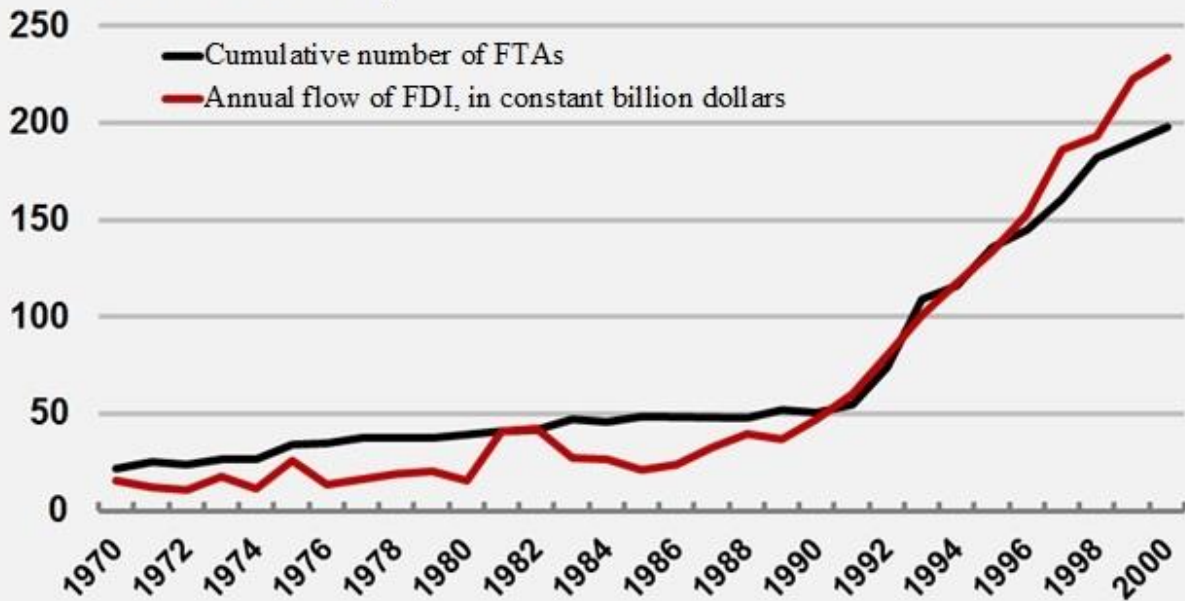
<sup>12</sup>WORLD TRADE ORGANIZATION. Investment, competition, procurement, simpler procedures. Available at: <[https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/bey3\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/bey3_e.htm)>. Accessed on Sept. 18, 2016.

<sup>13</sup>BÜTHE, Tim; MILNER, Helen V. The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements? *American Journal of Political Science*, v. 52, n. 4, p. 741–762, Oct. 2008.

<sup>14</sup>PONCE, Aldo Fernando. Openness and Foreign Direct Investment: The Role of Free Trade Agreements in Latin America. Available at: <<https://ideas.repec.org/p/pramprapa/4187.html>>. Accessed on Sept. 18, 2016.



**DEVELOPING COUNTRIES: AMOUNT OF FREE TRADE ARRANGEMENTS AND FDI FLOWS (cumulative number of treaties and annual flows in constant billion dollars)**

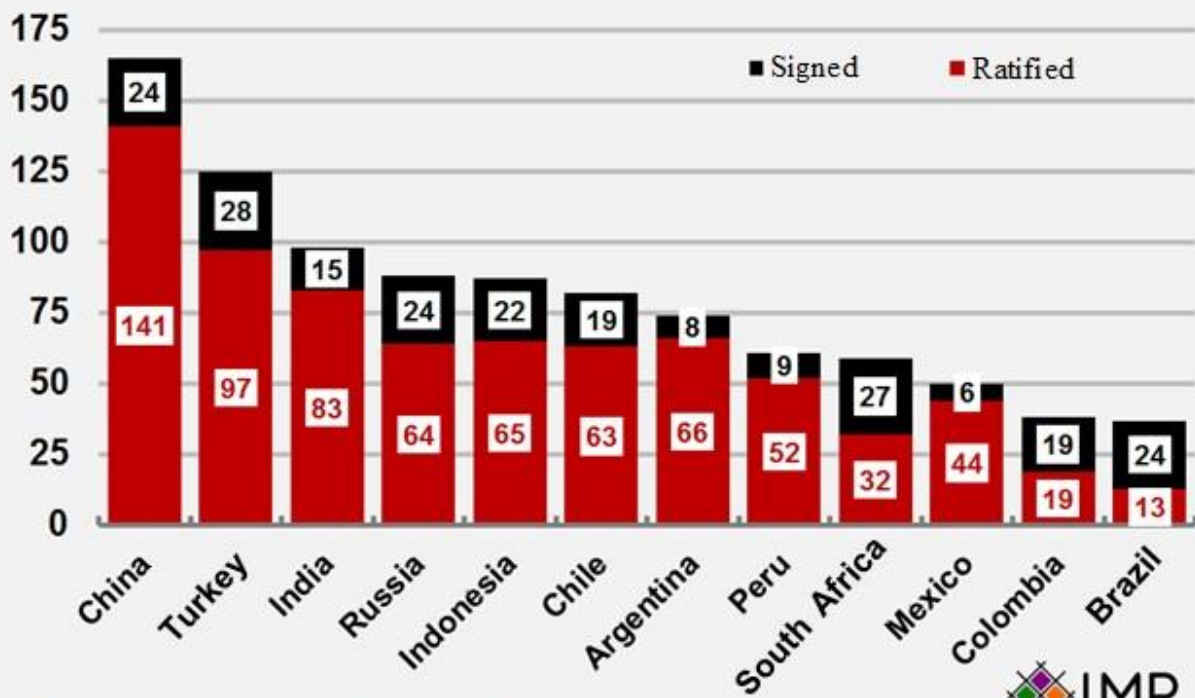


Source: Buthe & Milner (2008)



In this respect, Brazilian foreign policy seems to be out of date. Utilizing data from UNCTAD to compare Brazil with a group of Latin American countries and other major emerging economies, it can be observed that the country has the lowest number of signed or ratified investment treaties. While all the other countries analyzed (with the exception of Colombia) have signed or ratified at least fifty treaties, Brazil has only 37 – with only thirteen of them having been ratified.

**SELECTED COUNTRIES: INVESTMENT TREATIES, 2016**  
 (Total number of bilateral or multilateral investment treaties)



Source: Investment Policy Hub, UNCTAD

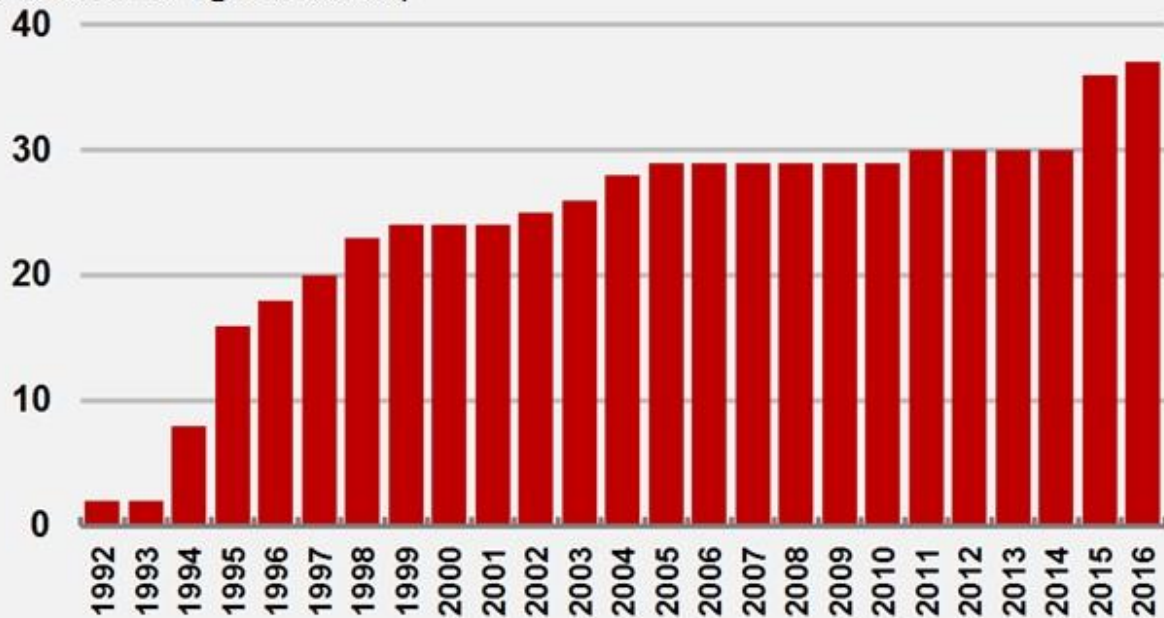


Observing the evolution of the number of investment treaties signed by the Brazilian government over time, it can be seen that, despite the fact that Brazilian foreign policy took on a more robust position during the "autonomy for diversification" era<sup>15</sup>, the international strategy to attract investment appears to have stagnated. The period of greatest expansion was between the years of 1993 and 1998, with the creation of MERCOSUR and the formalization of agreements with countries of the bloc, as well as a dozen bilateral treaties signed by Brazil with European countries (including Portugal, Switzerland, Italy, France, Finland, Denmark and the Netherlands) as well as with South Korea. Since then, the number of IIAs remained relatively stable until the mid-2010s, with the signing of treaties with countries in Africa (Angola, Mozambique, and Malawi) and Latin America (Mexico, Colombia, Chile and Peru).

<sup>15</sup> VIGEVANI, Tullo; CEPALUNI, Gabriel. A política externa de Lula da Silva: a estratégia da autonomia pela diversificação. *Contexto Internacional*. Rio de Janeiro, v. 29, n. 2 July-December 2007.

## BRAZIL: INVESTMENT TREATIES SIGNED

(Cumulative number of bilateral or multilateral treaties signed by the Brazilian government)



Source: Investment Policy Hub, UNCTAD



### FDI and Institutions: Adhering to International Regimes as Strategy to Attract Investment

Conventional economic theory suggests that investment will flow from countries with the highest stock of capital per worker toward those with smaller stock. In practice, this flow from developed countries to developing countries, although increasing, is much smaller than the theory would calculate.

One of the explanations for this discrepancy was discussed in the previous section. Unlike the theoretical models, the real world presents many barriers to investment flow. As noted earlier, as these barriers are removed, the flow of investment tends to increase.

Another potential explanation for this discrepancy is the fact that the institutional frameworks differ among several countries. Economic institutions are social arrangements, be they formal or informal, which guarantee greater predictability for actions of economic agents and aim to reduce transaction costs. They are responsible, for example, for the relative degree of protection of private property against arbitrary expropriations, and represent even less tangible elements, such as the level of trust people have in each other (which is sometimes referred to as "social capital"). The relationship between higher quality economic institutions and the level of development of a country has been extensively studied, and there is a great deal of empirical evidence corroborating

the institutional hypothesis - be it explaining<sup>16</sup> the differences in income level among countries, or, in a more dynamic way, explaining how<sup>17</sup> countries grow richer as their economic institutions improve.

Therefore it is no surprise that there is also a relationship between the flow of foreign direct investment and the quality of a country's institutions. By statistically studying the relationship between institutions and IEDs in 107 countries over 25 years, Ali *et al*<sup>18</sup> determined that protection of property rights, low risk of expropriation and guarantee of Rule of Law are the factors most associated with positive FDI flow. Similarly, in studying 83 developing countries over 20 years, Busse & Hefeker<sup>19</sup> observed that battling against corruption, and working towards accountability and democracy, and quality of state bureaucracy are also associated with a positive FDI flow.

To a large extent, these variables depend on broad domestic reforms that go far beyond foreign policy. However, foreign policy can help to guide the domestic legislative agenda, in addition to signaling positive changes for potential investors by expanding the country's participation in certain international regimes. International regimes<sup>20</sup> serve as the counterpart of international political theory in terms of the idea of institutions in domestic political economy: They are standardized principles, norms, rules and procedures for decision-making that help to guide the expectations of actors in a particular area of international relations. As institutions, they have a formal facet (international treaties and conventions) and an informal one (practices and general principles on what is accepted as action by international actors).

International regimes on trade, services, transparency and corruption, private property rights, and labor rights usually attempt to standardize and promote good practices in each of these areas. Therefore they can function to improve the domestic institutions of the actors. They also have a role, by adding a standardized international dimension in a particular area, of enhancing investment security, increasing stability, predictability, and transparency - leading to risk reduction and investment.

Therefore, in light of this empirical relationship between the quality of economic institutions and the flow of FDI, the role of foreign policy in promoting investment, in addition to the signing of IIAs, includes adhering to regulatory frameworks capable of ensuring property rights, business transparency and compliance, as well as labor flexibility and fair and equitable treatment of the foreign investor.

The table below lists these benchmarks, briefly described, as well as Brazil's position in relation to them. The country has already signed and ratified the entire set of multilateral frameworks of the

---

<sup>16</sup>ACEMOGLU, Daron; JOHNSON, Simon; ROBINSON, James A. The Colonial Origins of Comparative Development: An Empirical Investigation. *The American Economic Review*, v. 91, n. 5, p. 1369-1401, December 2001.

<sup>17</sup> GÓES, Carlos. Institutions and Growth: a GMM/IV Panel VAR Approach. IMF Working Paper, Western Hemisphere Department, July 2015.

<sup>18</sup>Ali, Fathi A.; Fiess, Norbert; MACDONALD, Ronald. Do Institutions Matter for Foreign Direct Investment? *Open Economies Review*. V. 21, n. 2, p 201-219, April 2010.

<sup>19</sup>BUSSE, Matthias; HEFEKER, Carsten. Political Risk, Institutions and Foreign Direct Investment. HWWA Discussion Paper. Hamburg Institute of International Economics, 2005.

<sup>20</sup>KRASNER, Stephen D. Structural Causes and Regime Consequences: Regimes as Intervening Variables. *International Organization*. V. 36, n. 2, p 185-205, 1982.

WTO, as well as two treaties on the prevention of corruption - one from the OECD and the other from the United Nations.

## International Norms for Investment Transparency and Security

Binding Documents	Finalized	Signed	Ratified	Details
Agreement on Trade Related Investment Measures (TRIMs)	1994	Y	Y	Framework agreements that rule over investments and trade of services within the scope of ILO.
General Agreement on Trade in Services (GATS)	1994	Y	Y	
Trade-Related Aspects of Intellectual Property Rights (TRIPs)	1994	Y	Y	
Agreement on Subsidies and Compensatory Measures (SCM)	1994	Y	Y	
OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions	1999	Y	Y	Binding agreements on corruption that define practices of the public sector and its relationship with the private sector.
UN Convention on Corruption	2005	Y	Y	
Cologne Protocol for the promotion and reciprocal protection of investments in Mercosul	1993	Y	N	Regulation of investments within the scope of Mercosul.
Protocol on Promotion and Protection of investments from Mercosul's non-member States	1994	Y	N	
OECD Convention on the Liberation of Capital Flow	1961	N	N	Predicts the facilitation and and liberation of capital flow between the countries that have signed the agreement, as well as standardization of a portion of the regulation on the subject, decreasing transaction costs.
ILO's Convention n. 87 on Free Association and Protection of the Right to Self-Organization	1948	N	N	Defines that workers should be free to form unions without restrictions and should be independent from the government. The territorial monopoly given by the Brazilian legislation to some unions limits the number of unions and the possibility of better collective negotiations between employees and employers.
Convention for the Resolution of Disputes relative to Investments between States and Nationals of other States, which creates the International Center for Arbitration of Disputes over Investments (ICSID)	1966	N	N	Creates ICSID, part of the World Bank, which coordinates the resolution of conflicts between governments and investors through international arbitration.
Non-binding Documents	Finalized	Details		
OECD/G20's Principles of Corporate Governance	1999, 2004 and 2015	Define rights and duties of companies, shareholders and transparency.		
Special standards for dissemination of IMF data	1996	Defines standards of quality, coverage, frequency, public access and integrity of governmental statistics.		
Code of Good Practices on Transparency of IMF Monetary and Financial Policies	1999	Defines standards of transparency for Central Banks on the conduction of monetary policies.		
Code of Good Practices on FMI's Tax Transparency	2007	Defines standards of separation between the public power and the economy, as well as standards of transparency and the establishment of an open and regulated structure for tax policies.		
Voluntary Guidelines for Land Tenure, Access to FAO's Forest Resources and Fishing	2012	Defines standards for property rights on land and natural resources, respecting traditional communities and principles of sustainability.		
International Accounting Norms	2001 (adopted in Brazil in 2008)	Create standards for national and international accounting, decreasing transaction costs for international companies that invest in the country.		
Source: Developed by author				

There are also two protocols signed in the MERCOSUR agreement, with the goal of regulating and facilitating intra-bloc and extra-bloc investments. These, however, were signed in the early 1990s, and they never went into effect. Revitalizing these instruments today within the regional integration bloc appears as a viable strategy for Brazilian diplomacy.

In regards to binding multilateral rules, there are two important documents that have not even been ratified by Brazil. The first is Convention 87 of the International Labor Organization, which determines that workers must be free to form unions without restrictions and to maintain a position of autonomy in relation to the government. The obstacle is that the principle of Syndical Unity, which grants a territorial monopoly to the syndicate of a particular category in each constituency and defines the collection of trade union tax, violates the provisions of the Convention. These provisions of Brazilian law restrict the number of unions in the country - limiting the possibilities of collective bargaining between companies and employers, a possibility that brings an element of flexibility in relation to the rigid Brazilian legislation and the needs of the interested parties.

In addition, Brazil never joined the International Center for Arbitration for Investment Disputes (ICSID), which is part of the World Bank group dedicated to resolving disputes through arbitration between investors and governments. Traditionally, the argument is that prior commitment to the possibility of resorting to international arbitration would be a violation of national sovereignty. Brazilian diplomacy should consider: i) if this perspective is correct or whether the benefits of joining ICSID are aligned with the tradition of defending multilateralism in Brazilian foreign policy; and ii) if the benefits of joining the ICSID, and ensuring greater legal certainty for foreign investors, would outweigh the costs of ceding autonomy.

Finally, there exists a set of non-binding international standards that assist with government transparency and the expectations of foreign investors, beyond the scope of Itamaraty, since such standards require coordination among several areas of government (and also among society). For example, the good practices and data dissemination standards promoted by the IMF would have to be implemented by the Central Bank, the Ministry of Finance and IBGE. It is important to note that, in these cases, the country does distinguish itself, with a broad and frequent availability of reliable data and a monetary policy, supported by periodic reports and the publication of Monetary Policy Committee (COPOM) of the Central Bank meeting minutes.

Another important modification, which has been implemented in Brazil since 2008, are International Accounting Standards - which, through standardization of national accounting with international standards, reduces transaction costs for international companies that invest in the country. The adoption of this standardization includes civil society organs, such as the Federal Accounting Council, and public agencies, such as the Central Bank, the Internal Revenue Secretariat and the Brazilian Securities and Exchange Commission (CVM). Maintaining this alignment is important for keeping transaction costs low.

**To learn more:**

- **Condensed Summary on History of FDIs, its Relevance to Developing Countries and Future Prospects:** World Economic Forum (2013), Foreign Direct Investment as a Key Driver for Trade, Growth and Prosperity: The Case for a Multilateral Agreement on Investment.
- **Compilation of Best Practices and Economic Policy Recommendations for Attracting Investments:** OECD (2015), Policy Framework for Investment.
- **Statistical and Analytical Compendium on Inventories and Investment Flows in the World:** UNCTAD (2015), World Investment Report.
- **Manual of International Law on the Regulation of Investments, with a Historical Perspective and Overview of Contemporary Regulation:** Andrew Paul Newcombe and Lluís Paradell. Law and practice of investment treaties: standards of treatment. Kluwer Law International, 2009.



# The Problem of Foreign Trade

*Diego Bonomo holds a master's degree from PUC-SP and is managing director of foreign trade at the National Confederation of Industry*

## The nature of the challenge

Brazil is the second most-disconnected country in the G-20 in terms of international trade. Of the economies that compose the group, it is the one that demonstrates the greatest differential among its position in the GDP ranking<sup>21</sup> (9<sup>th</sup> place) and exports ranking<sup>22</sup> (25<sup>th</sup> place), behind only Argentina. In terms of imports<sup>23</sup>, Brazil's differential (25<sup>th</sup> place) is only greater than that of Argentina (46<sup>th</sup> place), but keep in mind that the neighboring country has barred imports through years of Kirchnerism. Given that there was "an episode of European commercial expansion", as Celso Furtado states in the opening sentence of his *Formação Econômica do Brasil*<sup>24</sup>, it seems incredible that after more than thirty years of the New Republic, no Brazilian government has sought greater and better integration of the country into the international economy through foreign trade in a clear, active and consistent way.

There are many possible explanations for<sup>25</sup> this situation, but two in particular deserve special attention. The first refers to the "Brazil cost" associated with foreign trade: lack of physical infrastructure and needed regulatory frameworks<sup>26</sup> to make Brazilian companies more competitive in the world economy. Despite its economic weight, the country is still far from being one of the main players in international trade due to this structural problem.

The second cause of disconnection concerns the conception and implementation of trade diplomacy. The current model is insufficient because it lacks clear and effective guidelines and targets for opening foreign markets to Brazilian goods, services and investments. In addition, trade diplomacy suffers from an institutional arrangement that creates conflicts among governing bodies involved in their respective tasks of formulation and execution. The result is a public policy that delivers results that do not meet the needs of a complex economy like Brazil's. Therefore, despite

---

<sup>21</sup>THE WORLD BANK.GDP ranking.Available at: <<http://data.worldbank.org/data-catalog/GDP-ranking-table>>. Accessed on September 17, 2016.

<sup>22</sup>WORLD TRADE ORGANIZATION.Leading exporters and importers in world merchandise trade, 2014.Available at: <[https://www.wto.org/english/res\\_e/statis\\_e/its2015\\_e/section1\\_e/i07.xls](https://www.wto.org/english/res_e/statis_e/its2015_e/section1_e/i07.xls)>. Accessed on September 17, 2016.

<sup>23</sup> Idem, ibidem.

<sup>24</sup> FURTADO, Celso. *Formação Econômica do Brasil*. São Paulo: Companhia das Letras, 2007.

<sup>25</sup> BONOMO, Diego. Nove teses sobre a diplomacia comercial brasileira. *Revista Brasileira de Comércio Exterior*, Rio de Janeiro, n. 117, p. 32, Oct-Dez 2013.

<sup>26</sup> CONFEDERAÇÃO NACIONAL DA INDÚSTRIA / ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO DA FUNDAÇÃO GETÚLIO VARGAS. Desafios à competitividade das exportações brasileiras. Available at: <<http://desafiosexport.org.br/wp-content/uploads/2016/08/FGV-EAESP-CNI-2016-Desafios-a-Competitividade-das-Exportacoes-Brasileiras.pdf>>. Accessed on September 17, 2016.

the rhetoric that every Brazilian government has expressed at some point, there is no consistent and permanent strategy of trade diplomacy.

In addition to the elevated costs that the country imposes on its companies for foreign trade and the lack of a commercial diplomacy strategy, there is now an additional problem, which tends to contribute to the current isolation of Brazil: the Operation Lava Jato by the Federal Prosecution (MPF). In unveiling the role of leading Brazilian engineering companies in a corruption and money laundering scheme to divert resources from Petrobras, it "clashed" on two important trade policy instruments - official support for exports of goods and services through financing and public guarantees; and the political action of presidents and former presidents, as well as diplomats, with foreign governments to make contracts viable for exporters and investors in the country. The potential for criminalization of these practices, by means of a formal act or the mere perception of public opinion, tends to negatively affect Brazil's already low performance in international trade, since it stifles some of the main mechanisms of trade policy and diplomacy.

The following sections offer an analysis of these obstacles to Brazilian foreign trade and recommendations to overcome them.

### **Brief conceptual note**

Before proceeding with the analysis of the problems, a brief conceptual note is needed here. Throughout the text, two expressions are used that, although close in meaning, actually reflect different realities: "commercial policy" and "commercial diplomacy".

The first is public policy aimed at gauging the country's integration in international trade and reflects the balance of political forces in government and society that favor trade liberalization and economic integration, as well as those that are contrary to both. In this context, the implementation of trade policy covers all foreign trade instruments, including export promotion, import management, taxation and financing of exports and investments, and foreign trade logistics, among others.

The second expression, however, reflects only the intersection between trade policy and foreign policy. That is, it concerns the aspect of diplomacy devoted to reaching trade policy objectives. In this case, commercial diplomacy is limited to four main instruments: access to foreign markets through negotiation of agreements, settlement of trade disputes, trade promotion and political defense of the economic interests of Brazilian companies in other countries.

### **The structural problem: domestic reform and access to markets**

The concept of the "Brazil cost" emerged in the early 1990s and was popularized by the National Confederation of Industry (CNI) as a tactic to unite the private sector through a common narrative in favor of domestic reforms that would be aimed at increasing competitiveness. Since then, this

effort has become central to the public debate about the direction of the economy, although, as CNI itself today contends<sup>27</sup>, the elements that comprise this cost are considered only part of the issue that results in lack of competitiveness. Low productivity due to poor quality education and low innovation capacity of its economically active population also affects the performance of the goods and services produced in the country.

Competitiveness is a relative concept, in which price and quality of goods and services produced in Brazil can be compared to those produced in other countries. In a well-known article for *Foreign Affairs* magazine, Paul Krugman warned of the risks of what he characterized as an obsession with competitiveness<sup>28</sup>, given that he believes that the concept is based on a false premise - that countries compete with each other in the international market in the same way companies compete with each other in any market. Generally speaking, the idea of competitiveness is related to the export performance of an economy and to the -- mercantilist and incorrect -- notion that exporting more is necessarily good (or better than more imports). Therefore, Krugman concludes that trusting any decision within this obsession can lead to serious mistakes in the management of the economy, including adoption of protectionist policies and the triggering of trade disputes.

Despite this warning, there is no denying that the quality of Brazil's integration in the international economy leaves much to be desired and is largely due to lack of domestic reforms aimed at reducing the "Brazil cost" associated with foreign trade. There does not exist a precise determination of which factors create this cost, but the Brazilian Association of Machinery and Equipment Industry (ABIMAQ) recently sought to measure it based on eight elements<sup>29</sup> raw inputs, capital, taxation, logistics, labor legislation, bureaucracy and rules, investments and energy. All of these have an impact on foreign trade, as the reduction of relative cost to another can benefit companies that participate in this activity.

The "Brazil cost" is a major issue to be resolved. For five of the eight points above mentioned, it is possible to adopt specific trade policy measures to make Brazilian goods, services and investments abroad more competitive.

The first is the reduction of cost of imported raw goods utilized in the production of goods and services that, in a later phase, will be exported. The entire logic of fragmented production in global value chains (GVCs) assumes a reduction of costs of importation. While the country has traditional instruments to be exempt from taxation on such inputs, as is the case with various drawback models and some tax models that are the target of the Europeans<sup>30</sup> and the Japanese<sup>31</sup> in the World Trade

---

<sup>27</sup> DA FONSECA, Renato; CUNHA, Samantha. Indústria brasileira: da perda de competitividade à recuperação? *Estudos Econômicos*. Brasília, n. 1, p. 6, November 2015.

<sup>28</sup> KRUGMAN, Paul. Competitiveness: A Dangerous Obsession. *Foreign Affairs*, March/April 1994. Available at: <<https://www.foreignaffairs.com/articles/1994-03-01/competitiveness-dangerous-obsession>>. Accessed on September 17, 2016.

<sup>29</sup> ABIMAQ. Custo Brasil 2002-2012. Available at: <[http://www.abimaq.org.br/Arquivos/Html/DEEE/130715%20-%20Custo%20Brasil%20\(III\).pdf](http://www.abimaq.org.br/Arquivos/Html/DEEE/130715%20-%20Custo%20Brasil%20(III).pdf)>. Accessed on September 17, 2016.

<sup>30</sup> WORLD TRADE ORGANIZATION. Dispute Settlement: Dispute DS472. Available at: <[https://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds472\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds472_e.htm)>. September 17, 2016.

Organization (WTO), it is undeniable that the Common External Tariff (CET), adopted by Brazil and other members of the Southern Common Market (Mercosur), affects the production of finished goods.

A study prepared by the Federal University of Rio de Janeiro (UFRJ)<sup>32</sup> for the São Paulo Federation of Industry (FIESP) and the Industrial Development Studies Institute makes it clear that the CET also reflects the option of the country to create a base industry (and formerly, “microelectronics”) during the effective period of a strategy of import substitutions. As a result of this option, import taxes tend to be high in industrial sectors that are intermediary producers and suppliers of others, such as is the case with auto parts, electronics, machinery and equipment, metallurgy, chemicals and steel. Thus, the tariff eventually increases the cost of imported industrial inputs, creating a perverse incentive for the verticalization of chains within Brazil and making them less competitive, since they are disconnected from the main flows of international trade. The solution to this problem is the reform of the CET, in order to reduce the level of protectionism of the economy, to eliminate distributive conflicts among economic sectors and to encourage Brazilian participation in the GVCs.

The second measure, complementary to the previous one, is total tax exemption for exportat. WTO rules allow member countries and customs territories to be exempt from taxation or allow the abatement of taxes on exported products<sup>33</sup>. To put it in another way, no economy is forced to "export taxes" embedded in their goods. In the case of Brazil, this rule is reflected in the Federal Constitution, which, in four different articles, ensures the so-called "tax immunity" of exports, or in another words, the non-incidence, suspension or compensation of federal, state and municipal taxes.

Despite the clarity of the constitutional text and major advances in the last thirty years - such as the passing of the Kandir Act, which regulated this exemption at the state level - the exporter still suffers from such taxation, which taxes still placed on goods and services that are directed at the foreign market. The result is a decrease in Brazilian competitiveness. To solve this problem, it is necessary for the federal and state governments to allow for full reimbursement of the tax credits generated during export activity - which, in many cases, have negative effects on the company balance sheets, since they are never compensated. In addition, the National Congress must approve a tax reform that eliminates the remaining residue, resulting from the cumulative collection of some types of federal taxes and charges related to energy consumption and telecommunications services.

The third measure is in the area of logistics. The main problem related to foreign trade is the low quality and lack of investment in the country's infrastructure, which increases the cost of freight in the transportation of goods for export or import. For example, a calculation made by the Japanese

---

<sup>31</sup> Idem. Dispute Settlement: Dispute DS497. Available at:

<[https://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds497\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds497_e.htm)>. September 17, 2016

<sup>32</sup> CASTILHO, Marta Reis (coord.). A estrutura recente de proteção nominal e efetiva no Brasil. Rio de Janeiro, April 2015. Available at: <[http://az545403.vo.msecnd.net/uploads/2015/07/publicacao\\_web.pdf](http://az545403.vo.msecnd.net/uploads/2015/07/publicacao_web.pdf)>. Accessed on September 17, 2016.

<sup>33</sup> WORLD TRADE ORGANIZATION. Agreement on Subsidies and Countervailing Measures. Available at: <[https://www.wto.org/english/docs\\_e/legal\\_e/24-scm\\_01\\_e.htm#fnt1](https://www.wto.org/english/docs_e/legal_e/24-scm_01_e.htm#fnt1)>. Accessed on September 17, 2016.

trading company Mitsubishi<sup>34</sup> demonstrates freight costs in Brazil. The cost of sending soybeans produced in the Middle-West region of Brazil to the port of Santos is five times greater than the freight charged for moving soybeans produced in the American Midwest to New Orleans - an equivalent distance. This type of distortion can only be resolved through an adequate public policy of infrastructure regulation and investment. However, trade policy can also make its contribution.

There are more than twenty different rates, charges and tariffs that are charged to companies that operate in Brazilian foreign trade. These are linked to several stages of the activity, ranging from the licensing of products to the scanning of containers, including the use of government electronic systems, such as the Integrated Foreign Trade System (SISCOMEX). This charge generally occurs at ports and airports. In practice, it is an "invisible tax" on those who wish to participate in international trade, because its unit value is low and there is little transparency on charges, use and economic impact. In this sense, a practical solution is the establishment of a single collection system, so that a company is faced only with centralized payment of these fees, charges and tariffs. The creation of this system can reduce bureaucracy and, at the same time, make the real impact of these obligations measurable on Brazil's competitiveness.

The fourth measure concerns a specific labor legislation topic related to Brazilian investments abroad. The Expatriates Act is outdated for the current dynamics of the country's economy. The boom in exports during the 2000s was accompanied by the creation and expansion of Brazilian companies in other countries. According to the Ranking of Multinationals by the Fundação Dom Cabral (FDC)<sup>35</sup>, Brazil now has more than fifty companies with investment (or franchises) abroad - in agribusiness, industry and services.

As part of their internationalization strategies, these companies move Brazilian employees from their headquarters to subsidiaries in other locations. However, current legislation imposes high costs on what should be a simple and inexpensive procedure. An example of the anachronistic nature of the current law is the requirement for the expatriate to have a dual employment contract with his or her home address and the subsidiary in which he or she will work. The solution to this problem requires the updating of legislation, a draft of which has already been discussed exhaustively by trade union centrals and business entities. What is needed is a simple political decision to send it to National Congress for voting and approval.

The fifth and last step concerns the reduction of bureaucracy and the simplification of foreign trade rules. In regards to administrative and customs procedures, the WTO's new Agreement on Trade

---

<sup>34</sup> PORTAL DA INDÚSTRIA. Reinforcement of Business Relationship between Brazil – Japan. Available at: <[http://arquivos.portaldaindustria.com.br/app/conteudo\\_13/2014/08/06/840/AiichiroMatsunaga-MitsubishiCorporation.pdf](http://arquivos.portaldaindustria.com.br/app/conteudo_13/2014/08/06/840/AiichiroMatsunaga-MitsubishiCorporation.pdf)>. Accessed on September 17, 2016

<sup>35</sup> DRUMMOND JUNIOR, Aldemir; BARAKAT, Livia Lopes; CRETOIU, Sherban Leonardo; ASSIS, Elisa Régis Dinelli de; COSTA, Flávia Pedrosa; LIMA, Helen Cardenuto; MENEZES, Vanessa Freitas. Ranking FDC das multinacionais brasileiras 2015: a capacidade de adaptação cultural das empresas brasileiras no mundo. Nova Lima, MG, 2015. Available at: <<http://www.fdc.org.br/professorespesquisa/publicacoes/Paginas/publicacao-detalle.aspx?publicacao=18496>> Accessed on September 17, 2016

Facilitation (AFC) establishes a number of disciplines. In this area, the MDIC and the Federal Revenue Service (known as the Receita Federal) adopted a bold strategy to initiate customs reform for the country prior to the approval of the multilateral agreement at the Bali Ministerial Meeting of the WTO, in December 2013. The two main pillars of this strategy are the Single Foreign Trade Portal and the Authorized Economic Operator (OAS). A study by the Getúlio Vargas Foundation (FGV)<sup>36</sup> done for CNI shows that the benefits of the Single Portal range from increasing GDP to expanding exports, imports and investments.

This type of progress, however, did not occur in the area of rules that regulate foreign trade. Brazil still has dozens of laws to deal with this activity. In many cases, there are rules in force that were created prior to the Federal Constitution and, therefore, have not passed the test of "reception" of the new constitutional text, a fact that creates great legal uncertainty. The legal anachronism is so evident that the regulation of the country's import tax is based on [Tariffs Law of 1957](#), which was the major Brazilian protectionist legislation from the 20th century. The situation is even more serious at the infralegal level, where no less than 22 federal government agencies produce hundreds of export and import rules. To eliminate this tangle, Brazil needs to adopt a unique Foreign Trade Code. This kind of [instrument already exists for other economic activities](#), such as water and forestry management, mining, telecommunications and air transport. In addition to development of the Code by the National Congress, the federal government bodies must consolidate their infralegal norms in a single instrument per institution. This effort can significantly reduce a company's transaction costs, as well as increasing legal certainty in this activity.

Even if all the trade policy measures suggested so far are adopted, the country's increased international integration also requires a clear, consistent and effective strategy for access to external markets.

Brazil has always attached great importance to the liberalization of trade at the multilateral level. On one hand, the opening is more economically effective, since it allows the reduction of protection in several markets at the same time (although it is of low efficiency due to the slowness of the negotiation process). On the other, the country seeks to strengthen international multilateral regimes as part of its foreign policy strategy. Despite this prioritization, the Brazilian government also sought to move forward on other negotiating fronts.

Since the beginning of the New Republic, Brazil has gone through two distinct phases in its program of bilateral trade negotiations. In the first, the objective was to create an integrated economic space in the Southern Cone under the rules of the Latin American Integration Association (LAIA). The decade and a half between 1981 and 1995 was dedicated to this construction, which began with an agreement with Uruguay (1982)<sup>37</sup>, followed by another with Argentina (1990)<sup>38</sup> and, finally, an

---

<sup>36</sup> Portal Único pode elevar o PIB em US\$ 23,8 bilhões em 2016, um acréscimo de 1,19%, aponta CNI. *Agência de Notícias CNI*. 31 October 2014.

<sup>37</sup> ALADI. Adecuación del Protocolo de Expansión Comercial Suscrito Entre Brasil y Uruguay al Mecanismo de Acuerdos de Alcance Parcial Previsto por el Tratado de Montevideo 1980. Available at:

agreement joining these countries with Paraguay and Uruguay (1991)<sup>39</sup>, under the Treaty of Asuncion. A corollary of this process was the adoption of the Ouro Preto Protocol, which established the CET and created a large market reserve for Brazil with its neighbors. An important and controversial article from the World Bank team<sup>40</sup> published 1999 demonstrated this effect. In any case, the construction of this integrated economic space was slow and it involved five governments - Figueiredo, Sarney, Collor, Itamar and FHC -, and was conducted mainly by the Ministry of Foreign Affairs (MRE).

In the second phase, less explicit from the point of view of diplomatic discourse, but equally important to the previous one, the country sought to expand this integrated economic space to all of South America. Using a strategy for which it always criticized the United States, Brazil conducted a process of connecting the other South American countries to Mercosur. Known in the jargon of trade policy as hub-and-spoke, the strategy is to use an existing trade agreement as a platform for joining other economies. Thus, over the next decade, between 1996 and 2005, the FHC and Lula government negotiated free trade agreements between the bloc and other neighbors: Chile (1996)<sup>41</sup>, Bolivia (1996)<sup>42</sup>, Colombia (2004), Ecuador (2004), Venezuela (2004)<sup>43</sup> and Peru (2005)<sup>44</sup>. Even Guayana (2001)<sup>45</sup> and Suriname (2005)<sup>46</sup> won partial agreements, directed at less developed countries in the region.

---

<[http://www.aladi.org/biblioteca/publicaciones/aladi/acuerdos/ace/es/ace02/web/ACE\\_002\\_0Acuerdo.pdf](http://www.aladi.org/biblioteca/publicaciones/aladi/acuerdos/ace/es/ace02/web/ACE_002_0Acuerdo.pdf)>. Accessed on September 17, 2016

<sup>38</sup> ALADI. Acuerdo de Complementación Económica N° 14. Available at <<http://www.aladi.org/nsfaladi/textacdos.nsf/ca05a6ae01cc969583257d8100416d1e/92266e44c2dbb1dc032578d2005038cb?OpenDocument>>. Accessed on September 17, 2016

<sup>39</sup> ALADI. Acuerdo de Complementación Económica N° 18. Available at: <<http://www.aladi.org/nsfaladi/textacdos.nsf/ca05a6ae01cc969583257d8100416d1e/49efa678bc0690cb03257742004a7d81?OpenDocument>>. Accessed on September 17, 2016

<sup>40</sup> SOLOAGA, Isidro; OLARREAGA, Marcelo; WINTERS, Alan. What's Behind Mercosur's Common External Tariff? World Bank Policy Research Working Papers. November 1999. Disponible en: <<http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-2231>>. Accessed on September 17, 2016

<sup>41</sup> ALADI. Acuerdo de Complementación Económica N° 35 Celebrado entre los Gobiernos de dos Estados Partes del Mercosur y el Gobierno de la República de Chile. Available at: <<http://www.aladi.org/nsfaladi/textacdos.nsf/ca05a6ae01cc969583257d8100416d1e/85868e7a6308d7d70325776d005ad45a?OpenDocument>>. Accessed on September 17, 2016

<sup>42</sup> ALADI. Acuerdo de Complementación Económica N° 36 Celebrado Entre los Gobiernos de los Estados Partes del Mercosur y el Gobierno de la República de Bolivia. Available at: <<http://www.aladi.org/nsfaladi/textacdos.nsf/ca05a6ae01cc969583257d8100416d1e/a38f409deb2bd723032577ea006764e9?OpenDocument>>. Accessed on September 17, 2016

<sup>43</sup> ALADI. Acuerdo de Complementación Económica N° 59 Suscrito entre Argentina, Brasil, Paraguay y Uruguay, Estados Parte del Mercosur, y Colombia, Ecuador y Venezuela, Países Miembros de la CAN. Available at <<http://www.aladi.org/nsfaladi/textacdos.nsf/ca05a6ae01cc969583257d8100416d1e/a87b9915768aab9b032578af004bcd49?OpenDocument>>. Accessed on September 17, 2016

<sup>44</sup> ALADI. Acuerdo de Complementación Económica N° 58 Suscrito entre los Gobiernos de la República Argentina, de la República Federativa del Brasil, de la República del Paraguay y de la República Oriental del Uruguay, Estados Partes del Mercosur y el Gobierno de la República Del Perú. Available at: <<http://www.aladi.org/nsfaladi/textacdos.nsf/ca05a6ae01cc969583257d8100416d1e/83f546df31fd8b30032578950053f323?OpenDocument>>. Accessed on September 17, 2016.

<sup>45</sup> ALADI. Acuerdo de Alcance Parcial de Complementación Económica N° 38 Suscrito al Amparo del Artículo 25 del Tratado de Montevideo 1980, entre la República Federativa del Brasil y la República Cooperativista de Guyana. Available at: <<http://www.aladi.org/nsfaladi/textacdos.nsf/ca05a6ae01cc969583257d8100416d1e/4fcb0e72824b25da83257e4300506d05?OpenDocument>>. Accessed on September 17, 2016.

Concluded in this second phase, commercial trade negotiations lost drive and focus. There were sporadic actions: some important ones from an economic point of view, such as partial<sup>47</sup> and automotive<sup>48</sup> agreements with México (2002); others, motivated mainly for reasons of foreign policy, such as free trade agreements with Israel (2007)<sup>49</sup> and Palestine (2011)<sup>50</sup> and partial ones with IBAS, India (2005)<sup>51</sup> and South Africa(2008)<sup>52</sup>.

The low point in the negotiations occurred with Brazil's insistence on betting on the conclusion of the WTO Doha Round in 2008 and the subsequent suspension of any bilateral negotiations during the Dilma government. In the latter case, Brazil opted, for the first time since the end of the military regime, for a protectionist strategy focused on the domestic market.

It was only in 2015, with the economic crisis and the advent of the National Exportation Plan (PNE), prepared by rising MDIC analytic bureaucracy, that the country's trade negotiation program was resumed. The PNE was the first official document to re-establish clear guidelines and realistic targets for new agreements. While maintaining the objective of moving forward at the multilateral level, the Plan made clear the priority to be given to bilateral negotiations: to conclude a major free trade agreement with Mexico<sup>53</sup> (called an "expanded agreement", to circumvent the Mexican sensibility regarding the competitiveness of Brazilian agriculture); to conclude negotiations between Mercosur and the European Union; to expand and deepen existing agreements in South America and negotiate new ones with other Latin American partners; to adopt a building blocks strategy with the United States, through area and sector agreements; and to seek other partners for trade and investment negotiations.

---

<sup>46</sup> ALADI. Acuerdo de Alcance Parcial de Complementación Económica N° 41, Suscrito al Amparo del Artículo 25 del Tratado de Montevideo 1980, entre la República Federativa de Brasil y la República de Suriname para la Concesión de Preferencias Arancelarias para el Comercio de Arroz. Available at: <<http://www.aladi.org/nsfaladi/textacdos.nsf/ca05a6ae01cc969583257d8100416d1e/e908fe98577d516403257b5100455231?OpenDocument>>. Accessed on September 17, 2016.

<sup>47</sup> ALADI. Acuerdo de Complementación Económica N° 53 entre la República Federativa del Brasil y los Estados Unidos Mexicanos. Available at: <<http://www.aladi.org/nsfaladi/textacdos.nsf/ca05a6ae01cc969583257d8100416d1e/500a94b3290e6e3403256c440049306a?OpenDocument>>. Accessed on September 17, 2016.

<sup>48</sup> ALADI. Acuerdo de Complementación Económica N° 55 Celebrado entre el Mercosur y los Estados Unidos Mexicanos. Available at: <<http://www.aladi.org/nsfaladi/textacdos.nsf/ca05a6ae01cc969583257d8100416d1e/49f7cdd2e4a9e05603257893005a65ae?OpenDocument>>. Accessed on September 17, 2016.

<sup>49</sup> OAS. Available at: <[http://www.sice.oas.org/Trade/MER\\_ISR/Index\\_e.asp](http://www.sice.oas.org/Trade/MER_ISR/Index_e.asp)>. Accessed on September 17, 2016.

<sup>50</sup> OAS. Preferential Trade Agreement Mercosur-India. Available at: <[http://www.sice.oas.org/Trade/MRCSRIndia/Index\\_e.asp](http://www.sice.oas.org/Trade/MRCSRIndia/Index_e.asp)>. Accessed on September 17, 2016.

<sup>52</sup> OAS. Free Trade Agreement between Mercosur and the Southern African Customs Union. Available at: <[http://www.sice.oas.org/Trade/MRSRSACU/Text\\_2008\\_e.pdf](http://www.sice.oas.org/Trade/MRSRSACU/Text_2008_e.pdf)>. Accessed on September 17, 2016.

<sup>53</sup> MINISTÉRIO DAS RELAÇÕES EXTERIORES. Acordo Comercial Expandido Brasil-México. Available at: <<http://www.itamaraty.gov.br/pt-BR/notas-a-imprensa/9854-acordo-comercial-expandido-brasil-mexico-cidade-do-mexico-26-de-maio-de-2015>>. Accessed on September 17, 2016.



Returning to a clear, consistent and effective market access strategy is fundamental for reducing the country's isolation in the international economy. In this sense, it is necessary to realistically accept that Brazil is at a disadvantage compared to other G20 members - it needs to broaden its range of agreements, but it has no economic maturity (nor political disposition) to negotiate deep integration of arrangements such as the mega-agreement of the Trans-Pacific Partnership. Thus, resumption of the PNE, created successful political articulation between the government and the private sector (and among government agencies), is the fastest, safest and most effective way to move forward.

Despite the rhetoric exercised by each government, the country's priorities are already outlined in the Plan. Just running it efficiently and updating it annually is sufficient, as this mechanism was built into its own design. The Brazilian program of bilateral trade negotiations must abandon the intermittent nature it has acquired in recent years and become an integral part of trade policy and diplomacy. For that, it is also necessary to solve the institutional problem of the federal government, subject of the next section.

### **The institutional problem: governance bodies and conflict of competence**

Brazil has a tradition of adopting hybrid institutional models, which combine arrangements that are at the same time both old and new. The result is the perception that the country makes institutional transitions that are somehow interrupted and remain incomplete. This discontinuity creates incentives for various conflicts among governing bodies, reducing the efficiency and effectiveness of trade policy.

The four major economies ahead of Brazil - the European Union, the United States, China and India - have adopted an institutional model in which trade policy and foreign policy are formulated and implemented by distinct bodies, allowing areas of intersection without creating a hierarchy between two public policies. Brazil adopts a hybrid model, which combines the existence of a foreign trade ministry (MDIC, Ministry of Development, Industry and Foreign Trade) with another that is responsible for Brazilian foreign policy, but has competence over trade policy issues (MRE, Ministry of Foreign Relations). In addition, the model also incorporates an arrangement that is trending worldwide: that of assigning the control of customs to the tax authorities<sup>54</sup>. As in the case of Brazil, in which the Federal Constitution assures the Ministry of Finance, through the RFB, customs control, another 51 economies adopt this arrangement. The result of this institutional organization is that the combination of MDIC, MRE and Finance has historically created conflicts of competence among themselves.

Since the competence of the Brazilian foreign ministry regarding foreign trade includes specific topics of trade diplomacy - negotiations, dispute settlement, trade promotion and political support to Brazilian companies abroad - a brief analysis is needed on the institutional situation of each one.

---

<sup>54</sup>WORLD CUSTOMS ORGANIZATION. Customs Environment Scan (January 2016 update). Available at: <<http://www.wcoomd.org/en/about-us/what-is-the-wco/customs-environment.aspx>>. Accessed on September 17, 2016

The negotiation of new trade and investment agreements has to be approved by the Chamber of Foreign Trade (CAMEX), a collegial body responsible for formulating the entire trade policy. Created in 1995, CAMEX is in its third version. From its creation until the end of the FHC government, the Chamber was directly linked to the Presidency of the Republic and presided over by the head of the Chief of Staff. In this model, it had great power to convene, but without significant deliberative power, since it did not possess instruments to formalize and enforce its decisions.

In principle, this arrangement would allow the CAMEX Council of Ministers to arbitrate conflicts between the MDIC, MRE and Finance Ministry, as well as between other ministries. In practice, however, the conflict of competences persisted due to the lack of enforcement capacity of the decisions of the Chamber, and was expanded from 2001 when, in its second format, CAMEX was removed from the Presidency of the Republic and started to be presided over by the MDIC itself. This change significantly reduced the power of the Chamber to convene - which was partially compensated by a greater deliberative power, since CAMEX was delegated the function of establishing Resolutions to legally bind the other governing bodies to its decisions. Nevertheless, the conflict of competencies persisted, mainly due to the perception of the MRE and the Treasury that the Chamber was not a neutral collegiate, since it was chaired by another minister.

This impasse would only have a chance of being resolved in the current (third) phase of CAMEX. Since June 2016, the Chamber has again been linked to the Presidency of the Republic and chaired by the head of the Executive Branch. In addition, it has preserved its ability to impose decisions through Resolutions. As the highest authority, the President of the Republic can now arbitrate the conflict of powers and grant a clear presidential mandate to the MDIC, MRE and Finance Ministry for the negotiation of trade and investment agreements. CAMEX's new arrangement does not present an automatic solution, but it combines the best institutional elements available since its creation in 1995: convening power, deliberative power, and presidential mandate.

In the case of dispute settlement, the conflict of competences also exists, although it has less impact and is less aggravated. The main forum for resolving trade disputes used by Brazil and other major economies is the Dispute Settlement Body of the WTO. There is a virtual consensus among leading experts and practitioners of international trade law that the organization's dispute settlement system is rules-based, as opposed to a power-based system, as was the case in the former General Agreement on Tariffs and Trade (GATT), which governed multilateral trade relations from the end of the Second World War until the mid-1990s.

Despite the increasing legal profile of settlement of trade disputes arising from the creation of the Dispute Settlement Body, the fact remains that the resolution of these disputes still combines elements of diplomacy with purely legal elements. It was in this context that the Brazilian Foreign Ministry established and maintains the famous General Dispute Coordination (CGC), which is the

MRE area that has established itself as one of the most competent groups of contenders in the WTO.<sup>55</sup> Just recall Ambassador Roberto Azevêdo, the first head of the CGC, who reached the maximum rank for international trade - the general directorate—within that entity.

However, the tradition and effectiveness of the foreign ministry were not enough to avoid the conflict of competences. For more than a decade, the Attorney General's Office (AGU) considers defending the country in the WTO as part of its responsibilities. This position is based on Article 131 of the Federal Constitution, which states that the AGU is "the institution that, directly or through a related body, represents the Union, judicially and extra-judicially." Another possible reading, widely used by diplomats, is that the CSO does not only evaluate the policies and measures of the Brazilian federal government, but also of sub-national entities, and therefore, the MRE does not defend the Union in the WTO, but the Brazilian Republic itself – a situation different from that of AGU. Whatever the interpretation, the fact is that the two bodies sought an understanding, on the one hand, to preserve the competence of the chancellery and, on the other, to foresee greater participation of the representatives of the AGU in the day-to-day of the Settlement Body. This is not the optimal solution. The best institutional arrangement would be the amendment of Article 131 to confer on the CGC the specific jurisdiction over dispute settlement in the WTO, just as the Attorney General's Office of National Treasury (PGFN) has specific jurisdiction over the execution of the Union's outstanding debt – another exception to AGU's activities.

The third and final case of competence conflict related to commercial diplomacy is that involving commercial promotion. This activity, also known as business promotion, is often confused with business policy itself - and this confusion stems from misunderstandings about the nature of each. The commercial policy is, as has been previously stated, public policy aimed at calibrating the country's integration into the world economy, while commercial promotion is the execution of services to support the internationalization of Brazilian companies. In other words, one tries to create and modify the rules of the game; the other aims to provide tools for companies to play the game with the rules that are given.

Historically, the commercial promotion of Brazil was conducted by the Department of Trade and Investment Promotion (DPR) of the MRE, created in 1975. Its peak of performance and prestige occurred during the administration of Ambassador Paulo Tarso Flecha de Lima, who became an icon of the country's commercial promotion. In this model, which emerged and reached its apogee during the military regime and during the transition to democracy (and still while under the import substitution strategy), commercial promotion was a low-scale activity, that is, concentrated activity by a handful of companies, and influenced by the Brazilian government's capacity to offer services. In practice, it was the government that sought clients (exporters and importers) for the foreign market.

---

<sup>55</sup> BONOMO, Diego. Sem deixar a peteca cair: o Brasil e os contenciosos na OMC. *Pontes*. Genebra, v. 10, n. 6, August 28, 2014. Available at <<http://www.ictsd.org/bridges-news/pontes/news/sem-deixar-a-peteca-cair-o-brasil-e-os-contenciosos-na-omc>>. Accessed on September 17, 2016

The economic transformations of the 1980s and 1990s radically changed this scenario. Brazil's economic opening and the advance of globalization created a new market for commercial promotion services, which was driven by customer demand and no longer by the government's offer. The result was the expansion of the scale of the activity, which began to rely heavily on the private sector, mainly through entities called "System S", in particular the CNI, through the Brazilian Network of International Business Centers (CIN Network) and the Brazilian Support Service for Micro and Small Enterprises (SEBRAE). In this context, the DPR's supply capacity has been hindered by limitations on the foreign ministry's human and financial resources; (in budgetary terms, it is one of the smallest ministries)<sup>56</sup>, and by the low capillarity of the government structure with the private sector.

To remedy this situation, the Brazilian Agency for the Promotion of Exports and Investments (Apex-Brasil) was created in 2003, based on the experience and activities of SEBRAE. Funded by System S resources, the agency acquired a much larger budget than the DPR and quickly became the main agent of business promotion. In a few years, Apex-Brasil established commercial promotion projects with most of the Brazilian economic sectors as well as partnerships with dozens of private sector entities. This broad network allowed the agency to strengthen its position, but it was not enough to overcome the Foreign Trade Sector (SECOMs) network of the foreign ministry, present in more than 100 locations in all continents.

The decision to create Apex-Brasil without extinguishing the DPR or without establishing clear governance between the two institutions is yet another example of Brazil's tradition of adopting hybrid models that encourage conflict of competencies. As a result, for more than a decade the agency and the Ministry of Foreign Relations (MRE) department have swung between moments of cooperation and conflict without ever actually solving the issue. As in the case of CAMEX, the change of the model in 2016 opens a window of opportunity to solve this impasse. From its inception until that year, Apex-Brasil remained linked to the MDIC (Ministry of Development, Industry and Foreign Trade) through a management contract, which was transferred to the MRE. With the agency and the DPR under its guidance, the foreign ministry has, for the first time, the possibility of solving the problem. One possibility in this direction is the creation of the Agency's Commercial Promotion Attachés, to be allocated to SECOMs. This new addition would follow a modern trend, found in the major economies, that allows for activity by trade promotion specialists directly in the target markets of the business promotion effort.

Finally, mention should be made of the activity of political advocacy of economic interests of Brazilian companies in other countries. Since the beginning of the New Republic, these actions have been conducted, in parallel, by the Presidency of the Republic and the foreign ministry. On the one

---

<sup>56</sup> PORTAL DA TRANSPARÊNCIA. Gastos Diretos por Órgão Executor. Available at: <<http://www.portaldatransparencia.gov.br/PortalComprasDiretasOEOrgaoSuperior.asp?Ano=2016&Ordem=1&Pagina=2>>. Acesso em September 17, 2016.

hand, successive Brazilian presidents made use of presidential diplomacy to advance the interests of selected companies. On the other hand, the MRE has supported through the DPR itself the effort to generate business in high-risk political markets.

Although this type of activity is not new to Brazil, it is still conducted by the Brazilian government in a "makeshift" way when compared to other economic and commercial powers<sup>57</sup> that work in this area, such as the United States, China and some European countries. A recent example of systematic action in this direction was the U.S. State Department during the administration of Hillary Clinton<sup>58</sup>, which established a central command so that all foreign ministry posts prioritized the interests of U.S. companies.

In this case, the issue is less of a conflict of area of competence and more of a lack of institutional robustness to increase the efficiency and effectiveness of this activity. In order for the country to face the strong and difficult competition of the political action of the other economies, especially those of the G-20, it is necessary to improve the instruments for conduction of this activity, which in Brazil even lacks a specific name in technical jargon. This situation, however, has been aggravated by the advent of Operation Lava Jato, which has the potential to criminalize this important trade diplomacy action by confusing the (legitimate, legal and necessary) fight against corruption with the legitimate political defense of Brazilian economic interests abroad. This is the top of the next section.

### **The Problem of Lava Jato: Political Support and Public Resources**

It is still too early to assess the effects of the developments of Lava Jato on trade policy, but two issues are already emerging.

The first is the activity of political defense of the economic interests of Brazilian companies in third countries. In several phases of the Operation, the actions of Brazilian ex-presidents and diplomats were cited as providing support of the companies under investigation. There is no doubt that any illegal activity should be investigated and punished. However, the absence of specific rules on this type of activity by the Brazilian government has created a large gray area where legal and legitimate action can be criminalized as a result of illegal conduct.

It just so happens that every major economy includes what the United States calls "commercial advocacy" in its roster of commercial diplomacy actions. In other words, this refers to the government's own lobbying for its companies with foreign governments. Because this activity may

---

<sup>57</sup> THE WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS/COUNCIL OF AMERICAN AMBASSADORS. The Ambassador's Changing Mission. Commercial Diplomacy in the 21<sup>st</sup> Century. Available at: <https://www.wilsoncenter.org/publication/the-ambassadors-changing-mission-commercial-diplomacy-the-21st-century> Accessed on September 17, 2016.

<sup>58</sup>DWOSKIN, Elizabeth; LAKSHMANAN, Indira A.R. How Hillary Clinton created a U.S. business-promotion machine. *Bloomberg*. 10 de janeiro de 2010. Available at: <<http://www.bloomberg.com/news/articles/2013-01-10/how-hillary-clinton-created-a-u-s-business-promotion-machine>>. Accessed on September 17, 2016.

indeed pave the way to corruption, many of these countries have adopted specific legislation on the subject, such as the U.S. Foreign Corrupt Practices Act (FCPA), which punishes U.S. companies that bribe officials from foreign governments when seeking business abroad. In 2013, the Brazilian Anti-Corruption Act was approved, with the goal of curbing such practices both domestically and abroad - a similar scope, for example, as the UK's Bribery Act 2010.

Although legislation exists, there is perhaps a lack of instruments to separate more clearly legitimate and legal activity led by government officials and diplomats. Some possible solutions, already tested by other countries, include the approval of a Lobbying Law to regulate this activity and to establish, with legal acuity, the difference between advocating interests and corruption. In addition, it is worth considering if the Anti-Corruption Act could be deployed in specific legislation in terms of activities of Brazilian government officials and businessmen abroad, similar to the American FCPA. Finally, the Executive Branch itself, through the Presidency of the Republic and the Ministry of Foreign Relations (MRE), could adopt a "code of conduct" specifying guidelines and rules for government action. Its effect would be the protection of the authorities and diplomats, as well as the clarification of what, in fact, the government can do to promote the interests of Brazilian companies in other countries - and, above all, what it cannot do.

The second concrete issue related to Operation Lava Jato is the use of public resources to officially support the financing of Brazilian exports and investments abroad. At various times, the Operation and other related operations, including investigations conducted by Congressional Parliamentary Inquiry Committees of the National Congress, have addressed this issue. In particular, prosecutors, investigators and parliamentarians focused their attention on the support programs of the National Economic and Social Development Bank (BNDES).

Scrutiny of BNDES<sup>59</sup> operations that supported companies involved in Operation Lava Jato, together with the fact that there is great misinformation about how such mechanisms operate and who their beneficiaries are - as was clear in the episode of the construction of the Port of Mariel in Cuba - also tends to stimulate criminalization of this activity; an activity that is essential for foreign trade. In fact, (public) export credit is the only instrument that can assure the competitiveness of the country's companies in high-added value sectors, such as aeronautics, automotive and engineering. All major economies have such mechanisms<sup>60</sup>, many times with governance and economic impact higher than Brazil, as is the case with the American and Chinese Eximbank.

---

<sup>59</sup> CÂMARA DOS DEPUTADOS. CPI do BNDES. Available at: <<http://www2.camara.leg.br/atividade-legislativa/comissoes/comissoes-temporarias/parlamentar-de-inquerito/55a-legislatura/cpi-bndes>>. Accessed on September 17, 2016.

<sup>60</sup> SOUZA, Lúcia Helena; BARRAL, Welber. O financiamento à exportação como política econômica. *Revista Brasileira de Comércio Exterior*. Rio de Janeiro, n. 124, July/Aug/Sept 2015.

In its final year, the Lula government announced the creation of Exim Brasil<sup>61</sup>, in the form of an export credit agency. However, bureaucratic disputes within the Brazilian government itself made its constitution impossible. The creation of an Eximbank for Brazil is the best solution for maintaining and improving official support for exports and investments, as it solves three problems at once. By concentrating all financing operations and guarantees in a single body, a Brazilian Eximbank: i) reduces transaction costs for the exporter and the investor, who can direct themselves to a single "service counter"; ii) eliminates the fragmentation of the current governance model, which involves more than five government agencies and public banks to make official support feasible, thereby providing greater efficiency and effectiveness to government action; and iii) provides for greater transparency by facilitating the supervision of its activities by the control bodies and by society.

Without an agency that can compete on an equal footing with other economies, Brazil will not be able to experience the export boom so desired by the government and the private sector.

### **Seeking a solution**

The problem of Brazil's foreign trade is reflected in its isolation from the main flows of international trade. Overcoming this will require solutions to the structural issues involved in the "Brazil cost" and a strategy of commercial diplomacy, especially with regards to bilateral trade negotiations. It is also necessary to improve the current institutional arrangement, reducing or eliminating conflicts of areas of competence. In this way, the changes promoted by the Temer government in 2016, especially those involving CAMEX and ApexBrasil, present two important windows of opportunity to solve institutional problems that have interfered in Brazilian foreign trade for years. It will be necessary to consider if solutions will be implemented or if the new institutional design will only exacerbate existing problems.

Finally, the advent of Operation Lava Jato creates the possibility of criminalization (legal or reputational) of important commercial policy instruments: political support for the defense of the interests of Brazilian companies in other countries and official support for the financing of Brazilian exports and investments abroad. Despite this risk, scrutiny of such activities by the Operation and other complementary actions may also lead to improvement of these two mechanisms, either from a legal or institutional design perspective.

The analysis presented herein is not intended to be exhaustive in providing an overview of the roots of the problem of Brazilian foreign trade to in offering solutions. Its purpose is to offer an analysis and recommendations on topics which require essential debate, however limited. The ultimate goal is to provide a relevant contribution to the reform of Brazil's trade and foreign policy.

---

<sup>61</sup> MINISTÉRIO DA FAZENDA. Exim Brasil vai acelerar operações de financiamento ao comércio exterior. Available at: <<http://www.fazenda.gov.br/noticias/2010/maio/exim-brasil-vai-acelerar-operacoes-de-financiamento-ao-comercio-exterior>>. Accessed September 17, 2016.

# Anti-corruption Diplomacy

*Marcos Tourinho holds a Ph.D. from the Graduate Institute of International and Development Studies and is a professor at the FGV School of International Relations.*

The last twenty years has witnessed profound transformation in international anti-corruption mechanisms. Treaties under the scope of institutions such as OAS (1996), OECD (1997) and the UN (2003) have encouraged the improvement of national legal systems in this area, contributing to more consistent existing regulatory frameworks and improving the implementation of them. Institutions for inspection and control were created or strengthened in several countries, and many of them started to cooperate with each other. Particularly since September 11, 2001, drastic transformations in the transnational anti-money laundering regime have increased the transparency of the international financial system, reducing the scope for previously common financial maneuvers around the world. In this way, the international campaign against terrorism, driven mainly by the United States and its European allies, has increased the scope and ambition of the nascent system of global anti-corruption governance.

The new global regulatory framework and the new technical resources fostered in such regimes had true impact on the Brazilian State. New financial control and intelligence institutions were created or strengthened through instruments developed to ensure their implementation in accordance with what was already provided for in the constitutional text - Public Prosecutor, Federal Police, Federal Comptroller General, Courts of Accounts and Council for Control of Financial Activities. These mechanisms have been essential to recent advances in the fight against corruption in the country. In addition, international legal cooperation has been widely used in Operation Lava Jato, for example, to obtain evidence and repatriate funds that had been deposited abroad and that originated from corruption.

In 2016, the international anticorruption agenda continues to fully expand. The UK Government organized an [Anti-Corruption Summit](#), for high-level discussion of the topic with the presence of heads of state and foreign ministers from various countries. Discussed were critical issues such as the transparency of ownership of funds in the international financial system, the problem of tax havens and tax evasion, recovery of assets and improvement of the quality of public contracts.

This chapter assesses how Brazilian foreign policy can strengthen public anti-corruption institutions in Brazil. It is organized into three parts. The first section presents the essentials on the international anti-corruption regime. The second outlines the way in which Brazil participated in the establishment of this regime, and the consequences of this international normative transformation for the country. The third section offers practical recommendations for the creation of a foreign policy specifically aimed at combating corruption and putting Brazil at the forefront of the process of creating a global regime dedicated to the topic.



## The international anti-corruption regime

Briefly defined, corruption is “[the abuse of entrusted power for private gain](#)”. The [UN convention](#) on the topic specifies a series of activities considered corruption, including: bribery of national public officials, foreigners and public international organizations; embezzlement, fraud, misappropriation or other misuse of property by a public official; influence peddling; abuse of functions; illicit enrichment; bribery in the private sector; or embezzlement of assets in the private sector.

Corruption results in extremely high costs for society. The abuse of power and public authority in favor of private interests erodes democratic institutions and the social fabric, distorts public policies, produces legislation and regulation against the public interest, jeopardizes the collection of taxes and causes serious damage to economic growth and reduction of poverty. Although clear data on corruption, which is generally a secretive activity, is difficult to obtain, [a recent study estimated that](#) the annual costs of bribe payments to public agents (which accounts for only one aspect of corruption) as nearly seven trillion reais, or 2% of worldwide GDP.

The international anti-corruption regime is composed of a series of national and international laws, norms and institutions that directly or indirectly hinder or fight against corruption. These standards include a large number of international treaties, national laws with extraterritorial effects, public and private regulatory systems and public and private, national and international institutions, as we will see below.

The global anti-corruption regime is a relatively recent development. Following the [Watergate scandal](#), pressured by public opinion, the United States Congress decided to address the fact that some companies in the country systematically paid bribes to officials from other countries. The efforts resulted in the FCPA (*Foreign Corrupt Practices Act*, 1977), an [extraterritorial law](#) that makes payment of bribes and advantages to gain influence abroad illegal and punishes domestic or foreign companies (as long as they are associated with the North American market) and their leaders. The application of US criminal law beyond its territorial borders is a [central element of the law](#), both in its ability to punish economic agents from other states under its own legislation (and following priorities within its prosecutor's office), as well as the ability to have influence upon the international regulatory environment. Therefore, despite the fact that the implementation of the FCPA has been historically [relaxed](#), the law has served as an initial model for further initiatives for combat of corruption abroad.

However, throughout much of the 80s and 90s, the payment of bribes to foreign public agents remained a central part of the business strategy of multinational corporations - often with the tacit consent of their states. Some scholars have come to regard such practices as an inherent element of

the modernization<sup>62</sup> process. In countries such as Canada, France, Japan, Luxembourg, and Germany, for example, deduction of taxes for bribes paid abroad [was permitted](#), provided that the identity of the recipient and the business motive for the payment were declared.

It was only in the early 1990s that two parallel processes started to contribute significantly to the expansion and consolidation of the international anti-corruption regime: the agenda of international organizations and the fight against money laundering motivated by anti-drug policies and counter-terrorism.

The end of the Cold War ushered in a new emphasis on domestic governance issues in international institutions such as the World Bank and the International Monetary Fund, among others. These organizations, motivated in part by the concerns of donor countries, have come to interpret corruption as an essential element in bringing together developmental paths between countries in the North and South (a [questionable](#) premise for some). Thus, these organizations began to publish studies and technical guidelines for improving the management of public resources, including administrative procedures, to establish a regulatory environment conducive to the private sector (in the case of the IMF) and to overcome obstacles to social and economic development. (World Bank).

Transformations in the debate on corruption in [academia](#) and in [civil](#) society and the [public sector](#) linking corruption to underdevelopment have contributed to the advancement of the issue in other international organizations such as the OAS, the OECD, the Council of Europe and the UN. These initiatives were further encouraged by the United States, which since 1988 has sought to universalize its own regulatory environment to ensure parity of conditions for U.S. companies in the international market, as shown by [studies](#) in the [area](#). The OECD sponsored the [Convention on Combating Bribery of Foreign Public Officials in International Business Transactions](#) (1997), which, following the FCPA model, criminalizes the payment of bribes to foreign public officials. The Convention, also open to non-OECD members, also establishes clearer accounting and auditing rules and prohibits income tax deductions for bribe payments, a practice that is still common in some countries.

The OAS itself coordinated the work for the [Inter-American Convention against Corruption](#) (1996), a much more robust document designed to prevent, detect and punish corruption at the national and international levels. The Convention has notably gone beyond previous initiatives, seeking to promote the strengthening of domestic institutions that contribute to preventing, identifying, punishing, and eradicating corruption. To that end, the Inter-American Convention established the criminalization of certain activities associated with corruption and facilitated international cooperation among the parties of the treaty through legal support and technical cooperation, extradition and identification, tracking and freezing of funds. In 2001, [MESISIC](#) was also established, an influential mechanism for assessing compliance with the convention by party-states.

---

<sup>62</sup> Huntington, Samuel P. "Modernization and corruption." *Political corruption: Concepts and contexts* (2002) 253-63.

In 2000, the UN General Assembly established an ad hoc committee to start work on a [United Nations Convention against Corruption \(UNCAC\)](#), concluded in Merida in 2003, which consolidated the various regional initiatives on the subject and became the largest and most comprehensive international instrument on the topic. The Convention is organized into four main areas: prevention, penalization and law enforcement, international cooperation and asset recovery. In 2009, a formal verification mechanism was established.

The United Nations also sponsored the [United Nations Convention against Transnational Organized Crime](#), signed in Palermo, which, among other items, defined and classified the crime of a criminal organization (different and more serious than that of formation of a gang) and endorsed the use of special investigative techniques such as plea bargains. The Convention also had a catalytic role in international cooperation by providing a formal basis for mutual legal assistance.

In parallel, and particularly after September 11, 2001, developments in international anti-money laundering policy had a major impact on anti-corruption policies. Money laundering is the process of hiding illicit origin of money derived from criminal activities. It is a crime motivated by the need to legitimize and reintroduce large amounts of capital into the financial system without alerting the controlling authorities.

The fight against money laundering [seeks to hinder](#) the use of such funds by criminals, further increasing costs and decreasing the attractiveness of past crimes. It took shape with the creation of the [International Financial Action Group](#) (GAFI/FATF) by the G7 in 1989. The idea was to establish a transnational network of governmental treasury officials from industrialized countries to coordinate anti-money laundering policies, especially funds originating from drug dealing. Today, the FATF has 34 member states, including all BRICS member countries. In 1990, FATF members made 40 recommendations on how to handle the problem of money laundering, and these became a fundamental norm in the area. Although these recommendations are not mandatory and the FATF insists that it has no interest in creating new legal obligations, the recommendations have become, in practice, mandatory. It should be noted that, although it has a limited number of member countries, the FATF seeks universal adherence and does so with great drive, creating [new problems](#) from the point of view of approval in international law. This was particularly the case since September 11, 2001, when the fight against (the financing of) terrorism had a new sense of urgency in attempts to make the international financial system more regulated and transparent. The additional recommendations made one month after the attacks in New York and Washington D.C. added to the new impetus with which the U.S. Treasury began to demand compliance with these standards, so that public and private entities could operate in the U.S. market.

Efforts to combat the financing of terrorism (CFT) have had a major impact on anti-corruption policies. The demands on the market in terms of money laundering have, in fact, resulted in greater transparency and monitoring of the international financial system, often for [questionable means](#). Since then, in practice, absolute secrecy in banking has ceased to be the rule and banks must share

information about their account holders with their governments, not only in cases of suspected terrorist financing, but also of money laundering and tax evasion. In this period, there was an exponential growth of international legal-banking cooperation, and the creation and strengthening of Financial Intelligence Units (FIUs, such as the Brazilian COAF) in various countries. These transformations have facilitated the monitoring of politically exposed people, including corrupt politicians and officials.

The international anti-corruption regime is now composed of a robust system of national and international laws, norms and institutions. To start, there are obligations established by treaties that must be internalized. Second, there are the national laws with extraterritorial effect (such as [FCPA](#) in the United States and the [Bribery Act](#) in the U.K, among others), due to the presence of companies and financial institutions in the markets of those countries, with important [impact](#) on countries like Brazil. Third, there are international norms that, considered imperative by market agents, have been applied by the private sector independently of legal obligation - only by pressure from the new market regulations, which have become progressively restrictive toward criminal activities in the global financial system. Finally, there are the formal and informal relations between control institutions that have begun to cooperate more systematically through the creation of dedicated international fora, such as the FATF and the [Egmont Group](#), which brings together financial intelligence units from around the world.

### **Brazil and anti-corruption policy**

International relations were at the center of the transformation within the Brazilian state that permitted that the recently emerged fight against corruption to actually move forward. Since the end of the 90s, Brazil has become part of the main multilateral treaties on the subject, including the Inter-American Convention against Corruption (1996), within the framework of the OAS, the Convention to Combat Bribery of Foreign Public Officials in Transactions of OECD, the United Nations Convention Against Corruption (2003) and Organized Transactional Crime (2003). Brazil has also been a member of the FATF- fighting against money laundering since 2000, as well as its Latin American regional arm - [GAFILAT](#).

These mechanisms played an important role in the growing sophistication of Brazil's anti-corruption institutional apparatus, particularly for technical areas not squarely on the radar of public opinion - and in many cases, of political parties. Perhaps for this reason, since the signing of the Inter-American Convention in 1996, all governments of both the PSDB and the PT have implemented measures that have advanced the objectives and parameters to combat against corruption in Brazil.

For example, in 1998, the crime of money laundering was defined and the Financial Activities Control Council (COAF), the Brazilian financial intelligence unit, was created. [COAF](#) is an instrument of the Ministry of Finance which, with the participation of several ministries, is responsible for the prevention of and fight against money laundering in Brazil, with responsibility

for the identification and evaluation of suspected occurrences of illegal activities and for coordinating the exchange of internal and external information to facilitate the fight against crime. In 2000, Brazil became part of the FATF.

In 2001, the General Magistrate of the Union was created - a body created to combat fraud and corruption in the public sector. In 2003, the Magistrate became the [General Comptroller of the Union](#), when it was also strengthened through numerous institutional improvements. It has obtained more resources and institutional security, having a substantial impact in the fight against fraud and corruption at the various federal levels.

The international conventions that Brazil adopted (especially the UN's Merida and Palermo,) served as an inspiration and impetus for the robust evolution of Brazilian anti-corruption legislation in the recent decades. There is emphasis on criminalizing money laundering (and further legislation), formal inclusion new criminal investigation techniques (including plea bargains), and facilitating, through multilateral instruments, legal cooperation between countries. In other cases, the signing (and subsequent ratification) of these instruments served to strengthen principles of public administration that, although in fact present in the Federal Constitution of 1988, required more comprehensive application in practice. This was the case with the monitoring mechanisms of the Inter-American Convention (MESICIC) and the FATF, which, through visits and monitoring reports, contribute to the implementation of international standards and the functional evolution of control institutions. In both models, such ideas found in the activism of state officials fertile ground to advance the anti-corruption mechanisms in the country.

The transformations in the global environment to combat corruption and money laundering have also facilitated increased instances of international legal cooperation by Brazilian institutions. The Federal Public Prosecutor's Office has built and used a [wide and diverse network of legal cooperation](#) to facilitate the tracking of illicit funds originating from corruption and the recovery of assets in the international financial system, in addition to providing mutual legal assistance. In the early part of the 1990s, such collaboration required specific agreements between different countries, but the demand for mutual assistance in international treaties and the formation of formal and informal trans-governmental networks created this new resource, which became simpler and cheaper.

International legal cooperation has played an essential role in the success of Operation Lava Jato. The operation [recovered R\\$ 545.9 million and made 108 requests for international cooperation in countries such as Antigua, Panama, Switzerland and the Virgin Islands](#). Intense legal cooperation also made it possible to obtain documented evidence of the ownership of secret accounts held by Brazilian politicians and companies in banking systems outside Brazil, which allowed for cases against, among others, former president of the Lower House [Eduardo Cunha](#) and the swift conviction of businessman [Marcelo Odebrecht](#).

**A new anti-corruption diplomacy?**

The fight against corruption and embezzlement of public money is of crucial importance for Brazilian society. Given that it has important transnational components, it is one of the areas where foreign policy has the potential to make a concrete contribution to the country's development and democracy.

International public policies against corruption hold an important place on the international agenda. The recent World Anti-Corruption Summit in London was attended by heads of state and foreign ministers working to develop the agenda for greater transparency and greater monitoring of the international financial system. On the [agenda](#) were efforts against explicit or implicit bank secrecy, through the use of a number of offshore firms and tax havens.

Brazilian diplomacy should give new emphasis and visibility to anti-corruption foreign policy, since this would be an investment that could offer specific results for strengthening of Brazilian institutions. The controlling institutions of the Brazilian State (ministries such as Justice, Finance, Public Ministry and Federal Police) should have large and substantive participation in these initiatives. This effort is particularly important now that large Brazilian multinationals have been exposed by Operation Lava Jato as exporters of corrupt practices to third countries, with serious implications for Brazil's economic, commercial, political and diplomatic interests.

The last cycle of expansion by Brazilian companies abroad was in many cases closely associated with the use of illicit practices, such as influence peddling, the concession of illegal public financing and bribes to foreign public officials. As demonstrated by Operation Lava Jato, the obtaining of undue advantages, often associated with the financing of campaigns and political parties, has contaminated what are in principle legitimate efforts of commercial promotion on the part of politicians and civil servants.

In addition to jeopardizing the image and business of domestic companies abroad, the exposure of Brazilian corruption hindered commercial and service promotion activities by [Brazilian diplomats](#). For these reasons, Itamaraty should take on as a priority the development of a new protocol to advocate for Brazilian private interests abroad. To this end, the Ministry of Foreign Affairs could identify international best practices to coordinate relations among national companies, development banks such as BNDES, trade promotion agencies such as Apex-Brasil and foreign governments. The objective would be to produce a kind of "code of conduct" capable of preserving the work of professional diplomats, in addition to serving as a new guideline for behavior of Brazilian multinationals abroad.

Itamaraty could also actively participate in the process of recovering the reputation of large Brazilian companies through existing mechanisms for international certification of private governance. The [UN Global Pact](#), for example, has been seen as an [opportunity](#) to clear Brazilian companies immersed in corruption cases. The Ministry can go even further by identifying best practices and

other international mechanisms for specific sectors that offer stricter certification for corporate governance in their international performance.

International cooperation has been an important element in the country's anti-corruption efforts. An external policy against corruption should contribute to the strengthening of the international collaboration networks within the MPF, the COAF and other technical bodies. In practice, this mainly means accelerating adherence to existing multilateral agreements and facilitating technical and legal cooperation efforts by other organs in the Brazilian state. This implies, at times, accepting the role of technical bodies in the establishment or adherence to specific international agreements.

There are also cases in which it is possible to give diplomatic support to cooperation efforts, [frequently blocked for political reasons](#), and to collaborate in the establishment of bilateral protocols that facilitate technical cooperation agreements by other organs of the Brazilian State. Internally, the Ministry should strengthen government support of laws that facilitate, either [directly](#) or [indirectly](#), such international cooperation. Although these institutions have their own international cooperation chiefs, and the substance of these agreements is of a fundamentally technical nature, Itamaraty could facilitate the deepening of these relations both bilaterally and in multilateral forums. The same logic applies to [fighting income tax evasion](#), which is vital in times of crisis.

Finally, Brazil must recognize the importance of international norms in the institutional progress of the Brazilian State, expanding its efforts in formulation of new global norms that advance the interests of Brazilian society in the fight against corruption. In academics, in civil society, in the judiciary, in the Attorney General's Office (PGR), in the TCU, CGU, Fazenda and Courts, we have experts capable of contributing to raising the level of legal commitments of the country in the region or globally. Under the coordination of Itamaraty, these specialists could formulate new suggestions to create Brazilian activism in the area for the first time. By contributing directly to the advancement of international anti-corruption standards, ensuring that the rules correspond to the interests of Brazilian society, Brazilian foreign policy would be promoting a significant improvement in the quality of public life in the country.

# Security and Defense

*Érico Esteves Duarte holds a Ph.D. from UFRJ and is a professor at UFRGS.*

This chapter offers a review of the international security and defense constraints of Brazilian foreign policy. The first section offers an analysis of the nature of the problem that confronts the Brazilian authorities in this regard. This is followed by an analysis on the legacy of successive PT governments in the area. The third section focuses on the unintended effects and unforeseen outcomes resulting from public policy on international security and defense during the last few years. The article then evaluates the institutional design that frames this public policy, and ends by conditioning the strategic options for the Brazilian government. The final section studies potential integration mechanisms between defense and foreign policy areas, in an effort to improve the quality of the country's international performance.

## **The nature of the challenge**

The current international security scenario poses two major challenges to Brazilian foreign policy.

First, Brazil's activity in border area security is dysfunctional and insufficient. The Brazilian approach is anachronistic, marked by reactive, static, centralized and exclusionary structures and policies. When it comes to combating transnational threats, border closure policies have been adopted, within the logic of national introspection, as demonstrated in the Strategic Border Plan. There is a need for the country to develop a proactive view in regards to its borders, to consider them as areas of flux that should be connected with various federal entities, and handled in a collaborative and inclusive manner with efforts from its South American and South Atlantic neighbors. Brazilian border policies must be appropriate for the country's capabilities and regional interests. This demands a revision that can fine tune alignment of foreign policy, public security, defense and the various existing policies for enforcement.

Unlike what has been the case for most of its history, the Brazil of the 21st century has the political and economic conditions to exercise full control over its territory. Because of the economic progress of the last decades, there has been a slow and difficult - albeit significant - infrastructural integration among its various regions. Moreover, the demographic expansion into the country's interior has definitively removed the risk of political fragmentation, and turned the country's land borders into assets for national development and international integration. In this context, it is worth noting that international cross-border cooperation is positioned as an important instrument for promoting regional integration, since it fosters the creation of regional public assets and greater contact between peoples. However, in South America and Brazil, there are still no institutions to instrumentalize such cooperation on a regional basis.



Secondly, there exists the problem of maritime security. Maritime control is a challenging activity, and one that demands the maximum possible coalition of resources and collaborative actors. Even more striking than in the case of land borders, the Brazilian borders in the South Atlantic are dynamic and of a political as well as economic nature. Therefore, the possibility of 'closing' these borders is non-existent. Due to being its own main user, it is in the interest of Brazil to have a maritime security agenda for the South Atlantic.

Despite the initial positive effect of the South Atlantic Peace and Cooperation Zone (ZOPACAS)<sup>63</sup>, formulation of a regional maritime security agenda demands deliberation procedures that do not exist in Brazil today, either because the links between Itamaraty and the Armed Forces are insufficient, or because it would be necessary to include other sectors of society and government in the efforts.

The ZOPACAS initiative was resumed by Brazil in 2010. Similar to the original proposal of the 1980s, the idea was to offer a counterpoint to the review or expansion plan of the North Atlantic Treaty Organization (NATO) for the South Atlantic. The re-launch of ZOPACAS occurred in the wake of the expansion of the Brazilian strategic environment, which includes: the creation of the Union of South American Nations (UNASUL); leadership in the Peacekeeping Operation in Haiti (MINUSTAH); a more active foreign policy in Africa; and economic activities related to pre-salt. Therefore, ZOPACAS seemed to be the correct solution to the centrality that the South Atlantic took on for the country's interests, in addition to the absence of governance in this region. This was due to the concentration of efforts and resources of the U.S. in the Middle East and the Pacific, in addition to the American refusal to see such maritime absence in the Western Hemisphere filled by European countries. The re-launch of ZOPACAS was seen as an innovative Brazilian effort by European observers, but due to lack of follow through, the movement lost its momentum and impetus. As a result, its effect has been limited, with declining membership of important member countries - such as South Africa - and increasingly less institutional support from Brazil, mainly from Itamaraty.

The most serious problem affecting the country today at its land and maritime borders is the international flow of cocaine. As a result of the effectiveness of the U.S. activities in Central America and the Caribbean, Brazil has been transformed into a type of trading warehouse for the drug. Today, most cocaine trafficking occurs through the ports of Salvador, Paranaguá, Navegantes, and Santos, with a great portion of the drug being distributed and consumed in the large cities. The cocaine exported through Brazilian ports travels to West Africa, with consumer markets in Europe and Asia as its final destination. This new pattern of trafficking is linked with international criminal organizations operating in so-called 'failed states', fueling insurgent groups and even terrorist organizations. The institutional bases of the Brazilian government do not deal with joint efforts of

---

<sup>63</sup> MINISTÉRIO DAS RELAÇÕES EXTERIORES. Zona de Paz e Cooperação do Atlântico Sul. Available at: <<http://www.itamaraty.gov.br/pt-BR/politica-externa/paz-e-seguranca-internacionais/151-zona-de-paz-e-cooperacao-do-atlantico-sul>>. Accessed on September 16, 2016.

foreign policy and security that could create a response capable of mobilizing Brazil and alliances with regional partners, South American institutions, and international organizations.

The security of the borders and the situation of Brazil in the new geopolitics of drug trafficking are two challenges that develop against a background marked by deep transformations in global security and defense. Such a context needs to be understood to prepare efficient responses to the fundamental problems that we face in this area.

On one hand, the collective security system under the aegis of the United Nations has been in crisis since September 11, 2001 and the U.S. intervention in Iraq that occurred two years later. There is currently a pattern of unilateral military interventions by major powers, coalitions of convenience or through proxy actors, as is seen today in the tragedies that plague Syria and Ukraine. Such a situation is deleterious to Brazil, whose behavior maintains emphasis on traditional multilateral organizations, even when the country faces difficulties in honoring its financial commitments with them. However, in this scenario there is a renewed space for regional schemes for provision of international security, such as that seen in Asia and Africa, and given the interest from other countries worldwide in the articulation of the Union of South American Nations (UNASUL).

On the other hand, a global reorganization of defense equipment production is occurring, due to shrinking European budgets for armament purchases and war technology. With restricted opportunities for sale in domestic markets, European suppliers now seek customers in other regions of the world, and are offering civilian products or services to non-state actors, sometimes even relocating production to what is today's largest market for arms purchases, which is Asia. Such a change is increasing the competition among suppliers and therefore offers opportunities for acquisition of military material and technology for armed forces and the defense industries in countries like Brazil. In the midst of a major economic crisis, however, the federal government has few financial instruments available to take advantage of this situation.

### **The legacy of the PT governments**

The Brazilian policy of international security has seen important changes in the last decade. In the first place, the Lula government revised its defense policy aimed at promoting 'new' Brazilian strategic thinking, an effort that involved universities, civil society and the Armed Forces in discussions about Brazil's strategic environment and improved preparation and employment of existing forces. Aware of the scarcity of resources and the low popular appeal of this subject, the government linked the new policy to the attempt to revitalize the defense industry sector through the granting of subsidized BNDES credit, despite the questions about the effectiveness and real cost of the endeavor.

The National Defense Strategy<sup>64</sup> was published in 2008 and the National Defense White Paper<sup>65</sup> in 2012. Although the procedures for drafting and the coherence of these documents may be criticized, they are two original initiatives with positive results, as they set the parameters for reforming military institutions and involving civilians in the process. Here was an expansion and revitalization of the defense debate in Brazil that was more significant than in previous governments.

This reorientation benefited from the Brazilian experience in MINUSTAH, a mission that was taken on without much discussion or reflection on possible consequences, but with significant effects on the country's conceptions of international security. As the largest military mobilization in Brazil since World War II, MINUSTAH required the Armed Forces to modernize procedures, doctrine, armaments and relations with other organs in the Brazilian government. On the other hand, it brought increased prestige and reputation to the forces, which were faced with the challenge of sustaining a contingent of 3,000 high-performance soldiers remotely.

Brazil also has been involved in anti-piracy initiatives in the Gulf of Guinea, at the invitation of the Economic Community of West African States (ECOWAS), providing training on offshore approaches for handling suspicious vessels and training for legal proceedings for illicit vessels.

As another result of this revitalization of defense policies and a favorable budgetary environment, Brazil has made defense acquisitions. In addition to the obvious impact on the modernization of the Armed Forces, such investments have opened up cooperation agreements for technology transfer and the development of bilateral and multilateral military project partnerships. There were purchases of Gepard heavy tanks and Gepard air defense batteries from Germany; the Scorpène submarine project with France; the Phoenix 2 Project for acquisition of Saab's Gripen fighter jets from Sweden.

### **Consequences and unexpected results**

The new defense policy documents, combined with the experience in Haiti, the expectation of the upcoming World Cup and the Olympic Games, and the acquisition of new high-cost weapon systems, had two impacts on the structure of Brazil's Armed Forces.

On the one hand, there was a revision of the planning procedures of the Armed Forces, with an emphasis on centralizing the operational command of the military contingents and increasing the coordination among the forces of its process of consultation, planning and procurement. A New

---

<sup>64</sup> MINISTRY OF DEFENSE. *Estratégia Nacional de Defesa*. Available at: <[http://www.defesa.gov.br/projetosweb/estrategia/arquivos/estrategia\\_defesa\\_nacional\\_portugues.pdf](http://www.defesa.gov.br/projetosweb/estrategia/arquivos/estrategia_defesa_nacional_portugues.pdf)>. Accessed on September 16, 2016.

<sup>65</sup> Idem. *Livro Branco de Defesa Nacional*. Available at: <<http://www.defesa.gov.br/arquivos/2012/mes07/lbdn.pdf>>. Accessed on September 16, 2016.

Strategic Defense Planning System<sup>66</sup> subordinated the plans for the area of Air Force, the Army and the Navy. In 2010, the Joint Chiefs of Staff of the Armed Forces was created, with a scope above the commanders of the three forces with authority for employment of the Armed Forces in direct correspondence with the Minister of Defense and the Presidency of the Republic. The restructuring strengthened the Ministry of Defense, and also created a basis for better synergy among the Armed Forces and sectors of society. These institutional advances were surprising, since subordination of the forces to the structure of the Ministry of Defense had been a pending agenda item since the creation of the Ministry itself.

On the other hand, all these factors led to better trained military officers. The operation of new and more advanced weaponry systems, execution of highly complex peace operations, and fulfillment of new requirements and institutional procedures required enhanced education and qualification of officers. Military schools began gradually revising their educational structures, with the creation of graduate programs established according to the criteria and evaluation of the Coordination of Improvement of Higher Education Personnel (CAPES). There was also an invitation for collaboration and connections among professors and post-grad programs. This exponentially increased contact among each of the forces in an alignment of perspectives, concepts and procedures, as well as cooperation between universities and military commands of the three forces. Therefore, there is a greater flow and discussion between forces and civilians in terms of Brazilian defense policy's strategic decisions.

An example of this new standard of exchanges and experiences was data fusion technology by Saab, part of the transfer package in Sweden's acquisition of Gripen fighters, which allowed the Santa Maria Armored Training Center to include different training platforms and simulated combat. This will allow for considerable advancement in 3rd Army Division training, it being the largest ground troop in South America, thanks to cooperation agreements with the Federal University of Santa Maria and the Federal University of Rio Grande do Sul.

### **Institutional design**

International security issues do not have the institutional support necessary for interministerial planning and decision-making environment. The cooperation between the Ministries of Foreign Affairs and Defense, and of these ministries with others, takes place in a reactive way within subjects of strict interest to both, and not due to continuous planning to care for the daily problems that Brazil faces on this matter.

The presidential role is limited to symbolic rituals and for decisions regarding the regular replacement of high-ranking Armed Forces members, when not in moments of exceptional crisis

---

<sup>66</sup> Idem. Sistema de Planejamento Estratégico de Defesa (SISPED). Available at <[http://www.defesa.gov.br/arquivos/legislacao/emcfa/publicacoes/politica\\_estrategia/sisped\\_2015.pdf](http://www.defesa.gov.br/arquivos/legislacao/emcfa/publicacoes/politica_estrategia/sisped_2015.pdf)>. Accessed on September 16, 2016.

situations. There exists no standard for follow-up and decision-making on security and defense issues regularly supported by a qualified team of staff.

The Chief of Staff's Office has become, in recent years, the driver of long-term strategic projects and reports in an informal, perhaps even improvised way. However, the lack of a bureaucratic structure capable of articulating the other ministries makes any coordination unstable and fragile. As a result of the inconsistency in the tasks and organization of the Chief of Staff's Office, strategic interministerial projects and actions are not based on decision-making capacity and long-term evaluation.

Another issue is the sustainability of the revitalization policy of the Brazilian defense industry, and the procurement policy for the Armed Forces. This is particularly burdensome because acquisition projects with international technology transfer are complex, expensive and are of a long-term nature. Therefore, they are subject to variations in the state's economic situation and budget cuts in times of crisis and retraction. Given that Brazil's geopolitical situation does not include any major regional threats, such projects never gain decisive support from the political class or in Brazilian public opinion. This, however, hinders the execution of military plans for innovation, which differs from the market logic. While the state plays a central role in the development of the sector, the logic of innovation of military organizations is distinct from capitalist corporations.

States have a large effect on the performance of defense companies. First, in terms of the need for international cooperation agreements in most of the sector's projects. Due to high technological complexity and intense international competition in this market, it is necessary to involve the State in seeking partners to transfer and/or jointly develop technologies, in addition to enabling companies in productive and commercial terms. The State must combine the different policies of the government, the ways in which sector's companies operate in the international environment, and the interests of involved foreign partners (both state and private) while observing international regimes that constrain actors and cooperation agreements. Second, through defense material products and services contracts and sector policies, the State can encourage companies to increase their performance in the defense sector. Unlike the Cold War context, today it is rare to find companies that can survive just through sales of defense equipment; incentives and sector management are needed to organize interfaces between civil and defense production chains. Finally, the State is the only agency with the tools and authority to create intra- and inter-institutional relationships geared towards innovation, in order to form a national innovation system, involving: interaction between the various players that make up the defense industry sector, collaboration in science and technology projects among military, business, and academic representatives, and the training of the necessary skilled labor.

In countries with advanced economies, the dynamics of private interests of corporations and of the market are sufficient to attend to several of the technological demands of the areas of security and defense. However, in countries with lower performing economies (and even in some advanced

economies), the initial costs, risks, and long periods of maturity and return have made certain civilian research and development contracts impracticable in terms of cost-benefit. As a result, such work required a decision by government, focused on long-term benefits. Nuclear technology is a classic case. Though the field was theoretically well developed as early as the 1930s, experiments were delayed by the lack of laboratories, which were extremely expensive. It was only with the imminence of World War II and the context of the Manhattan Project that there was allocation of resources for creation of large laboratories at Stanford, Princeton and Harvard universities and for collaboration between physicists and engineers, high political decision-makers, and the military in the United States.

The disconnect between military technological innovation and combat effectiveness is due not only to the fact that military institutions are less dynamic than private corporations, but also due to a continuous series of technological changes - in weaponry, for example - that bring more negative than positive effects on the combat capability of a military organization. An ongoing process of innovation raises uncertainties about the usefulness, usability, and safety of new weaponry because it has not yet been tested in combat. This results in the lack of procedural preparations, specializations and competences that all armed forces need to operate. Armed forces operate in an environment of wear and tear, uncertainty and danger. Therefore, their organizations are filled with elements of repetition, redundancy, low specialization and high decentralization. All of these are characteristics that compromise the innovation in warfare, as it is used in the technological logic of capitalism.

The expectation of the close relationship between defense, technology and industry is reasonable. However, to state that military technological development always generates industrial technological development expresses another strategy of social communication aimed at creating support for acquisition programs more than a realistic analysis of the empirical evidence. Technological and industrial military or civilian development is always marked by political processes. The creation or modernization of a productive sector or a combat capacity follows decisions about how to allocate scarce technical, human and financial resources.

In the Brazilian case, there is no expectation that the private sector can take on the role of inductor of military technological innovation, and it recognizes the importance of public support for reaching the necessary stages of military and commercial viability of strategic value technologies. Whether it is to induce such collaborations, or to decide on allocation of scarce investment resources, it is important to more deeply consider national innovation schemes, such as the Japanese and Finnish models, for example. In both cases, an innovation strategy is the prerogative of the prime minister, who articulates over the long term: i) interdependent relations in specific sectors, among companies that create the appropriate environment for new technological discoveries and competitive advantages; ii) incentives and financial support for cooperation between business and academia for cutting-edge research in specific areas and human capital formation; and (iii) national systems for education and vocational training for continuous improvement of skilled labor.

In Brazil, the National Innovation System has provisions, which in turn involves a Sector System of Defense Innovation. However, the composition and links between these systems are neither centralized nor directed by the government so that they can withstand the strength of lobbies, corporatism of the Armed Forces, and the bias of corporations and bureaucracies. In the absence of long-term directional planning, the efforts to develop or leverage strategic sectors in the Brazilian defense industry are haphazard, as seen in the case of military aircraft and nuclear products, two areas in which Brazil seeks accelerated integration, not following stages used by most other countries. Brazil aims to produce and export products in these areas of complexity and added value that is higher than the services and components that it is unable to provide domestically, and is obliged to import.

### **Integrating foreign policy and security to international defense**

The consolidation of the Ministry of Defense during the Lula administration also benefited from the creation of the General Coordination for Defense Affairs in the Ministry of Foreign Affairs. This is directly linked to the Secretary General of the Ministry and covers all activities, by exclusion, not handled by the Division of Disarmament and Sensitive Technologies or by the Coordination of Peace and International Security. The focus is international agreements in the area of defense, coordination of exchanges of military attachés, military exercises and promotion and export of weapons by Brazil to other countries. From 2013 and beyond, it has also followed ZOPACAS's re-launch initiatives. It includes no planning and evaluation assignments.

For example, the Coordination played an important role in Brazilian anti-piracy efforts in the Gulf of Guinea. However, such action is occasional and disconnected with the opportunities and events in West and Southern Africa that do not involve the presence of Brazilian military officers. Therefore, the Brazilian foreign ministry does not monitor, nor is it proactive in these regions. For example, it has little interaction with South Africa's alternative approach to ZOPACAS in the South Atlantic. Security and defense cooperation agreements with Cape Verde, Namibia and Angola were the result of invitations from these countries, rather than stemming from Brazilian initiative. Itamaraty could play a bold role in expanding these agreements to other countries and regions.

This could be further advanced through involvement of military higher education institutions and civil universities in developing scenarios and models for cooperation agendas, and even more so if they acted as initial and facilitating contacts between Brazil and other countries. In this way, existing defense research and education networks in Brazil through the Alvaro Alberto Pro-Defense Program for Research in International Security and National Defense could have a role in creating an initial and favorable environment for this species of international cooperation.

## Recommendations

The increase in the governance in border regions is urgent, since there seems to be ambiguity in Brazilian policies. On one hand, the country undertakes initiatives to foster regional integration - which would be a Brasilia-based project for the region, consolidating its leadership in South America. On the other hand, Brazilian leadership still shows tepid results in functioning as a guarantor of integration process in the subcontinent, especially in terms of security and defense issues.

A border security policy must take into account the interdependence among security problems affecting these areas, given that the growth of international movement since the last decades of the 20th century has brought with it a sense of insecurity for societies, especially in terms of porosity of the borders. In this sense, it is possible to argue that new security threats, in an integration process, transcend state borders and sometimes exceed state capacity to react individually, creating the need for collaborative action. UNASUL and its South American Defense Council play a key role in minimizing a imperialist perspective that other countries may have of Brazil, and focus on positive multilateral measures. Among them, the Integrated Border Monitoring System (SISFRON) is in an initial stage of development and can be used for cooperation and for building trust with neighboring countries. The errors of the Amazon Surveillance System (SIVAM) cannot be reproduced, as an isolated and useless benefit of collaboration arrangements with the other Amazonian countries. First, because electromagnetic waves invariably tend to violate border boundaries, as they extend throughout the environment until they are reflected back, in addition to the fact that effective monitoring should detect threats across the border. Second, in combating transnational and non-state threats, these systems are a regional public good and can function as a resource for bargaining and for influence.

Another lesson to be learned from SIVAM is related to its counterpart, the Amazon Protection System (SIPAM). In this case, an inherent problem was the lack of an institutional architecture that, based on data collected from SIVAM, would generate or nourish actions of the various agencies involved with public policies in the Amazon region, such as those conducted by the Armed Forces, Federal Police, and FUNAI, among others.

This architecture may very well be the main institutional challenge of any border surveillance system and any potential multi-state collaboration. This is because it creates a constant dilemma for intelligent use of information between a national sovereign resource and an asset for multilateral collaboration. Therefore, just as important as the technological apparatus configured for border surveillance activities is the development of human resources and institutional bases, and all these components must be politically oriented to maximize their utilities.

In the mid-term, the recommendation is for Brazil to establish a deliberative council that will continue to execute all strategic planning stages in a continuous and qualified manner. It should be



able to consider and decide on civilian and military aspects for strategic areas, which can only be resolved by political --rather than technical or bureaucratic-- deliberation.

Firstly, this body should orient the overlapping and strategic areas that require coordination among the Ministries of Foreign Affairs, Defense, Finance, Planning, Courts, among others. Therefore, this cannot be limited to the interactions of the subordinated departments in the conduction of agendas already underway. A greater degree of political evaluation is needed, as well as regular procedures applied to Brazilian integration in international security. This is mainly because Brazil's secure and stable geopolitical condition allows it to act more closely with other diplomatic and economic interests. However, the technical intricacies of related activities and existing bureaucratic structures have created too much insularity and specialization, with ineffectiveness and disarticulated results. Therefore, this has resulted in lost opportunities due to lack of proposals and continuity of existing ones.

The recommendation is that the Strategic Affairs Secretariat (SAE) gain a more effective and structured form within the Chief of Staff's Office. In this context, it must support and subsidize a National Planning Council that includes necessarily interministerial and strategic areas as subsectors - such as the National Innovation System. In all cases, there would be representation, interface and participation of the Ministries of External Relations and other ministries involved with the country's structural policies. The involvement of diplomats and military officers at this level would facilitate the procedures and raise the level of necessary articulation between them, and with other sectors of the State at the ministerial level.

In the second place, a national planning council should be capable of conducting all stages of planning: the formulation of scenarios and plans, the monitoring of projects, evaluation and updating of projects and initiatives. To do so, it must have a permanent and non-reallocated team in some way linked to the Itamaraty staff and the Armed Forces. Therefore, the SAE would emerge as an appropriate body for the function, as being in charge of the executive secretariat of the Council, the SAE would benefit from the outstanding position that the Chief of Staff Office obtained in the most recent mandates. It would also benefit from the team of managers and technicians that it already possesses but who may perform even better with a clearer, more permanent and well-oriented arrangement of its assignments and those from the Applied Economics Research Institute (IPEA). For some time, the IPEA has acted as a reference center for reports and plans in the various areas we deal with here. However, there is still work to be done in terms of links and orientation of its activities to executive actions and deliberations.

Therefore, in executing the Council's deliberations and being supported by its body of analysts and technicians, the SAE would have the legitimacy and ability to articulate the various initiatives between diplomacy and the Brazilian Armed Forces, including border management, which is at the center of this discussion. Finally, its outstanding position in Itamaraty and the Ministry of Defense

and connection with the Chief of Staff's office would provide better conditions for the updating, evaluation and reorientation of these initiatives.

# Brazilian Foreign Policy and the New Geopolitics of Energy

*João Augusto de Castro Neves holds a Ph.D. from the University of São Paulo and is Latin America Director for the consultancy Eurasia Group.*

If there is a lesson for those who follow international news, it is that everything can change in a moment. A war, a terrorist attack, a pandemic, an accident or even an unfortunate comment can change the status quo and unexpectedly change the contours of international relations. This is also the case in the energy area. The oil market, for example, is often affected by conflicts and by the major economies. Less obvious but very relevant for the sector is environmental degradation and the emergence of new clean technologies that can rapidly and profoundly alter the dynamics of a market that many see as crucial and perennial for economic development.

For Brazilian foreign policy, therefore, the challenge is to reconcile goals that are often constant, such as guaranteeing the defense of national interests, to a changing global context. After all, an action that yesterday was good for the country may no longer be today. To trace the possible paths to be followed by Brazil's energy diplomacy, this chapter will examine the background of international energy cooperation, evaluate its main results, map global and Brazilian domestic policy challenges in this area and, finally, chart our courses to be followed.

## **Background**

Energy is a critical item on the Brazilian foreign policy agenda, due to the growing demand generated by the national economy. In addition to facilitating the provision of energy for industry, energy diplomacy plays a relevant strategic role in the geographic environment, mitigating historical rivalries and laying the groundwork for regional integration efforts that has securing predictable access to affordable energy sources as one of its main objectives.

This process is not new. For example, construction of Itaipu, the largest hydroelectric plant in the world at the time, which provides a significant supply of electricity consumed in Brazil and Paraguay, was the result of negotiations with neighbors in the Prata Basin during the 1970s and 1980s. During this era, efforts for cooperation between Argentina and Brazil also began in the area of nuclear energy, an initiative that built trust between two former rivals, making possible what would become the main Brazilian regional effort of the last quarter of the century feasible: Mercosur. In the 1990s, energy diplomacy laid the foundations for the construction of a gas pipeline with Bolivia, now an indispensable source of energy for the cities surrounding São Paulo. The same applies to the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), a move to facilitate physical integration between Brazil and the rest of South America through massive investment in large energy production infrastructure works.

In addition to ensuring the sharing of natural resources and fostering rapprochement between countries, another important, but less discussed aspect, of energy diplomacy in recent decades has been the promotion of the interests of Brazilian capital in the region. Behind major infrastructure projects were the main representatives of Brazilian capitalism, such as state-owned Petrobras and Eletrobras, and a conglomerate of major national companies, with the financial support of the National Economic and Social Development Bank (BDNES). The result of this was that Petrobras<sup>67</sup> and Eletrobras<sup>68</sup> significantly expanded their foreign investments, mainly through the purchase of assets in South America and, to a lesser extent, in Africa and Central America. This internationalization project, however, has suffered setbacks<sup>69</sup> due to financial difficulties recently faced by both companies.

In the last decade, Brazil's foreign energy policy has gained a markedly more global and complex dimension. On the one hand, the aggravated climate change process has increased the importance of negotiating environmental agreements and has fostered technological cooperation in the area of renewable energy, especially in biomass, creating opportunities for the internationalization of the national alcohol program (Pró-Álcool) or what is known as ethanol diplomacy. On the other hand, the discoveries of vast oil and gas reserves on the continental shelf have placed the country in a prominent position - and consequently one of growing competition - among the world's major energy powers. There was also a growing interest of the Brazilian government to resume the nuclear program.

## Evaluation

Generally speaking, Brazilian energy diplomacy in the last decades has yielded positive results. The many successes achieved, however, do not nullify the errors or omissions. It is of the outmost importance, therefore, to evaluate the successes and failures of energy diplomacy in recent years that, in addition to identifying the objectives of foreign policy, being aware not only of concrete results, but also on the processes implemented.

Most simply, the main objectives of a foreign policy can be distilled into three main points: i) guaranteeing national interest or security; ii) contributing to economic development, wealth generation, and the improvement of the population's well-being; iii) promoting moral values. It is possible to have a clear view of the role of each in the Brazilian energy strategy.

Generally speaking, Brazilian energy diplomacy had an important role in regional stability. The referred-to negotiations that led to creation of the Itaipu dam and the nuclear agreement with

---

<sup>67</sup> DALLA COSTA, Armando. A trajetória de internacionalização da Petrobras na indústria de petróleo e derivados. *História Econômica & História de Empresas*. V. 12, n. 1, 2009.

<sup>68</sup> Eletrobras mantém meta de aplicar 10% do investimento no exterior. *Valor Econômico*. May 3, 2015. Available at: <<http://www.valor.com.br/empresas/2643256/eletrobras-mantem-meta-de-aplicar-10-do-investimento-no-exterior>>. Accessed on September 18, 2016.

<sup>69</sup> Eletrobras reduz projetos internacionais por aperto financeiro. *GI*. 21 October 21, 2015. Available at: <<http://g1.globo.com/economia/negocios/noticia/2015/10/eletrobras-reduz-projetos-internacionais-por-aperto-financeiro.html>>. Accessed on September 18, 2016.

Argentina not only ensured greater levels of energy security for Brazil, but also helped to lessen rivalries and to promote an unprecedented relationship that culminated in MERCOSUR. Despite the shortcomings, the South American bloc has produced an undeniable institutional framework of trust in the region, thereby reducing potential sources of threat to Brazilian sovereignty.

By extension, the success of the foreign energy policy helped Brazil to project more power in the region. With many of these projects fundamentally dependent on Brazilian capital and expertise, some neighbors have found themselves in a situation of quasi-dependence on Brazil. The influence of the decisions made in Brasilia on the neighboring nations was often palpable, as was the case with Paraguay (Itaipu) and Bolivia (Gasbol), for example.

Despite the advances in the stability and increased regional power of Brazil, the issue of asymmetry has increased. Although the probability of dissatisfaction among some neighboring countries with what could be interpreted as a Brazilian hegemony is low, such dissatisfaction could be a real threat to national sovereignty, with the imbalance of forces creating risks for the country. Agreements seen as unfair can give way to populist and "anti-Brazilian" policies in the region, jeopardizing not only Brazilian assets in some of these countries, but also hindering access to natural resources of utmost importance to national security. With Paraguay for example, this dissatisfaction resulted in repeated attempts<sup>70</sup> by the Guarani country to renegotiate the terms of the Itaipu Treaty, mainly those related to the price of energy sold to Brazil and the amortization periods of the debt arising from the construction of the plant. With Bolivia, such differences went beyond prices when, in 2006, the government in La Paz decided to nationalize Petrobras<sup>71</sup> in that country. In handling both cases, the government in Brasilia seems to have opted for partial or even improvised solutions that, in addition to not completely eliminating sources of risks and uncertainties, may also generate additional costs to the country, such as higher energy tariffs, or those in the form of investments of with uncertain returns or major losses<sup>72</sup>.

Brazilian foreign policy has helped to promote access to natural resources available in border regions or even in neighboring countries. In addition to contributing to the country's energy security, some agreements were fundamental for meeting demands of Brazilian industry and population, contributing to the country's economic development. Since 2000, for example, the share of natural gas in Brazil's energy supply more than doubled (from 5% to more than 10%), even helping to compensate for the slower growth in hydroelectric power supply. In 2014, Bolivia's gas imports accounted for about 25% of the country's total natural gas supply. The effectiveness of some agreements, however, can be questioned when Brazil is sometimes obliged to buy energy even when there is no relevant domestic demand, as seems to be the case with the agreement with Bolivia at

---

<sup>70</sup> BLANCO, Luis F. O Novo Acordo Brasil-Paraguai e a Renegociação do Tratado de Itaipu: Enfim uma postura de liderança sub-regional? Fundação Konrad Adenauer, August 2009. Available at: <<http://www.kas.de/brasilien/pt/publications/17309/>>. Accessed on September 18, 2016.

<sup>71</sup> Bolívia ocupa Petrobras e nacionaliza exploração de petróleo e gás. *Folha de S. Paulo*. May 1, 2006. Available at: <<http://www1.folha.uol.com.br/folha/mundo/ult94u95508.shtml>>. Accessed on September 18, 2016.

<sup>72</sup> Brasil doará linha de transmissão ao Paraguai. *Opinião e Notícia*. July 27, 2009. Available at: <<http://opiniaoenoticia.com.br/sem-categoria/com-acordo-brasil-doara-linha-de-transmissao-ao-paraguai/>>. Accessed on September 18, 2016.

times. Moreover, without a market mechanism to establish prices, the trade relationship - and even renewal of the treaties themselves – would be more vulnerable to political pressure<sup>73</sup> from the governments. In fact, despite the probable increase in gas production associated<sup>74</sup> with the Brazilian pre-salt in the coming years, Brazil will continue to its reliance on imported gas (from Bolivia and GNL) to supply its growing demand, which will require a renegotiation of the agreement with La Paz, which expires in 2019, in terms that are advantageous for both countries.

In relation to the promotion of Brazilian capital abroad, the result is variable. On the one hand, the state was competent in encouraging the internationalization of some companies, state and private, with assistance from BNDES financing. The task, however, was incomplete. Despite political and even financial support, there was a lack of a broader institutional and legal framework to protect the investments of Brazilian companies abroad. The few bilateral investment protection agreements that have been signed by Brazil since the 90s<sup>75</sup>, for example, are still not ratified (in Latin America, three were ratified in 2015: Mexico, Colombia and Chile). While current mechanisms for facilitation of regional trade, such as the Agreement on Reciprocal Payments and Credits (CCR)<sup>76</sup>, are important, there exists the possibility of improvement, and their reliance on national treasuries/central banks may limit their expansion. Contractual ruptures or expropriation of assets, such as the case of Petrobras in Bolivia, or even the political dispute involving the BNDES operation in Ecuador<sup>77</sup>, are some of the examples of risks to which Brazilian private and public capital are exposed when there is a lack of more stable legal systems.

The role played by Brazilian foreign policy in attracting foreign investments to the energy sector has been more tepid. Despite the successful opening of the oil sector in the 1990s and the development of the bioenergy sector, the advances made by Brazilian diplomacy to secure greater cooperation and foreign investment were limited. After the discovery of the pre-salt in 2007, for example, the decision to change the regulatory framework of the sector resulted in near paralysis<sup>78</sup>. In fact, the country went five years without an oil and gas bidding round (from 2008-2013). In the area of bio-combustibles, a memo of understanding<sup>79</sup> signed with the United States in 2007 not only failed to advance the project of transforming ethanol into a commodity, but also failed to stem a crisis in the

---

<sup>73</sup> Bolívia quer 78% de aumento no preço. *Valor Econômico*. December 3, 2015. Available at: <<http://www.valor.com.br/empresas/4340170/bolivia-quer-78-de-aumento-no-preco>>. Accessed on September 18, 2016.

<sup>74</sup> ERNST & YOUNG. Desenvolvimento do gás natural no Brasil. Available at: <[http://www.ey.com/Publication/vwLUAssets/EY\\_Desenvolvimento\\_do\\_gas\\_natural\\_no\\_Brasil/\\$FILE/Estudo\\_Gas\\_Web.pdf](http://www.ey.com/Publication/vwLUAssets/EY_Desenvolvimento_do_gas_natural_no_Brasil/$FILE/Estudo_Gas_Web.pdf)>. Accessed on September 18, 2016.

<sup>75</sup> INVESTMENT POLICY HUB. International Investment Agreements Navigator. Available at: <<http://investmentpolicyhub.unctad.org/IIA/CountryBits/27#iiaInnerMenu>>. Accessed on September 18, 2016.

<sup>76</sup> ALADI. Discurso do Representante Permanente junto à ALADI e ao MERCOSUL, Embaixador Regis Arslanian, no XV Conselho de Ministros da Associação Latino-Americana de Integração (ALADI). Available at: <<http://www.aladi.org/nsfaladi/discursos.nsf/vwdiscursosweb/DD8A4FFDDA60D8E3032575AC0045597D>>. Accessed on September 18, 2016.

<sup>77</sup> PONTES NEWS ARCHIVE. Equador questiona dívida com BNDES. Available at: <http://www.ictsd.org/bridges-news/pontes/news/equador-questiona-d%C3%ADvida-com-bndes> Accessed on September 18, 2016.

<sup>78</sup> Petroleiras foram contra novas regras para Pré-sal. *Folha de S. Paulo*. December 13, 2010. Available at: <<http://www1.folha.uol.com.br/fsp/poder/po1312201002.htm>>. Accessed on September 18, 2016.

<sup>79</sup> PONTES NEWS ARCHIVE. Brasil e EUA concluem Acordo sobre biocombustíveis e deixam tarifas de fora. Available at: <<http://www.ictsd.org/bridges-news/pontes/news/brasil-e-eua-concluem-acordo-sobre-biocombust%C3%ADveis-e-deixam-tarifas-de-fora>>. Accessed on September 18, 2016.

Brazilian ethanol sector, which faced a drop in investments and a near stagnation<sup>80</sup> of production and export in recent years.

In general, lack of adequate planning and Brasilia's propensity for protectionism - or even dirigism - has reduced Brazilian diplomacy's scope of action in the energy sector. In order to attract investments to develop the national oil industry, for example, the government established local content rules that were considered to be very ambitious, resulting in elevated costs, delays in production and scaring off investors. Although the local content standard is not a problem in itself, its implementation requires gradualism and flexibility<sup>81</sup> to correct potential distortions. Years of subsidized gasoline prices<sup>82</sup> to keep inflation under control have greatly reduced the competitiveness of ethanol in the domestic fuel market, affecting the industry's profitability and leading to reduced investment levels.

Although the relationship between the energy issue and the promotion of moral values is somewhat indirect, it is possible here to identify two points of friction for Brazilian foreign policy. The first one refers to the environmental issue. Without doubt, there have been recent advances both in the country's degree of commitment to international negotiations on environmental issues<sup>83</sup> as well as in the increased generation of clean energy, mainly eolic.<sup>84</sup> But in a context of worsening climate change, the Brazilian government's recently stated priority of making development of pre-salt oil a priority for energy policy makes little sense. This is betting on a 20<sup>th</sup>-century energy agenda well into the 21st century. Furthermore, this emphasis was one of the factors responsible for the near disappearance of a previously promising source of soft power in Brazil in recent years: ethanol diplomacy. It is also worth mentioning the growing concern of the international community<sup>85</sup> with the possible impact of biofuels on food security, an issue that has received little attention in Brazilian diplomacy.

The second point involves the issue of corruption. Most of the regional energy projects executed by Brazil in recent decades have been characterized by participation limited to large companies, either state or private. This concentration has sometimes reduced the transparency of decisions made and monitoring of projects, and has often fostered cartel behavior, which has often led to less advantageous agreements or even to corruption schemes inside and outside the country. The scandal

---

<sup>80</sup>RENEWABLE FUELS ASSOCIATION. IndustryStatistics. Available at:

<<http://ethanolrfa.org/resources/industry/statistics/#1454099788442-e48b2782-ea53>>. Accessed on September 2016.

<sup>81</sup> Decreto do governo facilita regra de conteúdo local de petróleo. *Valor Econômico*. January 18, 2016. Available at:

<<http://www.valor.com.br/empresas/4396662/decreto-do-governo-facilita-regra-de-conteudo-local-de-petroleo>>. Accessed on September 2016.

<sup>82</sup> ALMEIDA, Edmar L. F.; OLIVEIRA, Patricia V.; LOSEKANN, Luciano. Impactos da contenção dos preços de combustíveis no Brasil e opções de mecanismos de precificação. *Revista de Economia Política*. V. 35, n.3, p.531-556, 2015.

<sup>83</sup> Adesão do Brasil a Acordo de Paris passa no Senado e segue para sanção. *Folha de S. Paulo*. August 11, 2016. Available at: <<http://www1.folha.uol.com.br/mundo/2016/08/1801756-adesao-do-brasil-a-acordo-de-paris-passa-no-senado-e-segue-para-sancao.shtml>>. Accessed on September 2016.

<sup>84</sup>Brazil's Clean-Energy Boom Running Out of Steam. *Bloomberg*. March 2, 2016. Available at:

<<http://www.bloomberg.com/news/articles/2016-03-03/brazil-s-clean-energy-boom-running-out-of-steam>>. Accessed on September 2016.

<sup>85</sup> FAO. Biofuels and Food Security: A report by The High Level Panel of Experts on Food Security and Nutrition. June 2013. Available at: <HTTP://globaltrends2030.files.wordpress.com/2-12/11/global-trends-2030-november-2012.pdf>. Accessed on September 18, 2016.

that emerged from the Lava Jato Operation, which focuses on the energy sector, is the latest example of this problem. The absence - or non-ratification - of more effective international legal cooperation mechanisms and the scant regional or bilateral supervisory instruments have made way for internationalization of corruption schemes otherwise previously restricted to national territory. The major construction conglomerates have for years been the main donors of electoral campaigns in Brazil. With the financial and diplomatic support of the Brazilian government, the internationalization of these groups has provided opportunities for <sup>86</sup> corruption, which, according to the ongoing investigations, mainly resulted in fraudulent bids and overpriced contracts in exchange for political-electoral funding, both inside and outside Brazil.

### **Possible global and domestic challenges**

To adjust the main objectives to be followed by the country's foreign policy for energy, it is necessary to preview some of the likely domestic, regional and global challenges<sup>87</sup> that will delineate the scope of the Brazilian government, inside and outside the country, in the course of the next decade.

The international energy market has undergone profound changes in recent years. In addition to developments in clean energy technology, new discoveries of hydrocarbon reserves and the exponential increase in shale gas production and non-conventional oil have pushed down prices levels of traditional oil. In the years to come, this momentum should continue, especially if the world economy - and China - maintains a moderate expansion rate. As a result, competition between oil producing states to attract more investment to the sector tends to intensify. In this scenario, the idea that the pre-salt oil is a "winning lottery ticket" is misleading and dangerous. Despite being a rising player in the global energy market, Brazil may face a much more competitive scenario, both to attract the investments needed to exploit this potential resource, and to secure a market for such production. If Brasilia continues to view the pre-salt as this lottery ticket, it should at least realize that there is an expiration date for this "prize" to be efficiently utilized.

In addition, the continued effects of pollution and unchecked usage of natural resources will put pressure on the international community to impose stricter rules on respect for the environment. The deterioration of the environment will also increase the importance of matching a growing demand for biomass energy with the growing demand for water and food, without affecting the other. Within environmental negotiations, a backdrop of a worsening environmental crisis will weaken one of the principles guiding Brazilian diplomacy - and other developing countries - of "common but differentiated responsibilities". This would increase pressure on the country to adopt ambitious mandatory targets, possibly impacting national energy policy in two ways. The first would be a possible limitation on use of polluting sources of energy, such as oil, which could make the cost

---

<sup>86</sup>Lava Jato ganha alcance internacional com João Santana e Odebrecht. *El Pais*. February 27, 2016. Available at: <[http://brasil.elpais.com/brasil/2016/02/26/politica/1456517201\\_178396.html](http://brasil.elpais.com/brasil/2016/02/26/politica/1456517201_178396.html)>. Accessed on September 18, 2016.

<sup>87</sup>NATIONAL INTELLIGENCE COUNCIL. Global Trends 2030: Alternative Worlds. Available at: <<https://globaltrends2030.files.wordpress.com/2012/11/global-trends-2030-november2012.pdf>>. Accessed on September 18, 2016.



of developing the sector prohibitive. The second impact would be to exacerbate possible negative externalities in the development of some renewable energy sources, such as hydro and biomass. While the Brazilian interest in hydro sources is starting to face some limitations due to climate change (drought) or stricter environmental standards (river-run plants without a reservoir), the uncontrolled development of biomass could impact the agricultural sector and have an effect on food security levels.

The first two challenges (the change in the geopolitics of oil and deterioration of the environment) could lead to abrupt changes in the global energy market. Frequently impacted by conflicts in producing regions or by severe economic crises, the energy market may feel the effects of technological (r)evolution. Such dynamics could accelerate the rate of traditional - and polluting - sources of energy becoming obsolete. Despite the positive effect from the environmental point of view, a sudden breakdown of one traditional market and the emergence of another could cause significant economic and geopolitical imbalances in the near future. In this scenario, which some call the third industrial revolution<sup>88</sup>, the gravitational center of global energy power must migrate from resource-rich countries to those who made major investments in clean technology innovation. One risk of this shift in global energy geography could be restricted access to these new technologies (a risk of species of a clean-energy OPEC?).

From the point of view of the regional strategy, growing dissatisfaction of some neighboring countries with Brazil, especially regarding energy agreements seen as disadvantageous, could generate some more immediate challenges for the Brazilian government. More specifically, the renewal of the natural gas agreements with Bolivia in 2019 and the Itaipu hydroelectric plant with Paraguay in 2023 may entail additional costs for the Brazilian consumer-taxpayer. In addition to helping to ensure the country's energy security, maintaining these agreements help to boost economic relations and to raise levels of international cooperation. Although the likely increase in domestic energy production (mainly due to the development of the pre-salt) will serve to raise Brazil's bargaining power in these renewal negotiations, Brasilia's challenge will be to reconcile this relatively more favorable position with a posture that does not generate dissatisfaction in neighboring countries. An institutional framework that establishes price adjustment rules in addition to a permanent mechanism (bilateral or regional) for dispute resolution can serve to improve confidence.

Regarding domestic issues, there are three central points that must be considered. First, the worsening of the fiscal crisis of a structural nature will make public resources scarcer, which will lead to a more limited role by BNDES in serving as a source of financing and state-owned enterprises as a source of investment. The reduction of BNDES operations will require the development of a capital market with the participation of more private financing agents. Petrobras' and Eletrobras' own asset sell-off plan is expected to open some sectors for private and foreign investors, which

---

<sup>88</sup> The third industrial revolution. *The Economist*. April 21 2012. Available at: <<http://www.economist.com/node/21553017>>. >. Accessed on September 18, 2016.

would even affect the renegotiation of some current international agreements.<sup>89</sup> Given this, there will be a renewed importance of regulatory agencies and the national and foreign private sector to maintain or raise the level of investment in the energy sector. In the last decade, many regulatory agencies, much of them established in the 1990s, have experienced a depletion of funds or political rigging, which has resulted in them transferring a significant portion of regulatory activities to ministries. Currently, a draft of a bill is being discussed that aims to strengthen these agencies, guaranteeing them greater resources and operational autonomy. Mining, an important sector of the Brazilian economy, does not even have a regulatory agency; this situation should be remedied with the approval of the new mining code that is currently in Congress.

Secondly, significant corruption scandals have already altered the public-private relationship and will require more transparent regulatory frameworks that guarantee reliability among public and private economic agents in the future. Decisions to invest in projects with dubious returns, or in countries considered unpredictable or that violate human rights, will undergo greater scrutiny. Additionally, countries with rigid anti-corruption regulations can also serve as effective roadblocks to future - or even current - investments by companies involved in scandals. And there will also be indirect effects on companies' investment calculations. The financial crisis resulting from these scandals has led to a call for an aggressive deleveraging strategy, which often results in the reduced international operations of some companies<sup>90</sup>. In the case of Petrobras, a decision was made to reduce the importance of the international area in the organization's plans, in addition to the sale of assets abroad.

Finally, the expansion of the middle class and increased consumption must be included in this calculation. The demographic changes taking place in Brazil, even in the recent recession, will require a significant increase in investment - public and private - in the coming years for generating, transmitting and distributing capacity to sustain a continuous expansion of the supply of affordable energy. The increase in demand for more natural resources may create tension between the demand for food and water and the demand for energy (food security vs. energy security). This issue should focus on the competitiveness of the Brazilian economy and the ability to provide quality goods and services at reasonable costs. Most generally, it will foster the debate about the degree of openness of the Brazilian economy for trade and investment.

## **Recommendations**

Brazil needs to diversify and balance its international activities. Energy diplomacy must simultaneously explore the development of different sources of energy. The development of traditional energy resources (oil), for example, should not divert the Brazilian government's focus on

---

<sup>89</sup>Negociação de acordo de gás com a Bolívia deixa Petrobras de lado. *O Globo*. February 6, 2016. Available at: <<http://oglobo.globo.com/economia/negociacao-de-acordo-de-gas-com-bolivia-deixa-petrobras-de-lado-18612765>>. Accessed on September 18, 2016.

<sup>90</sup>Eletrobras decide deixar sociedade na CHC após negócio com Nicarágua. *Valor Econômico*. June 25, 2016. Available at: <<http://www.valor.com.br/empresas/4645785/eletrobras-decide-deixar-sociedade-na-chc-apos-negocio-com-nicaragua>>. Accessed on September 8, 2016.

clean energy. In addition to the benefit to the environment, this diversification will reduce the vulnerability of the Brazilian economy to potential volatilities of the global energy market. In short, the tension between the emphasis on pre-salt development and the commitment to clean and renewable energies must be resolved. It is essential that a continuous analysis be made on geopolitical risks and technological developments and how it would affect energy geopolitics in the coming years. This effort should result in a long-term strategic agenda (a white paper on energy cooperation) that serves as a parameter for Brazilian diplomacy. This agenda, which could be in the charge of a new Strategic Council, would assess the risks and opportunities of development of each source of energy, suggesting ways to mitigate risks and enhance the country's relative advantages.

International cooperation in the coming years should increasingly focus on the development of clean technologies and the green economy without abandoning development of oil in the short- and medium-term. Brazilian diplomacy will play a key role in attracting investment in innovation, which could create an energy revolution in the near future. Given the possibility of a technological revolution in clean energy, Brazil must guarantee access to these new technologies, either by attracting cutting-edge investments or international cooperation agreements. More broadly, this will require a more open posture, integrating the country's economy into new global production chains. In order to do so, a fundamental step is updating Brazil's trade agenda, seeking out more and improved free trade agreements that encourage technological innovation through the establishment of rules on investment, intellectual property, government purchases, and so on. Membership in the OECD could open doors to further developed relations with countries at the forefront of the green revolution, such as Germany and the United States. The creation of a BRICS-based clean energy forum will enable greater cooperation with China, which has greatly expanded investments in solar energy. Something similar might also be done within the scope of UNASUL, with a forum to stimulate investment in clean energies.

Finally, it will be necessary to re-configure the role of state actors in energy diplomacy. The economic and fiscal crisis and the plan to sell off state-owned assets have reduced the state's role in some sectors and will open up ground for new players to enter the national energy market. The role of Brazilian diplomacy will be to include these new players in energy cooperation, bringing the possible agreements closer to market dynamics, with due regulation and transparency. This requires developing a long-term strategic agenda and reducing the degree of fragmentation among the various agencies in the decision-making process. At the national level, a Strategic Council linked to Planalto will serve to coordinate the activities of the relevant state agents in the sector (Ministries of Energy, Foreign Affairs, Development, Agriculture, Environment, Science and Technology, BNDES, Petrobras, Eletrobras, etc.), possibly with the participation of representatives from the private sector. Regionally, this would be creation of a multilateral forum within UNASUL.

The regional energy cooperation established so far is largely a result of internationalization of major Brazilian capital with state support. Despite the still relevant role of public officials and large companies in energy diplomacy, a greater involvement of venture capital and smaller firms, including start-ups, should be encouraged, which may play an important role in development of new

technologies. To this end, it is necessary to encourage the development of a long-term private financing market. At the regional level, there could be greater financial integration through the creation of new instruments (such as a MERCOSUR/UNASUL development bank) that can expand existing regional and multilateral initiatives (IBRD, IDB, FOCEM, FONPLATA, etc.) and encourage greater exchange between stock exchanges in the region. At the national level, the creation of an Eximbank could boost the export financing process, and even reduce the pressure on national treasuries and central banks.

Another fundamental point will be to guarantee legal certainty for Brazilian capital abroad, both for current and future investments, for state-owned and private companies of varying sizes, through bilateral investment protection treaties. This could consolidate and broaden the internationalization of Brazilian capital, also helping to project greater influence of the country abroad. Therefore, it is crucial to ratify the investment protection treaties that are in Congress (Chile, Mexico and Colombia) and to seek to negotiate similar treaties with other countries where there are significant Brazilian investments (Ecuador, Peru, Bolivia, Venezuela, etc.). Faced with the likely resistance of some of these countries, especially those run by more nationalist governments, regional (rather than bilateral) agreements can help address mistrust and facilitate the negotiations. It is also necessary to expand and strengthen existing national and regional guarantees and financing mechanisms (such as the Brazilian Agency for Guaranteed Funds and Guarantees, for Reciprocal Payments and Credits Agreement and BNDES itself), establishing clearer parameters to evaluate political and reputational risks (environment, corruption) and to monitor projects, possibly within the framework of a regional investment agency.

# Public Goods, Interest Groups and Foreign Policy

*Eduardo Mello is a Ph.D. student at the London School of Economics.*

What are the benefits that efficient and well-planned foreign policy can offer to Brazilian citizens? And what happens when decisions are made to favor interest groups, at the expense of what would be best for most citizens? Under what conditions do foreign policy decisions in Brazil tend to favor interest groups rather than the majority of the population?

Like any public policy, a country's foreign policy can have enormous distributional consequences for the society it represents. It can contribute to the accumulation of human capital, economic growth, promotion of equality and the defense of citizens' rights, or serve as a lever to further increase benefits of groups with easy access to power, questionable sources of income, contracts with corrupt foreign governments and jobs for allies of powerful politicians. Foreign policy can boost social mobility or help to maintain pre-existing class structures. It can serve as a means for valuing multiethnic and multicultural dimensions of a society, or can function as a discriminatory tool to privilege certain groups at the expense of others. It can strengthen the advance of democratic institutions and movements, or of totalitarian ideologies; it can strengthen the secular character of a state or consolidate its religious nature. It can also contribute to the production of public goods, which can be enjoyed by all citizens, or can favor small interest groups.

With all this potential, politicians in any country can be expected to have strong incentives to engage in the creation, control and conduct of foreign affairs. The expectation that the final outcome of foreign policy will be fundamentally influenced by the political process by which decisions are made, as well as by the relative strength of the agents involved, is a plausible one.

My goal in this chapter is to present arguments about how the relationship between foreign policy and interest groups in Brazilian politics functions. Foreign policy choices in Brazil are deeply politicized. This is not a new phenomenon or a feature of past governments. In fact, this is the natural consequence of the institutional environment in which decisions in this area are made in Brasilia. Far from being an insular endeavor, foreign policy involves important interests both inside and outside the state.

My central argument is that, as in other areas of public policy, the Brazilian government has structural difficulties in utilizing foreign policy to generate public goods, that is, benefits that can be enjoyed by society as a whole or by its vast majority. This is not the result of poor administration by Itamaraty, or any other bureaucracy involved in the processing of decision making. Nor is it the result of errors by recent governments or ill-fated ideology shared by leaders and bureaucrats. The problem, in fact, is similar to what afflicts other areas of state action in Brazil. Just as the state has difficulty building a subway or an airport, it demonstrates the same difficulties in producing efficient

regulation that avoids private monopolies or oligopolies. The same institutional factors that cause such problems in other areas of government activity also hinder production of goods in the external sector, such as an effective foreign trade strategy, successful attraction of foreign investment, provision of efficient transmission channels between international agreements signed by Brazil, and their execution in Brazil in areas such as the fight against corruption or urban safety and security.

It is much easier for foreign policy to work towards initiatives that favor interest groups with great influence in Brasilia. Examples include, but are not limited to, projects such as investing billions of dollars in building a nuclear submarine in a country that has not had its territory militarily threatened since 1864 or rejecting ratification of the Arms Trade Treaty (sacrificing urban safety and security issues in one of the world's most violent countries for the interests of a private group with export interests). Another example is the creation of exceptions to trade agreements that cover more than half of the products included in Mercosur's common tariff, the country's main international trade agreement.

In the following pages I present evidence of this trend, as well as some hypotheses aimed at explaining it. This view of the decision-making process in foreign policy remains tentative, much more focused on examining Brazilian political institutions at the macro level than with providing detailed studies of the day-to-day functioning of foreign policy. However, it does pave the way for future studies that may deeply analyze situations in order to verify the extent to which the arguments described herein are maintained.

### **Interest groups and foreign policy**

What are the institutional barriers for foreign policy to work for the creation of public goods? The main barrier is the fact that the Brazilian State in general is extremely permeable to the actions of interest groups. Powerful lobbies operate in government contracts, in the distribution of subsidized public credit, in creation of government programs, in addition to many other areas of public administration. The presence of interest groups in the formulation of public policies is just the case in Brazil, but common to all developed democracies and in the developing world<sup>91</sup>. However, the capacity of interest groups to secure policies that benefit them at the expense of the well-being of the majority of the population is primarily a function of the institutional environment in which policy choices are made<sup>92</sup>.

Can we speak of a foreign policy more or less aimed at the interests of the majority? If so, would it be possible to have a different foreign policy if Brasilia were less permeable to the interests of well-organized minorities? To begin to answer these questions, we can look at the expected action of the players who inherently participate in foreign policy choices in Brazil. Presidents and legislators are

---

<sup>91</sup> KRUEGER, Anne O. The Political Economy of the Rent-Seeking Society. *The American Economic Review*. V. 64, n. 3, p. 291-303, June 1974.

<sup>92</sup> BUCHANAN, James M. Same players, different game: how better rules make better politics. *Constitutional Political Economy*. V. 19, n. 3, p. 171-179, September 2008.

the main elected agents with an interest in the country's international action and, as such, have incentives to respond to their voters and interest groups who can present an opinion on a topic. As is true with any public policy, interest groups tend to be more vocal about structural choices than the less organized mass of voters<sup>93</sup>, so the voices of these groups tends to be amplified, despite their relative and smaller size, compared with the electorate.

Two consequences can be expected for foreign policy with interaction between politicians and interest groups, both resulting from the nature of the Brazilian political system. The first is that interest groups will play a central role in the design of bureaucracies<sup>94</sup> responsible for implementing foreign policy, as well as many of the policies pursued by them. The second is that such groups will have a constant competitor in the President of the Republic, a figure in the political system who is less susceptible to pressure from interest groups<sup>95</sup> (and who gains the most when foreign policy contributes to the creation of public goods for the majority of voters).

To understand how this process works, we need to understand how lawmakers and the Presidency - the two entities that have formal authority to design foreign policy - operate in the formulation of public policies in Brazil. Under what conditions can we expect them to cooperate with interest groups? What are the incentives that each of these actors will prefer to create for the bureaucracies charged with executing foreign policy? As I noted above, the most direct answer to this question is that presidents tend to favor themselves more with the production of public goods and efficient bureaucracies than legislators do.

The main concern of legislators is not to produce policies that benefit the majority, nor to design efficient bureaucracies. Their main objective is to maintain their government positions<sup>96</sup>, be it by re-election to Parliament or, as is customary in Brazil, alternating among Parliament, positions in local governments and positions in public bureaucracies. In the Brazilian political system, parties with national program agendas are the exception, not the rule, and individualistic behavior tends to be rewarded at the time of election because of the open list proportional electoral system.<sup>97</sup> All this conspires to throw legislators into the arms of lobbyists who can help their representatives in parliament raise the votes and resources to maintain patronage networks in their constituencies or stand out from the other candidates in a personalist electoral system. Because voters have only a marginal influence in regards to most complex foreign policy issues, interest groups tend to dominate legislators' attention more easily than they can in areas such as education, health, or monetary policy, which tends to be the focus of everyday attention of the citizenry.

---

<sup>93</sup> MOE, Terry M. *The Organization of Interests: Incentives and the Internal Dynamics of Interest Groups*. The University of Chicago Press, 1980.

<sup>94</sup> WILLIAMSON, Oliver E. *Organization Theory: From Chester Barnard to the Present and Beyond*. Oxford University Press, 1995.

<sup>95</sup> HOWELL, William G. *Relic: How Our Constitution Undermines Effective Government— And Why We Need a More Powerful Presidency*. Basic Books, 2016.

<sup>96</sup> MAYHEW, David R. *Congress: The Electoral Connection*. Yale University Press, 2004.

<sup>97</sup> AMES, Barry. *Political Survival: Politicians and Public Policy in Latin America*. University of California Press, 1987.

There are, of course, exceptions. Legislators will occasionally seek to exercise some real control over foreign policy for personal, electoral, or exogenous reasons, such as in the cases of political crises or ambition for majority positions. For example, many legislators representing border regions, especially in the south of the country, have a direct interest in migration issues and are linked to Mercosur, which can give them incentives to go against opposing interests. Likewise, during PT governments, part of the opposition adopted a set of foreign policy issues as a programmatic electoral issue so that defending interest groups with opposing positions became electorally costly for those parties.

In any case, Congress is fertile ground for the kind of initiatives that interest groups seek. In the Brazilian electoral system, most of the time there are no major individual pressures on legislators to solve national problems or to act autonomously in the face of lobbying. In general, they are also ready to give up direct control of bureaucracies or public policy initiatives, preferring to exert indirect influence through the appointment and distribution of positions and favors. The result of all this is that when designing incentives for bureaucracies, legislators will have little appreciation for consistency or efficiency, and will be willing, in general, to let interest groups have a strong ascendancy over public service.

The President, however, is different. His or her popularity derives from being the only politician who responds directly to the entire national electorate. Small interest groups will have little to offer electorally to someone who generally needs the support of tens of thousands of voters around the country to elect and maintain legitimacy. Unlike those in Congress, presidents are accountable to the national electorate for major national issues: economy, security, employment, income and everything else on the agenda. When something goes wrong, presidents generally run a serious risk of taking some of the blame regarding the electorate. Those who wish to secure a place in history will have to face and overcome major challenges in Brazilian political life, such as macroeconomic stability and income inequality.

For interest groups, this presents two challenges. Presidents lead and are not led. For an interest group this can pose a real threat to an agenda that privileges a few at the expense of the majority. Secondly, presidents will prefer bureaucracies with high institutional capacity, preferably if they are organized centrally and can be commanded from the top-down.<sup>98</sup>

The tug-of-war between presidents on one side and legislators and groups of interest on the other is a central characteristic of the decision-making process in presidential democracies. In the United States, for example, Peter Cowhey shows how the White House tends to deal with the defense policy as a way to create public assets (security and international influence), while legislators do manage it as a way to distribute particular assets, especially defense contracts that favor campaign donors and create jobs in their election districts.<sup>99</sup> One way of balancing the tendency of legislators

---

<sup>98</sup>MOE, Terry M.; WILSON, Scott A. Presidents and the Politics of Structure. *Law and Contemporary Problems*. V. 57, n. 2, p. 1-44, 1994.

<sup>99</sup>COWHEY, Peter F.; MCCUBBINS, Mathew. *Structure and Policy in Japan and the United States: An Institutionalist Approach*. Cambridge University Press, 1995.



to become allied to interest groups may be through programmatic parties that can impose a broad legislative agenda and constrain the most parochial instincts in the Parliament. In Brazil, this kind of constraint is more of an exception than a rule, due to the intrinsic characteristics of our election system.

However, what are the consequences of this logic for the country's foreign policy? Bureaucracies respond to incentives in different ways. In Brazil, a great part of the public service is marked by the tendency of the Presidential Palace to distribute Executive spaces to patronage networks led by influential politicians, with the goal of building and keeping legislative majorities. In Itamaraty and in the Armed Forces, for historical reasons, there is a smaller possibility of lateral entrance and nomination of non-career politicians, which therefore create particular dynamics, but does not necessarily diminish influence interest groups.

In Itamaraty, this influence is many times visible when members of the diplomatic body utilize an association with senators or regional political leaders to increase their chances of promotion or clearance for desired offices, offering in return small favors and access to useful information, in a sort of sponsor-client relationship of Brazilian politics. The extra-bureaucratic priorities are also clear in budget definitions and wage negotiations. As in the vast majority of the national bureaucracies, those that execute external policies are infrequently submitted to popular accountability. Legislators rarely have interest in putting on the breaks and the Presidency has no politic force to do so. The result is that the established bureaucracies themselves are, for the most part, free to move on with their own "career oriented" objectives.

The scenario is one of bureaucracies dealing with foreign policies that are much weaker and more dependent on political moods than what the literature tends to assume. Even for Itamaraty – sometimes seen as the example of a Weberian bureaucracy in the Brazilian state – the reality is actually a small Ministry with a low budget, which is habitually defensive and vulnerable to the commands of the Congress and the Presidential Palace. With bureaucracies and the legislature permeable to interest groups, when the Executive has a specific agenda on foreign policies, many times it takes this agenda to the other ministries, such as the Ministry of Finance. In other times, it executes from the Presidential Palace itself. Rarely, however, are questions of this nature a priority on the national agenda, and the Presidential Palace normally operates in much the way it does with other areas of the public service over which it has no direct power: it seeks to avoid unnecessary conflict or scandals resulting from parceling out or inefficient bureaucratic design.

Up until now, what we have is a simple model of how presidents, legislators and interest groups in Brazil involve themselves in public policy in general and external politics in particular. The implications are obvious: interest groups will have much higher chances of influencing the decision-making process than the average voter due to the type of political system we have. With that, the incentives for politicians or bureaucrats to dedicate their efforts to create public assets are small. When this happens, we can expect it to be a reflex of the president of the Republic's individual action, which can centralize initiatives to achieve this, removing initiatives from the bureaucracies over which he has less control.

In the following sections, I show empirical evidence that this is a plausible model for thinking about the functioning of foreign policy in Brazil.

## Investment Treaties

The use of external politics as a way to improve the local business environment is increasing international trend. It is not difficult to understand why. In a globalized economy with high mobility of capital, the flow tends to take financial resources from countries where these are abundant to those where they are lacking, seeking higher return, as long as this return may be secured by domestic legal institutions in the receiving countries<sup>100</sup>. Developing countries such as Brazil therefore have a potential of attracting significant capital, as long as they can solve their domestic institutional dilemmas.

What matters here is that domestic institutions are the key to success. A country where investments may be expropriated at any moment, or where necessary rules for business cannot be minimally guaranteed, will have difficulty attracting external investment, even if it offers others appeals, such as low domestic prices. In great part, States sign international treaties and deals or become members of international organisms exactly with the goal of “tying the hands”<sup>101</sup> and assuring to investors a favorable environment for business will be guaranteed by the government in functions and by those who succeed them.

It is easy to understand the reason for this type of commitment problem. Let’s imagine a simplified situation, but one that utilizes a relevant logic. A potential international investor, before bringing capital into a determined country, has a high bargaining power: he can negotiate tax exemptions or other special conditions, always noting that if his requests are not accepted, he may simply take the capital elsewhere. Once the investment is made, however, this negotiation advantage disappears over time. Factories and equipment have been bought and installed, workers have been trained and a whole production line established. The investor must accept whatever changes in the agreement the government might want to impose: new taxes, new conditions or even the expropriation of foreign capital.

With the gradual increase of the importance of international capital flows, a system to regulate matters related to investment protection started to gain force in the late 1980s. The main goal was, in theory, to solve this dilemma and facilitate cooperation between investors and interested governments. For some time, the idea that international investors should not receive different treatment from national ones prevailed in Latin America and, therefore, the extra protection that might have been created to solve the problem of temporal inconsistency of government preferences

---

<sup>100</sup> ALFARO, Laura; KALEMLI-OZCAN, Sebnem; VOLOSOVYCH, Vadym. Capital Flows in a Globalized World: The Role of Policies and Institutions. Available at: <[http://econweb.umd.edu/~kalemli/nber\\_bookchapter\\_feb8\\_2006.pdf](http://econweb.umd.edu/~kalemli/nber_bookchapter_feb8_2006.pdf)>. Accessed on September 18, 2016.

<sup>101</sup> KERNER, Andrew. Why Should I Believe You? The Costs and Consequences of Bilateral Investment Treaties. *International Studies Quarterly*. N. 53, p. 73-102, 2009.

described above found great resistance. It is not surprising that the region witnessed nationalizations, significantly increasing the perception of political risk in the region and, at the same time, the price for attracting external capital.

After the 1990s, many Latin American countries started to revert this position. Nearly every country (except Cuba) adhered to the Multilateral Investment Guarantee Agency (MIGA). Investment attraction agencies were created and civil servants were trained to deal with the subject. Legislation was approved to decrease the regulatory risk and, consequently, the power of the government to distort markets.

More specifically in the area of foreign policy, Brazil and other countries in the region have signed a great number of bilateral investment treaties. Carlos Góes gives an overview of how Brazil's efforts compare with those of other emerging countries. Chile, for example, signed 82 of these treaties and ratified 63 of them. In Argentina, the numbers are 74 and 66 respectively. In Turkey, an impressive 125 and 28. In Brazil, 37 and 13. Brazil's performance is not only surprising because of the low number of agreements of this nature signed, but of the high proportion of treaties that have never been ratified. The potential costs of this to Brazil in terms of lost foreign investment opportunities are explored in detail by Góes. What remains to be understood are the reasons for this choice.

A potential explanation is that a nationalist position persists in Brazilian policy so that such agreements limit the scope of government action to foster 'national development' as it wishes. In fact, many of the objections on the subject in Congress were made in these terms. Campello and Lemos<sup>102</sup> point to a different direction. These authors note that, in Brazil, legislative initiatives usually need the support of the Executive to pass in the Legislature. But why did the Executive stop using its broad powers to support treaties its agents signed? After all, the economic growth that would come with more foreign investment would be beneficial to the president as well as most legislators, governors and mayors. This was even potentially stronger in the 1990s, when the federal government and state governments oversaw major privatizations and, naturally, when most of these agreements were signed and sent for ratification.

The rationale is that the meeting of diffuse interests - as in the case here - is more difficult than meeting concentrated interests<sup>103</sup> is well known. However, it is particularly pronounced here. Even in parliaments where interest groups are strong, a reasonable number of such groups can be expected to be in favor of liberalizing measures and therefore to fight for them. In Brazil, the legislative influence of governors who need to generate growth and jobs in their states would potentially increase this aspect of legislative behavior. What happens, however, is the opposite. The Executive - as reported by Campello and Lemos - is the actor who would have the strength and the interest to encourage policies with the potential to generate growth, such as attraction of foreign investment.

---

<sup>102</sup>CAMPELLO, Daniella; LEMOS, Leany. The non-ratification of bilateral investment treaties in Brazil: a story of conflict in a land of cooperation. *Review of International Political Economy*. V. 22, 2015.

<sup>103</sup> OLSON, Mancur. *A Lógica da Ação Coletiva. Os Benefícios Públicos e Uma Teoria dos Grupos Sociais*. EDUSP, 2011.

However, the tools available to Brazilian presidents to do have a very high cost, creating poor governance<sup>104</sup> in other areas. A congressman is convinced to vote on a proposal, giving him political appointments in state-owned enterprises (with well-known effects). Another is convinced to do the same by releasing amendments to clientelistic activities<sup>105</sup>. This situation makes presidents quite selective in which battles they choose to fight with their enormous powers of exchanging opportunities for corruption and patronage for legislative support.

In Congress, the logic is even more conducive to poor governance. Legislators are so easily persuaded by appeals to maintain sovereignty and to ‘tie the hands’ of government not out of ideological conviction, but because it is profitable for them to represent interests that benefit from monopolies and privileged access to the state.

### **Public and Private Goods in Defense Policy**

Brazil has the luxury of not basing its military commitments on external threats from other nations. The last time the country faced a military invasion by another nation was in 1864, when Paraguay invaded Mato Grosso. Clearly defense policy in modern states is much more than simply defending the territory against other nations. Defense spending can be used to project broader foreign policy interests, to foster technological development in certain areas, to combat non-traditional threats, and even as a bargaining chip in domestic political deal making.

Technically speaking, a defense policy creates a public good par excellence: security. If in the Brazilian case there are no clear external threats, but issues such as border protection and domestic security or even participation in international missions of interest as potential areas of action can be considered.

A detailed analysis of the composition of the Brazilian defense budget is beyond the scope of this chapter. What can be considered is the nature of this: data collected by the Comparative Atlas of Latin America Defense<sup>106</sup> show that, despite being the country that invests the most in defense by far (see chart below), Brazil has one of the highest proportions of defense spending on salaries and social security benefits or similar in the region, leaving comparatively little room for investments or other expenses. We spend a great deal on defense, but only a small part of this spending is directed at missions of national interest capable of generating benefits for all, or solving urgent problems, such as, for example, the security of Brazil's permeable borders.

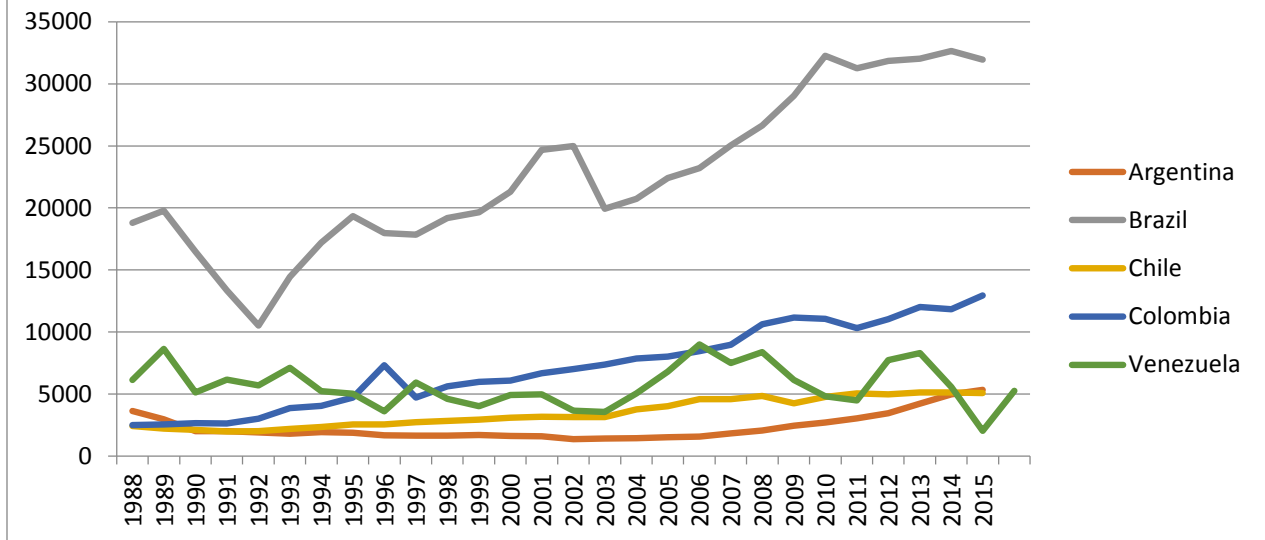
---

<sup>104</sup>MELLO, Eduardo; SPEKTOR, Matias. How to Fix Brazil: Breaking an Addiction to Bad Government. *Foreign Affairs*, Sept/Oct 2016.

<sup>105</sup>AMES, Barry. *Political Survival: Politicians and Public Policy in Latin America*. University of California Press, 1987.

<sup>106</sup>REDE DE SEGURIDAD Y DEFENSA DE AMÉRICA LATINA. *Atlas Comparativo de la Defensa en América Latina y en Caribe: Edición 2014*. Available at: <<http://www.resdal.org/atlas-2014.html>>. Accessed on September 18, 2016.

## Military Expenditures in South American, 1988-2015 (in USD million)



Regarding the high proportion of expenses tied to salaries and social security benefits, the issue is well known to experts in the field, who credit the situation to long-standing benefits that cannot legally be withdrawn. The idea that Brazil has high military expenditures in absolute terms (according to statistics it is the 11th largest in the world) is often voiced,<sup>107</sup> but this is only an accounting illusion, and military spending is in fact low in Brazil, although including personnel in these statistics is the standard used in international rankings. In any case, this reality shows the choice of insulating benefits to a class as an important priority in the area.

If the preference for particularistic benefits were not enough, the justifications for some of the investments deviate far from the idea of creating public goods. Take, for example, the nuclear submarine project, certainly one of the largest high-technology investments underway in Brazil. It is part of tradition within the Brazilian Armed Forces of decades-long high technology projects. Many projects, such as the parallel nuclear program that led Brazil to have national uranium enrichment capacity, are seen as triumphs that have given the country state-of-the-art technological capability, although the cost-benefit of acquiring such capabilities is rarely analyzed.

With an estimated cost between 13 and 19 billion reais, the project could give the Navy a technological capability that only the United States, the United Kingdom, France, China and India (all nuclear powers) have. The question remains: why are we investing so much money in acquiring it?

<sup>107</sup> STOCKHOLM INTERNATIONAL PEACE RESEARCH INSTITUTE. SIPRI MilitaryExpenditureDatabase. Available at: <<https://www.sipri.org/databases/milex>>. Accessed on September 18, 2016.

The ambitious National Defense Plan<sup>108</sup> says that this investment is necessary as part of the mission assigned to the Armed Forces of ‘sea denial’, jargon that means ensuring that an enemy force can maintain control of the territorial sea and the exclusive economic zone, without being able to control it completely. The idea is that a more powerful enemy naval force would think twice before entering Brazilian waters due simply to the fact that there is a nuclear submarine stationed there.

At the risk of revealing some ignorance about major maritime powers with credible ability and interest in a project of this nature against Brazil, I propose an alternative interpretation to the National Defense Strategy regarding the reasons that lead Brazil to endeavors like the construction of a nuclear submarine: by their very nature, projects like this are great source of rent-seeking opportunities for interest groups inside and outside the Brazilian state apparatus.

Large, politically influential business groups - such as Odebrecht, the largest private national executor of the nuclear submarine project - benefit from the possibility of large public contracts in sectors with little or no competition, often raising suspicions of illegal conduct<sup>109</sup> in favor of political groups. Another important effect of this the number of jobs handed to allies and their use as a bargaining chip both in political negotiations and in loyalty games within the bureaucracies involved. In 2013, for example, the state-owned company created for the nuclear submarine project spent 91% of its budget on salaries and benefits<sup>110</sup>.

This logic may seem odd at first glance. After all, there are far more plausible threats than the arrival of an enemy navy in the South Atlantic. Brazil, for example, is at the heart of the international arms trade,<sup>111</sup> with obvious effects on the lives of Brazilians. The word trafficking, in fact, does not appear in the Strategy either to refer to the problem of weapons nor other related issues, such as drugs.

## Conclusion

The aim of this brief essay is to present an alternative vision for the decision-making process of Brazilian foreign policy. Such a vision - still very tentative – is based less on the widely circulated ideas in academic circles that institutions that touch Brazil's international relations are fundamentally different from the rest of the Brazilian State. In fact, I propose here that they are typical examples of the type of organizations that the policy of structural choices in Brasilia produces.

---

<sup>108</sup> MINISTÉRIO DA DEFESA. Estratégia Nacional de Defesa. Available at: <[http://www.defesa.gov.br/projetosweb/estrategia/arquivos/estrategia\\_defesa\\_nacional\\_portugues.pdf](http://www.defesa.gov.br/projetosweb/estrategia/arquivos/estrategia_defesa_nacional_portugues.pdf)>. Accessed on September 18, 2016.

<sup>109</sup> Investigado, projeto de submarino nuclear traz novas suspeitas. *Folha de S. Paulo*. June 13, 2016. Available at: <<http://www1.folha.uol.com.br/poder/2016/06/1780963-investigado-projeto-de-submarino-nuclear-traz-novas-suspeitas.shtml>>. Accessed on September 18, 2016.

<sup>110</sup> 91% da verba de submarino vai para salários. *Correio Popular*. December 18, 2015. Available at: <[http://correio.rac.com.br/\\_conteudo/2015/12/campinas\\_e\\_rmc/404439-estatal-paga-servidores-com-verba-de-submarino-nuclear.html](http://correio.rac.com.br/_conteudo/2015/12/campinas_e_rmc/404439-estatal-paga-servidores-com-verba-de-submarino-nuclear.html)>. Accessed on September 18, 2016.

<sup>111</sup> "Brasil é protagonista no tráfico internacional de armas". *Carta Capital*. April 6, 2011. Available at: <<http://www.cartacapital.com.br/politica/walter-maierovitch-o-brasil-e-protagonista-no-trafico-internacional-de-armas>>. Accessed on September 2016.

If this vision is correct, the main consequence is that we should more deeply consider the action of interest groups inside and outside the State apparatus to explain the Brazilian strategic choices in foreign policy. Indeed, due to the peculiarities of bureaucratic functioning *within* the Brazilian State, thinking about the interest groups that operate within the executive bureaucracies and the way they interact with the political and economic forces in Brasilia can be illuminating. As analysts of the political economy of interest groups have already repeated numerous times, the tendency of these actors is to fight for private interests, and in the process hindering creation of projects in the public interest.

# Global Health Diplomacy

*Umberto Mignozzetti holds a Ph.D. from the University of São Paulo, is a Ph.D. student at NYU and professor of International Relations at FGV.*

In the disciplines of economics and international politics there exists consensus regarding how free movement of goods and people promotes sustainable economic development of a country. The movement of goods increases worker productivity, reduces the cost of creating better quality products, and enables nations to leverage their respective comparative advantages. In turn, movement of persons permits the transit of ideas and the promotion of information on science and technology. However, free movement can have serious implications from the point of view of global health. Trading can spread pathogens and substances harmful to human health, as was the case of merchant ships, responsible for spreading the Black Plague across Europe in the fourteenth century. The circulation of people has even more potential to transmit disease, as was the case with the AIDS epidemic in the 1980s, when the world became aware of the disease only after it had spread.

It was European colonization that brought the first recorded epidemic to Brazil. In 1563 smallpox was carried over by the Portuguese and was directly responsible for the great Lusitanian military advantage over local tribes, especially the Tupinambas Indians, who suffered major casualties - such as the death of their leader due to contact with French settlers in Guanabara. Today, Brazil is at the epicenter of the Zika virus epidemic, one of the current main epidemics. It is not known exactly how the virus came to Brazil. One of the theories suggests that Zika might have arrived with African visitors during the World Cup in 2014.

The reaction of the Brazilian public opinion was as expected: a strong demand for national public authorities to take efficient action for eradication of the disease. Transnational pandemics make it difficult or even impossible to provide exclusively national responses. Evidence points to the need for an orchestrated response among nations for effective control of endemic diseases, as well as international cooperation to disseminate information and practices that help national authorities to find effective public policy responses.

This phenomenon places global health at the center of Brazil's foreign policy and global governance agendas. In this chapter, I discuss Brazilian foreign policy in relation to global health. The text is divided into four parts. In the first, I present a history of Brazil's international positions on global health issues. In the second, I discuss the infrastructure available in the country for international cooperation in the area of healthcare. In the third part, I address the challenges posed by the current Zika epidemic and the actions taken at the national level. Finally, I make recommendations based upon past experiences and recent experiences with other epidemics.



## Brazil and Global Health

Brazil is a vigorous actor within the international agenda. Using what Joseph Nye defines as "soft power," Brazil has, in recent decades gained ground in the international scenario, taking on a role of great relevance<sup>112</sup> in many areas of global governance, including health. In this regard, Brazil has played a leading role in the international arena in at least four situations: disseminating best practices in relation to combating HIV/AIDS, breaking patents for antiretroviral drugs, formulating a global anti-smoking policy, and formulating an international public health agenda.

Brazil was the initial epicenter of HIV infections in Latin America. Between 1982 and 1992, the number of people infected totaled 300,000. With the re-democratization of the country, public health came into play and, in 1988, the Unified Health System (SUS) was created to meet the demands of universal basic health care in the country. In 1996, President Fernando Henrique Cardoso enacted a law guaranteeing free access to antiretroviral drugs, which were essential for HIV control. Along with the free supply of medications, extensive campaigns targeting at-risk groups and drug users were launched across the country. The Brazilian experience was widely cited as successful by international agencies, and disseminated by the International Center for Technical Cooperation on HIV/AIDS. In 2002, the 600,000 cases of AIDS registered in Brazil were less than half that predicted by the World Bank for the same year.

In 1996, the Brazilian government calculated that universal access and free access to antiretroviral drugs would cost the National Treasury approximately 500 million reais in 2005. In order to try to reduce this cost, Brazilian diplomacy began to negotiate with pharmaceutical companies responsible for the patents of the medicines in question, with the aim of lowering prices. After lengthy negotiations, it was decided to break the patents of these laboratories, creating some friction with the governments of developed nations. International patents were in conflict with the idea of public utility as stated by Brazilian law. In most cases, only the announcement of the intention of the Brazilian government to break patents was enough to achieve considerable price reductions. With this, most of the countries, especially in Africa, benefited from astute action by Brazilian diplomacy. Drug costs fell dramatically in the years that followed.

Since the early 1990s, several medical bodies have shown the harm caused by use of tobacco and its derivatives. In 2003, Brazil signed the Agreement on Tobacco Control, contrary to the interests of the national tobacco industry. This gave Brazil credibility<sup>113</sup> on the global agenda regarding the dangers of cigarettes and derivatives. The initiative decisively marked<sup>114</sup> the role of Brazil in global health governance. More recently, Brazil was one of the main participants in the Oslo Declaration<sup>115</sup>,

---

<sup>112</sup>LEE, Kelley; GÓMEZ, Eduardo. Brazil's Ascendance: The Soft Power Role of Global Health Diplomacy. *European Business Review*. p. 61-64, janeiro-fevereiro de 2011.

<sup>113</sup> LEE, Kelley; CHAGAS, Luiz Carlos; NOVOTNY, Thomas. Brazil and the Framework Convention on Tobacco Control: Global Health Diplomacy as Soft Power. *PLoS Med*. V. 7, n. 4, abril de 2010.

<sup>114</sup>FELDBAUM, Harley; LEE, Kelley; MICHAUD, Joshua. Global Health and Foreign Policy. *Epidemiologic Reviews*. V. 32, n. 1, p. 82-92, março de 2010.

<sup>115</sup> AMORIM, Celso; DOUSTE-BLAZY, Philippe; WIRAYUDA, Hasan; GAHR STORE, Jonas; GADIO, Cheikh T.; DLAMINI-ZUMA, Nkosazana; PIBULSONGGRAM, Nitya. Oslo Ministerial Declaration—global health: a pressing foreign policy issue of our time. *The Lancet*. V. 369, n. 9750, p. 1373-1378, April 2007.

an agreement between among countries that places global health at the center of their respective foreign policies.

These experiences show that Brazil in recent years has organized itself to support meaningful global health diplomacy

### **Current infrastructure for global health in Brazil**

Although successive Brazilian governments have invested in infrastructure to handle demands arising from technical cooperation and international negotiations in the area of health, the current economic and management crisis has put the brakes on<sup>116</sup> a portion of the existing initiatives. Three main institutions can be highlighted for contributing to the expansion of the Brazilian global health agenda.

First, the Brazilian Cooperation Agency (ABC) established several health cooperation programs in recent years. Despite the reduction in investments and the lack of emphasis on programs by the Dilma government, many successful initiatives have been maintained. In particular, the area of technical cooperation at ABC<sup>117</sup> has had considerable results in Haiti<sup>118</sup>. Currently, epidemiological surveillance actions continue to be implemented, including those that count on the support of other countries and development institutions.

Secondly, the Ministry of Health has taken the lead in numerous health projects in recent years. In 2012, for example, the Ministry signed a partnership with the Gates Foundation to improve scientific and productive capacity of the vaccine industry. In partnership with the MRE and ABC, and using the knowledge accumulated by Fiocruz, the Ministry of Health implemented several global health policies, with emphasis on cooperation policies for Portuguese-speaking countries<sup>119</sup>.

Finally the Oswaldo Cruz Foundation, who has well-known capacity for technical cooperation in global health, has recently signed more than [600 technical cooperation projects worldwide](#), with a main focus on human resources training in health. An example of the success of this policy is the case of the creation of the Human Milk bank in Cape Verde, which is associated with reduction of the mortality rate in the neonatology sector in that country by 4%.

---

<sup>116</sup> VENTURA, Deisy F. L. A Política Externa de Saúde de Dilma Rousseff (2011-2014): Elementos Preliminares para um Balanço. Instituto de Relações Internacionais da Universidade de São Paulo.

<sup>117</sup> LOPES, Aldenizy M. S. A Cooperação Sul-Sul na visão brasileira. *Revista de Geopolítica*. V. 5, n. 2, 2014.

<sup>118</sup> PESSOA, Luisa R.; KASTRUP, Erica; LINGER, Pedro. A translação do conhecimento no âmbito da cooperação internacional: a experiência da Fiocruz em incorporação de tecnologias em saúde no Haiti. *História, Ciência, Saúde - Manguinhos*. Rio de Janeiro, v. 23, n. 2, April-June 2016.

<sup>119</sup> BUSS, Paulo M. Diplomacia da saúde e cooperação Sul-Sul: as experiências da UNASUL saúde e do Plano Estratégico de Cooperação em Saúde da Comunidade de Países de Língua Portuguesa (CPLP). *RECIIS*. Rio de Janeiro, v.4, n.1, p.106-118, March 2010.

## **The Zika virus and new challenges in global health for Brazil**

The Zika virus represents one of the greatest public health challenges in Brazil today. Diseases transmitted by the *Aedes aegypti* mosquito could potentially lead to contamination in at least 100 countries around the world. According to a report by the Centers for Disease Control and Prevention (CDC), dengue, which is a mosquito-related disease, has 22,000 victims worldwide. Therefore, a rapid and well-executed response is essential to control this epidemic.

The overall health challenge faced by the country in relation to Zika has three main aspects. The first concerns the information tools that are available for the detection of diseases spread by the *Aedes*. Rapid detection allows health teams to intervene and exterminate disease outbreaks before they can infect a considerable fraction of the population. Such measures, when taken promptly, have the advantage of preventing the spread of the disease. The second aspect is related to the exchange of experiences and information with nations that are also susceptible to the disease. Neighboring countries to the north of Brazil are extremely vulnerable to the spread of the disease due to a hot and humid climate and high levels of rainfall throughout the year. In this way, actions to eradicate *Aedes* infestation in Brazil that do not involve coordination with the authorities in bordering countries would become ineffective within a few months.

Finally, there is a need for technical partnerships that encourage the training of national and foreign health workers to deal with *Aedes*. Cooperation agreements are essential for conducting basic research on dengue, Zika, and Chikungunya fever, diseases that have displayed significant growth in the last three years. Not much is known about the most effective ways of implementing public health policies that generate high impact at low cost. An example of this is that little is known about how to encourage and monitor teams of health workers. A study<sup>120</sup> done with nurses in India shows that monitoring systems often fail when demand on professionals is greater than their ability to respond effectively.

### **Recommendations**

In an era of cost containment, exemplified by the economic crisis faced by Brazil, which initiatives can strengthen the Brazilian position in global health, maintaining the balance between social demands and shrinking budgets?

The answer lies in using the components of globalization that promote diffusion and access to information at very low cost, starting with global information systems. Brazilian medical data, especially SUS data (Data SUS) components, has a double advantage: it is pioneering, due to the large volume of information processed in real time, and has proven effective functioning in a country with so many inequalities like Brazil. These information processing and dissemination technologies, which have been strengthened by the Access to Information Act, are inexpensive and easy to implement. Extensive Brazilian knowledge in this area can be made available to other

---

<sup>120</sup>BNERJEE, Abhijit V.; GLENNERSTER, Rachel; DUFLO, Esther. Putting a Band-Aid on a Corpse: Incentives for Nurses in the Indian Public Health Care System. *J Eur Econ Assoc.* v. 6, n. 2-3, p. 487–500, 2008.

countries, assisting in disease control and eradication, as well as in the monitoring of health teams in those countries. Both the Ministry of Health and the Ministry of Foreign Affairs have sufficient technical knowledge to assist countries in adopting systems that are similar to SUS.

Greater cooperation between Brazil and neighboring countries in this area would also assist in the control of epidemics at our borders. An example of a situation that could be avoided is the case of the dengue epidemic in Boa Vista. The circulation of several serotypes of the disease at the border of countries like Venezuela gave rise to a high lethality epidemic in the municipality. Recently, malaria<sup>121</sup> - a disease previously under control in Brazil- has been spreading through movement of Venezuelans into Brazil. Cooperation with medical authorities in that country should favor immediate action by the Brazilian government, avoiding the spread of the most lethal serotypes in Brazil. Allowing foreign countries access to Brazilian epidemiological data is an inexpensive and effective strategy for disease prevention and control. Just as Brazil has an interest in eradicating diseases beyond its borders, other countries share the same concern. Cooperation programs in this area can be planned at low cost, and without any issues that would compromise national security and strategic interests.

Obtaining access to the epidemiological databases of other countries would be fundamental to control endemics on Brazilian soil. In order to eradicate Ebola epidemics, infected African countries engaged in an intense exchange<sup>122</sup> of data on infections and risk areas. In partnership with NGOs and funding agencies such as the Gates Foundation, activities for collection and transmission of data allowed for real-time monitoring of infections and outbreaks, resulting in rapid and efficient action against the disease. This has the dual advantage of ensuring that countries can contain transmission points located in border areas and understand the dynamics spreading of disease through designing effective and realistic public policies.

Institutions such as the WHO and PAHO are currently undergoing significant reformulations of their regulatory frameworks and attributes. The WHO recently approved the new framework of collaboration with non-state actors<sup>123</sup>, with the goal of strengthening the role of institutions such as NGOs, private foundations and universities in health field. Part of this movement is due to the determination that such institutions have responded inefficiently to recent epidemics. Brazil, with its newly gained reputation as a fundamental actor, can and should seek to broaden its area of influence over these institutions. This is essential to avoid agendas being imposed unilaterally by developed countries or by pharmaceutical companies.

---

<sup>121</sup>Hard Times in Venezuela Breed Malaria as Desperate Flock to Mines. *The New York Times*. August 15, 2008. Available at: <<http://www.nytimes.com/2016/08/15/world/venezuela-malaria-mines.html>>. Accessed on September 18, 2016.

<sup>122</sup>SACKSA, Jilian A.; ZEHEA, Elizabeth; REDICKA, Cindil; BAHB, Alhousseine, COWGERB, Kai; CAMARAC, Mamady; DIALLOC, Aboubacar; GIGOC, Abdel N. I.; DHILLONA, Ranu S; LIUA, Anne. Introduction of Mobile Health Tools to Support Ebola Surveillance and Contact Tracing in Guinea. *Global Health Science Practice*. V. 3, n. 4, p. 646-659, December 2015.

<sup>123</sup>WORLD HEALTH ORGANIZATION. WHO's engagement with non-State actors. Available at: <<http://www.who.int/about/collaborations/non-state-actors/en/>>. Accessed on September 18, 2016.

Finally, better training of health personnel, both in Brazil and abroad, would greatly facilitate efficient use of this information. However, information exchange requires more than just a common means of data transmission. The language spoken by the communicating parties must be compatible. In this sense, a standardized data system as well as a common language in data transmission and in the construction of monitoring indicators becomes essential. This type of standardization can only be achieved through international negotiations and agreements.

Recently, China publicly stated that it must apply for a certificate guaranteeing that products of Brazilian origin are free of the Zika virus. This position is another example of a problem that can be tackled with more information. The major challenge<sup>124</sup> in relation to Zika, however, is not the circulation of goods, but of people. This demonstrates that epidemics can undoubtedly have effects on Brazil's foreign trade. But it also reveals that the dissemination of information will be essential to defend national interests in the field and, in the process, to promote global health and wellness.

---

<sup>124</sup>RODRIGUEZ-MORALES, Alfonso J.;BANDEIRA, Antonio C.; FRANCO-PAREDES, Carlos. The expanding spectrum of modes of transmission of Zika virus: a global concern. *Annals of Clinical Microbiology and Antimicrobials*. V. 15, n. 13, 2016.

# Promotion of Democracy and Human Rights

*Oliver Stuenkel is professor of International Relations at the Getulio Vargas Foundation (FGV) and coordinator of FGV's executive education in International Relations in São Paulo, Rio de Janeiro and Brasília.*

The promotion of democracy and human rights as a goal of Brazilian foreign policy – particularly within the South American context – generates perennial tension and conflict with the principles of non-intervention and national sovereignty, which are two central pillars of the country's foreign policy. Even so, the defense of democratic governance and criticism of human rights violations have become increasingly important paradigms for Brazilian diplomacy, given the demands created by a growing part of public opinion and the national political elites. Therefore, the tension arising from the clash between these values - respect for sovereignty versus the defense of democracy and human rights - is one of the most relevant dilemmas of the last 25 years of Brazilian foreign policy. The consequence has been a deeply ambiguous and ad hoc strategy, with few unequivocal commitments.

Brazil sometimes adopts a constructive approach and proactively seeks to defend democracy, as was the case in episodes involving neighboring countries (Paraguay in the 1990s and Venezuela in 2002 and 2003). The country has also led the creation of regional organizations that contain pro-democratic normative frameworks, such as the Ushuaia Protocol. At the same time, however, Brazil remained passive in the face of democratic and human rights violations in situations such as those of Suriname in 1991<sup>125</sup>, Haiti throughout the decade of the 90s<sup>126</sup>, Peru in 1992<sup>127</sup> and 2000<sup>128</sup> and more recently, Venezuela<sup>129</sup>.

Beyond the South American regional context, Brazil's position on democracy and human rights is further weakened, as exemplified by the policy adopted in relation to Cuba, Syria and numerous important, but authoritarian, partners in Africa. Brazil takes the position that external pressure is rarely constructive and that human rights cannot be imposed by external actors<sup>130</sup>. Therefore, the country has been reluctant to openly target and reject international violators of due legal process and human rights, and has, in most cases, strongly opposed economic sanctions or military intervention as a means of solving humanitarian crises.

---

<sup>125</sup> STUENKEL, Oliver. Brazil: South America's Ambivalent Crisis Manager. Available at: <<http://www.postwesternworld.com/2016/06/12/americas-ambivalent-manager/>>. Accessed on September 17, 2016.

<sup>126</sup>BURGES, Sean; DAUDELIN, Jean. Brazil: How Realists Defend Democracy. In *Promoting Democracy in the Americas*. Baltimore, Johns Hopkins University Press, 2007.

<sup>127</sup> PALMER, David Scott. The Peruvian Crisis: The Institutional Coup and its Consequences". *Council on Foreign Relations*. Peru Workshop, Nova York, May 11, 1992.

<sup>128</sup> SANTISO, Carlos. Promoção e proteção da democracia na política externa brasileira. *Contexto Internacional*. Rio de Janeiro, vol. 24, n.2, pp.397-431, 2002.

<sup>129</sup>FELDMANN, Andreas E.; MERKE, Federico; STUENKEL, Oliver. Venezuela's Political Crisis: Can Regional Actors Help? Available at: <<http://carnegieendowment.org/2015/11/30/venezuela-s-political-crisis-can-regional-actors-help/im9t>>. Accessed on September 17, 2016.

<sup>130</sup>STUENKEL, Oliver. Rising Powers and the Future of Democracy Promotion: The Case of Brazil and India. *Third World Quarterly*. V. 34, p. 339-355, 2013.

In an attempt to explain the reasons for this position, this chapter is divided into three parts. The first deals with how Brazil has dealt with the issue of democracy and human rights in its foreign policy since the end of the military dictatorship. It asks to what extent Brazil might have 'special responsibilities' to promote democracy and human rights with partners such as Haiti, Venezuela, and Cuba. This is followed by the section that evaluates how the violation of democracy and human rights in third countries affects or could affect Brazil's interests. The third part presents specific recommendations for a diplomacy equipped to manage the recurring dilemmas on the matter.

### **Pro-democracy and human rights foreign policy**

Brazil's leadership position in the region allowed the country's frequent intervention in the internal politics of neighbors. Examples date from the 1960s and 1970s, when Brazil exerted influence and worked to maintain authoritarian regimes in Bolivia, Uruguay, Paraguay, and Chile. Under the presidency of José Sarney (1985-1990), the first civilian president after more than two decades of military rule, Brazil supported the inclusion of a reference to democracy in a new preamble to the Charter of the Organization of American States (OAS).<sup>131</sup> However, the Brazilian government resisted policies to promote democracy that could be seen as violations of its commitment to the principle of non-intervention in the affairs of third countries. In 1990, under then-President Fernando Collor de Mello, Brazil moved away from proposals for an intervention in Suriname in response to a military coup.<sup>132</sup> In 1992, Brazil decided to take a discreet position regarding the shutdown of Congress in Peru by President Alberto Fujimori.<sup>133</sup> As a rotating member of the UN Security Council in 1994, Brazil abstained from Resolution 940, authorizing the use of force in Haiti to reinstate President Jean-Bertrand Aristide, who had been ousted in a coup. Strengthening democracy outside Brazilian borders was less important for the Brazilian government than resolving the internal challenges of consolidating democracy itself.

New leaders who followed began to reposition Brazil as an increasingly assertive actor in defending democracy in Latin America. In 1996, President Fernando Henrique Cardoso influenced Paraguay through regional organizations, such as Mercosur and the OAS, to prevent a coup in the country, resulting in Paraguayan General Lino Oviedo backing down from his efforts to remove President Juan Carlos Wasmosy from power.<sup>134</sup> In the political crisis that followed in Paraguay, Cardoso continued to play a crucial role.<sup>135</sup>

In the year 2000, when Fujimori violated electoral standards, Cardoso ostensibly opted to not be present at his inauguration. One year later, Brazil supported the preparation and approval of the

---

<sup>131</sup>LEGLER, Thomas; LEAN, Sharon F.; BONIFACE, Dexter S. (editors).Promoting Democracy in the Americas.Johns Hopkins University Press, 2007.

<sup>132</sup> STUENKEL, Oliver. Brazil: South America's Ambivalent Crisis Manager. Available at: <<http://www.postwesternworld.com/2016/06/12/americas-ambivalent-manager/>>. Accessed on September 17, 2016.

<sup>133</sup> STUENKEL, Oliver. Is Nicolás Maduro today's Alberto Fujimori? Available at:<<http://www.postwesternworld.com/2016/06/23/nicolas-alberto-fujimori/>>. Accessed on September 17, 2016.

<sup>134</sup> VALENZUELA, Arturo. Paraguay: The Coup That Didn't Happen. *Journal of Democracy*. V. 8, n. 1, p. 43-55, January 1997.

<sup>135</sup> HOFFMAN, Andrea R. Acessando a influência das organizações regionais de integração sobre o caráter democrático dos regimes de seus Estados-Partes: O caso do Mercosul e o Paraguai. Institute of International Relations, Pontifícia Universidade Católica do Rio de Janeiro, 2005.

OAS Inter-American Democratic Charter, which established the norm of democratic solidarity, according to which the people of the Americas have the right to democracy and their governments have an obligation to promote and defend it.<sup>136</sup>

In April 2002, Cardoso was also active in behind-the-scenes negotiations to return Hugo Chávez to power, 48 hours after his removal by a *coup d'état*.<sup>137</sup> Washington's reputation as a democracy advocate was hampered in the region when the United States Department of State quickly recognized the legitimacy of the coup leaders' government.<sup>138</sup> The policy of defending the presidential mandate of Chávez was maintained during the presidency of Luiz Inácio Lula da Silva.<sup>139</sup>

Following FHC's leadership in the defense of democracy and human rights, Lula's administration agreed with the idea that it was time for Brazil to play an important role in the region. In 2003, Lula moved quickly to resolve a constitutional crisis in Bolivia.<sup>140</sup> In 2005, he sent his foreign minister to Quito to deal with the crisis in Ecuador.<sup>141</sup> In the same year, Brazil worked with the OAS to mediate a political crisis in Nicaragua, which included supplying financial support for election monitoring in the country.<sup>142</sup>

There have been several cases in which the Brazilian government has taken significant steps to help stabilize democratic governance abroad. The Brazilian decision to lead the UN humanitarian mission in Haiti, MINUSTAH, starting in 2004, contributed to both economic and political stability on that Caribbean island. Beyond the region, Brazilian involvement in Guinea-Bissau, a member of the Community of Portuguese Speaking Countries (CPLP), is an example of another Brazilian effort to promote peace and democracy.<sup>143</sup> Brazil provided electoral assistance for Guinea-Bissau between 2004 and 2005,<sup>144</sup> and continued to support stabilization through the UN peacekeeping mission in

---

<sup>136</sup> STUENKEL, Oliver. Book review: "21st Century Democracy Promotion in the Americas" By J. Heine and B. Weiffen. Available at: <<http://www.postwesternworld.com/2015/08/01/democracy-promotion-americas/>>. Accessed on September 17, 2016.

<sup>137</sup> SPEKTOR, Matias. 18 Dias. Rio de Janeiro, Objetiva, 2014.

<sup>138</sup> FELDMANN, Andreas E.; MERKE, Federico; STUENKEL, Oliver. Venezuela's Political Crisis: Can Regional Actors Help? Available at: <<http://carnegieendowment.org/2015/11/30/venezuela-s-political-crisis-can-regional-actors-help/im9t>>. Accessed on September 17, 2016.

<sup>139</sup> COLE, N. S. Hugo Chavez and President Bush's Credibility Gap: The Struggle Against US Democracy Promotion. *International Political Science Review*. V. 28, n. 4, p. 493-507, September 2007.

<sup>140</sup> FUSER, Igor. Conflitos e Contratos: a Petrobras, o nacionalismo boliviano e a interdependência do gás natural (2002-2010). Dissertação de pós-graduação – Universidade de São Paulo. São Paulo, 2011.

<sup>141</sup> Amorim chega ao Equador para acompanhar desdobramentos da crise política. *Agência Brasil*. 29 de abril de 2005. Available at: <<http://memoria.ebc.com.br/agenciabrasil/noticia/2005-04-29/amorim-chega-ao-equador-para-acompanhar-desdobramentos-da-crise-politica>>. Accessed on September 17, 2016.

<sup>142</sup> DEPARTMENT OF STATE. OAS Chief Visiting Nicaragua to Help Resolve Political Crisis. Available at: <<http://iipdigital.usembassy.gov/st/english/article/2005/06/20050615130458aeneerg0.5405084.html#ixzz4KfcD8Gyv>>. Accessed on September 17, 2016.

<sup>143</sup> STUENKEL, Oliver. Can Brazil promote democracy in Africa? Available at: <<http://www.postwesternworld.com/2014/03/07/promote-democracy-africa/>>. Accessed on September 17, 2016.

<sup>144</sup> UNITED NATIONS SECURITY COUNCIL. Report of the Secretary-General on developments in Guinea-Bissau and on the activities of the United Nations Integrated Peacebuilding Office in that country. Available at: <<https://documents-dds-ny.un.org/doc/UNDOC/GEN/N12/412/20/PDF/N1241220.pdf?OpenElement>>. Accessed on September 17, 2016.



the country.<sup>145</sup> In preparation for the early elections in April 2012, Brazil provided even more funds to the UNDP fund supporting the National Electoral Commission for assistance in the election.

In 2009, the Brazilian foreign minister condemned the coup in Honduras and demanded that President Zelaya be immediately reinstated.<sup>146</sup> Brazil also suspended humanitarian aid and military cooperation projects. A few days later, the UN General Assembly also condemned the coup and the OAS suspended Honduras. Later, Brazil adopted a series of additional measures, including the cancellation of a visa waiver program, as a way to pressure the Honduran government to reinstate Zelaya, who met with Lula and Celso Amorim during the crisis. Such examples are often ignored by those who criticize or belittle Brazil's history as a defender of democracy in the region. However, something that always surprises foreign observers is the fact that, although Brazil is progressively adopting the defense of human rights and democracy in its foreign policy, it has not led to a greater degree of convergence with the United States on this issue. Instead – as seen in the case of Honduras – frequent friction continues.<sup>147</sup> Indeed, it became clear that the two countries have very different approaches to best practices in promoting human rights and democracy.

The Brazilian approach to regional leadership differs from that of the United States for several reasons. The phrases "promotion of democracy" or "defense of democracy" - which are favored by U.S. policymakers - are rarely used in Brasilia. Nor does Brazil stimulate the kind of activism practiced by European or North American NGOs, which includes the development of political parties, support for media and independent journalists, development of public institutions, and training for judges, civic leaders, and legislators. In addition, the Brazilian State and civil society have not developed the capacity to send civilians to work with democracy assistance around the world, as is the case with NGOs in Europe and the United States. Unlike the U.S., Brazil rarely conditions the provision of aid to the existence of a democratic regime, presenting itself as a development partner, not a donor. The promotion of democracy is therefore not part of the broader "liberal narrative" in Brazil.

On the contrary, Brazil has, by its nature, suspicions about any kind of quest for ideological convergence between states. Brazil does not have a *mission civilisatrice* or interest in expanding its own ideological agenda around the world. It is unlikely that the country will transform its own successful transition to democracy into a foreign policy platform.

The Brazilian approach is a distinct alternative to the normative method of promoting Western democracy, which reflects the urgency of re-creating liberal democracies. Brazil prefers to take preventive action through multilateral norms or platforms; for example, through treaty clauses that

---

<sup>145</sup>UNITED NATIONS GENERAL ASSEMBLY. Support by the United Nations system of the efforts of Governments to promote and consolidate new or restored democracies. Available at: <<https://documents-dds-ny.un.org/doc/UNDOC/GEN/N06/507/93/PDF/N0650793.pdf?OpenElement>>. Accessed on September 17, 2016.

<sup>146</sup>STUENKEL, Oliver. Brazil at the Eye of the Storm: Lula, Zelaya and Democracy in Central America. Available at: <<http://www.postwesternworld.com/2014/06/28/democracy-central-america/>>. Accessed on September 17, 2016.

<sup>147</sup>HEINE, Jorge; WEIFFEN, Brigitte. 21st Century Democracy Promotion in the Americas: Standing up for the Polity. Routledge, 2014.

criticize countries that do not maintain democratic standards, or through institutionalized collective action.

In fact, Brazil has systematically constructed references for the defense of democracy in the charters, protocols, and declarations of sub-regional institutions of which it is part. The importance of democracy in the constitution and activities of MERCOSUR, the Rio Group and UNASUL may be attributed in part to such Brazilian activism.

Proponents of this less invasive tactic note that it is less likely to raise anti-Brazilian sentiment within or beyond the country's borders. Only when preventive measures are not successful does the Brazilian government contemplate more invasive interventions. As a result, many Brazilian citizens are largely ignorant of their government's defense of democracy in its activities - which contrasts sharply with the U.S. case, where a large part of voters consider it a duty of their government to spread democracy and human rights throughout the world.

At best, Brazil's posture causes frustration in Washington. At worst, the United States sees Brazil as an irresponsible actor, while Brasilia interprets Washington's interventionism as a source of democratic instability in South America.

At the same time, influential voices in Brasilia express deep caution and ambiguity when it comes to attempts to influence domestic affairs abroad. Emphasizing the importance of sovereignty in the international order, many foreign policy thinkers in Brazil criticize the promotion or proactive defense of human rights or democracies, pointing out that such attitudes invariably violate the sovereignty and self-determination of another country. Foreign interventions of any kind, even benevolent movements, are often regarded as an inappropriate intrusion into the internal affairs of another country, something that democracy promoters often ignore while being seduced by the notion of a "unity of kindness," in which effective institutions and all that is desirable emanates from democracy. In addition, excluding non-democratic regimes, such as the launching of the idea of a "League of Democracies", creates a dynamic of "insiders vs. outsiders" that foments mistrust and possibly even sows conflict, which diminishes the scope for dialogue. Concerns about the internal characteristics of regimes could provoke resistance and place the regional order at risk.

Several thinkers also describe the promotion of democracy as a continuation of colonialism.<sup>148</sup> From this perspective, the promotion of democracy can be understood as a new form of transnational control that has accompanied the rise of global capitalism. Such thinkers - who have more influence in Brazil than in Europe or the United States - describe the practice as an effort to replace coercive means of social control by consensual means in the South, within a highly stratified international system in which the U.S. plays a leading role in the name of an emerging hegemonic transnational configuration and a transnational elite. Critics describe the promotion of democracy as incoherent, insincere, and motivated by economic interests. They often point to the reluctance of the United

---

<sup>148</sup>ROBINSON, William I. Globalization, the World System, and "Democracy Promotion" in U.S. Foreign Policy. *Theory and Society*. V. 25, n. 5, October 1996.

States and its allies to raise the goal of promoting democracy above all other interests at all times. For example, critics wonder why the United States does so little to promote democracy in autocratic Saudi Arabia while Venezuela has become a target for democracy promotion over the first decade of the 21<sup>st</sup> century, even though its president has been democratically elected.

Brazil's stance on democracy promotion proved controversial in 2012, when President Dilma Rousseff, along with Uruguayan and Argentine leaders, suspended Paraguay from Mercosur following the impeachment of Fernando Lugo, the then-president of Paraguay, which the majority of governments of the region considered the equivalent of a coup d'état or a "parliamentary coup" leader.<sup>149</sup> Some have argued that the Brazilian government set a clear precedent that anti-democratic tendencies in the region would trigger a quick and clear reaction. Rousseff's decision to work through Mercosur—rather than the OAS, which Brazilian policymakers viewed as dominated by the U.S.—was consistent with a growing preference for using local bodies in the region, possibly in an effort to strengthen its claim to regional leadership. Others argued that Brazil's stance had little to do with democracy but was aimed at other ends. Not only did Argentina's President Cristina Kirchner fear being deposed at home and seek to set a precedent that would discourage her domestic opponents, but more importantly, many saw the suspension of Paraguay as a geopolitical maneuver to allow Venezuela to enter Mercosur, a step that had previously been blocked by the Paraguayan Senate.

While Brazilian policy has been relatively consistent with attempted coups in the region, it has generally not taken a firm stand on violations of human rights and civil liberties. At the start of 2014 when the Venezuelan government severely suppressed its demonstrators, the foreign minister made it clear that it was not Brazil's role to speak out against the president of Venezuela, Nicolas Maduro.<sup>150</sup> Mediation attempts at the time were well-intentioned but incapable of establishing genuine dialogue against the government and the opposition.

Brazil's silence amidst growing violations of democracy and human rights in Venezuela in 2015 and 2016 weakened the image of Brazil as a regional leader, particularly considering that Brasilia was actively promoting economic cooperation with Caracas while Maduro and his predecessor, Hugo Chavez, worked to dismantle democracy in Venezuela. Without the Brazilian diplomatic support and economic engagement during that period (which generated ample economic rewards for Brazil), chavismo would not have been capable of consolidating itself in such an unmitigated way.

Considering Brazil's important role in Latin America, it seems increasingly clear that even in times of domestic turmoil disengagement does have significant costs. Indeed, the delayed and too tepid reaction in the region to the deep political crisis in Venezuela contributed to the notion abroad that South America is adrift and unable to cope with its own problems.

---

<sup>149</sup> VIEIRA SOUTO, Cintia. A Crise Política no Paraguai e o Brasil. *Conjuntura Austral*. V. 3, n. 13, p. 7-16, August/September 2012.

<sup>150</sup> Defendemos diálogo com os opositores na Venezuela. *Folha de S. Paulo*. March 3, 2014. Available at: <<http://www1.folha.uol.com.br/fsp/poder/154730-defendemos-dialogo-com-os-opositores-na-venezuela.shtml>>. Accessed on September 17, 2016.

In addition to Venezuela, Cuba and Haiti stand out as particularly difficult cases in the Brazilian debate on the promotion of democracy and human rights. The complexities inherent in the three countries show how difficult it has been for Brazilian governments to find an adequate strategy over the past years.

In Haiti, a near-failed state scenario requires continued engagement by the Brazilian MINUSTAH peacekeeping mission alongside other countries that have contributed troops, such as Canada and Uruguay. It is particularly important that the Brazilian aid projects—dramatically expanded during the Lula period but reduced when crisis struck the administration of President Rousseff—continue to be carried out on the island.

In Venezuela, urgent action is needed since the president-elect has actively weakened the legislature and reduced the autonomy of the judiciary and the media, not counting the imprisonment of many high-level opposition politicians. In this case, Brazil should help build a coalition with at least two-thirds of the OAS members—a proportion necessary to suspend Venezuela until President Nicolas Maduro's government restores judicial independence and protection of fundamental rights.

With regard to Cuba, a firm long-term strategy will be needed to promote human rights and democracy on the island. Aggressive tactics such as the economic embargo imposed by the U.S. proved ineffective, having given even more power to the Castro regime. The Cuban government has traditionally been reluctant to allow foreign delegations or diplomats to meet with critics of the regime. When Luiz Felipe Lampreia, the Brazilian Foreign Minister under Fernando Henrique Cardoso, insisted on meeting with a Cuban opposition figure during a trip to the island in 2000, Havana threatened to cancel Lampreia's official visit.

When it comes to the three most complex cases of human rights and democracy violations in the Americas, Brazil as the second-largest country in the hemisphere should take on a leading role in strengthening normative arrangements, monitoring and promoting an honest debate on how best to deal with the problems in the three countries. Given the different challenges faced by each country, each situation therefore requires specific approaches.

Finally, Brazil's position regarding marginalized communities is equally ambiguous. Despite the considerable human rights challenges at home, Brazil has been speaking out against racism at the international level during the past few decades and has expressed its support for marginalized communities. In 2011, the country co-sponsored a resolution at the UN Human Rights Council on human rights violations based on sexual orientation and gender identity, an achievement that reaffirms the principles of the UN Universal Declaration of Human Rights. Originally, this resolution was presented by Brazil in 2003, at the UN Commission on Human Rights (now Human Rights Council) in Geneva, with the support of 19 other countries. It called on all UN member states to promote and protect human rights "for all people, regardless of their sexual orientation." This positive trend continued into 2012 when, during a vote at the UN General Assembly on extrajudicial executions, Brazil condemned the proposed amendment that removed references to

sexual orientation and gender identity. However, at the same time, Brazil has generally been unwilling to criticize discriminatory legislation bilaterally (such as legislation that discriminates against LGBT populations in several countries in Africa and Asia).<sup>151</sup> In April 2011, the Inter-American Commission on Human Rights requested that Brazil suspend the construction of the Belo Monte Dam because it did not properly consult with the affected indigenous population. President Rousseff responded with the suspension of Brazilian payments, the withdrawal of the Brazilian ambassador to the OAS and the suspension of a Brazilian candidate for a position in the Commission (although he did end up being elected for the post).<sup>152</sup>

### **How violations of human rights and democracy affect Brazilian interests**

Those who argue that Brazil should do more to defend democracy and promote human rights usually do so for moral reasons. According to them, as one of the world's largest democracies, Brazil has an obligation to defend democracy and promote human rights. Something less often mentioned is the fact that violations of the democratic regime and human rights in other countries have a concrete impact on Brazil's strategic interests. In the past, authoritarian regimes were sometimes considered politically more stable, since autocratic leaders did not have to submit to unpredictable elections. In addition, they were seen as possessing greater freedom to suppress destabilizing movements in society, which could negatively affect Brazilian investors. While such thinking is still sometimes seen in debates on democratization in the Middle East, elsewhere it has become increasingly evident that democratic regimes that fulfill their human rights duties tend to be more stable. They also appear as more reliable partners, better at managing power changes domestically. Regular and competitive elections also provide a channel for popular discontent, a mechanism that authoritarian regimes do not offer.

Stable and predictable power transitions are particularly important for long-term investors, such as Petrobras, Vale or Odebrecht, which are exposed to political risk. The current situation in Venezuela - a classic case of authoritarian government resisting the transition of power - shows how the violation of democratic norms and rules affects the economic interests of Brazil. Not only are Brazilian investors penalized, but Brazilian companies that sell products to Venezuela, especially in border regions, are more vulnerable in a scenario of uncertainty. Beyond this, human rights abuses and breaches of democratic governance in Brazil's surrounding region have negative consequences for Brazilian strategic interests, as they affect the region's reputation abroad, possibly impacting foreign investors and reducing the scope for cross-border cooperation. Examples would be areas dominated by organized crime, those used for trafficking of drugs and people, and protection of the Amazon rainforest, considering that regimes with a problematic record of respect for human rights tend to be less reliable than those where human rights are valued.

---

<sup>151</sup> PÉREZ, Gloria C. A Proteção dos Direitos LGBTI: Um Panorama Incerto. *Sur*. V. 11, n. 20, June-December 2014.

<sup>152</sup> SOLTIS, Katie. Brazil Disregards Charges from the Inter-American Commission on Human Rights. Council on Hemispheric Affairs. Available at: <<http://www.coha.org/brazil-disregards-charges-from-the-inter-american-commission-on-human-rights/>>. Accessed on September 17, 2016.

More important still, from the Brazilian point of view, is the fact that attempts to promote democracy—applying the democratic clause in case of violations, for example—implies a risk that these rules may one day be used against Brazil. However, this only highlights the domestic benefits of promoting regional and global standards for democracy and human rights, since their advancement potentially ensures that they are respected at home.

In fact, the more countries that obey strict human rights standards and democratic norms, the easier it will be for domestic actors to implement them in Brazil. For example, human rights standards elsewhere provide the tools for more vulnerable groups—such as indigenous populations—to seek international help when domestic mechanisms do not function properly. Being surrounded by regimes that respect democracy and human rights inevitably increases pressure on domestic actors so that such rights are also fulfilled in Brazil,

Certainly there are tangible examples of how this mechanism can work. Important human rights advances in Brazil, such as modern domestic violence laws (the Law *Maria da Penha*, for example) are, in fact, adaptations of Brazilian law from international standards and have often been the result of international pressure.<sup>153</sup> The promotion and defense of rules and standards of democracy and human rights in the world is therefore an essential tool to advance these topics domestically.

Finally, violations of democratic rules and human rights norms in neighboring countries of Brazil, if left unaddressed for long periods of time, may increase the likelihood of external intervention in South America. This would be a serious blow against Brazil in keeping powers like the United States and European countries at some distance. This does not mean that the United States is committed to greater involvement in the region - on the contrary, there is a growing consensus in Washington that intervening in South America is not only a strategy of secondary importance, but also a risky one. However, if a crisis does indeed threaten U.S. interests - whether in the form of a growing number of migrants or by affecting stability on a regional scale - the U.S. may be forced to take a more assertive stance. The continued inaction of neighboring nations in face of a potential Venezuelan collapse (for example, producing thousands of economic refugees) already severely weakens the notion of Brazilian regional leadership today.

The above analysis shows that the deep ambivalence present in the Brazil's position on the promotion of democracy and human rights abroad is as common as it is unlikely to be resolved in the immediate future. While on the one hand even in the United States or in Europe the promotion of democracy and human rights is as highly contested and often criticized as it is useless or dangerous,<sup>154</sup> the debate becomes more complicated in Brazil. This complexity is mainly attributed to an acute sense of human rights violations at the national level, be it police violence against blacks,

---

<sup>153</sup>UN WOMEN. *Maria da Penha Law: A Name that Changed Society*. Available at: <<http://www.unwomen.org/en/news/stories/2011/8/maria-da-penha-law-a-name-that-changed-society>>. Accessed on September 17, 2016.

<sup>154</sup>STUENKEL, Oliver. Book review: "American Democracy Promotion: Impulses, Strategies and Impacts". Available at: <<http://www.postwesternworld.com/2012/05/12/book-review-%E2%80%9Camerican-democracy-promotion-impulses-strategies-and-impacts%E2%80%9D/>>. Accessed on September 17, 2016.

the appalling conditions in most Brazilian prisons<sup>155</sup>, the continued existence of slave and child labor in both rural and urban areas<sup>156</sup>, or discrimination and violence against women<sup>157</sup>, journalists<sup>158</sup> and the LGBT community.<sup>159</sup> It is also worth recalling that Brazil is the country with the world's highest number of assassinations of environmental activists.<sup>160</sup>

Paradoxically, while for some this is sufficient reason not to promote human rights and democracy abroad since it increases the risk of Brazil being criticized, others see this as precisely the main reason for taking on a more visible role. The use of torture in Brazilian prisons is a good example: while the federal government is prevented by the constitution from interfering with a problem that is a state responsibility, foreign policy could help place the issue on the agenda domestically. If the Brazilian Foreign Ministry actively promoted the issue abroad and signaled global or local commitment along with other countries to end torture in Brazil, the federal government and organized civil society could use this international commitment to pressure the state governors to reform the prison system. Considering this mechanism, it is in Brazil's interest to promote further consolidation of a regional framework that not only strengthens monitoring but also serves to reinforce rules that are still often neglected.

## Recommendations

Based on the above analysis, it is possible to formulate a series of measures for Brazil to take a more assertive position in promotion of democracy and human rights. In terms of multilateral agencies, Brazil could, for example, participate more actively within the UN in order to improve the performance of the Human Rights Council and make it more effective. In addition, it should expand its financial contribution (or at least honor its current debts) to the OAS and the Inter-American Human Rights System (both today funded mainly by the United States). In order to achieve this, there is a need for greater institutional integration in foreign policy, which should have a specific agenda through a joint plan of action between the Special Secretariat for Human Rights and the Ministry of Foreign Affairs.

---

<sup>155</sup>“O Estado Deixou o Mal Tomar Conta”: A Crise do Sistema Prisional do Estado de Pernambuco. Human Rights Watch, 2015. Available at: <[https://www.hrw.org/sites/default/files/report\\_pdf/brazil1015port\\_forupload.pdf](https://www.hrw.org/sites/default/files/report_pdf/brazil1015port_forupload.pdf)>. Accessed on September 17, 2016.

<sup>156</sup>SAKAMOTO, Leonardo (coord.). Trabalho Escravo no Brasil do Século XXI. Organização Internacional do Trabalho. Available at: <[http://www.oitbrasil.org.br/sites/default/files/topic/forced\\_labour/pub/trabalho\\_escravo\\_no\\_brasil\\_do\\_%20seculo\\_%20xxi\\_315.pdf](http://www.oitbrasil.org.br/sites/default/files/topic/forced_labour/pub/trabalho_escravo_no_brasil_do_%20seculo_%20xxi_315.pdf)>. Accessed on September 17, 2016.

<sup>157</sup>Brazil's tough laws on violence against women stymied by social norms. *The Guardian*. 12 May 2015. Available at: <<https://www.theguardian.com/global-development/2015/may/12/brazil-tough-laws-violence-against-women-stymied-by-social-norms>>. Accessed on September 17, 2016.

<sup>158</sup>Violência contra jornalistas aumentou em 2015, diz relatório da Fenaj. *Folha de S. Paulo*. 21 Jan 2016. Available at: <<http://www1.folha.uol.com.br/poder/2016/01/1731966-violencia-contra-jornalistas-aumentou-em-2015-diz-relatorio-da-fenaj.shtml>>. Accessed on September 17, 2016.

<sup>159</sup>SECRETARIA DE DIREITOS HUMANOS DA PRESIDÊNCIA DA REPÚBLICA. Relatório Sobre Violência Homofóbica no Brasil: Ano de 2012. Available at: <<http://www.sdh.gov.br/assuntos/lgbt/pdf/relatorio-violencia-homofobica-ano-2012>>. Accessed on September 17, 2016.

<sup>160</sup>Brazil Tops Activist Killings List Amid Commodities Price Slump. *Bloomberg*. 19 June 2016. Available at: <<http://www.bloomberg.com/news/articles/2016-06-20/brazil-tops-activist-killings-list-amid-commodities-price-slump>>. Accessed on September 17, 2016.

In this sense, it is necessary to develop the institutional knowledge in the Foreign Ministry and the Presidency on crisis mediation. Itamaraty, above all, should be seen as a key government tool to combat domestic human rights violations, guided by international rules and standards that will generate external pressure on Brazil.

When constitutional crises flare up in neighboring countries, the Brazilian presidency should automatically create a crisis committee. Furthermore, the Brazilian Congress should actively engage foreign legislatures in the region to establish permanent channels of dialogue and should have the capacity to respond adequately when these crises emerge. In this case, Brazil should coordinate with its neighbors in order to ensure that UNASUL, OAS and Mercosur all work together effectively.

Finally, loans granted by BNDES should consider human rights and democratic governance as fundamental components of risk inherent in granting publicly subsidized credit to foreign governments.



# Strategic Analysis for International Relations in Brazil

*Matias Spektor has a Ph.D. from Oxford University and is professor of International Relations at FGV.*

One of the major challenges of any foreign policy is to anticipate emerging trends and problems in the international system, and to calculate the risk embedded in each of the options available to the country. Therefore, some countries explicitly use the instruments available today for strategic analysis as applied to foreign policy, global economy, and international security and defense matters. It is the type of work that enables national authorities to understand global change in a timely manner, in order to mitigate possible negative effects and, with some ingenuity, to take advantage of global change. The strategic analysis efforts for foreign policy issues are particularly useful for governments in complex societies where the living conditions of the population are influenced by factors that take place outside national boundaries. In countries such as Germany, China, the United States, India, Japan, the United Kingdom and Turkey, the heads of government have or have had at their disposal a group of professionals dedicated exclusively to these functions, which should not be confused with the tasks of diplomatic planning typical of the daily work in a foreign ministry (in Brazil, this falls under the responsibility of the Department of Diplomatic Planning of the Ministry of Foreign Affairs/SPD).<sup>161</sup>

Brazil suffers from a long-standing deficit of strategic analysis as related to foreign policy, global economy, international security and defense. Even with a strong state that has the capacity for diplomatic representation worldwide, the Brazilian political class has been unable to detect and understand, in a timely and precise manner, the great global transformations that shape national public life. For example, the ruling elite has taken more than ten years to understand the meaning and scope of the phenomenon of globalization - the exponential increase in the flow of money, trade, people, ideas and international standards that has revolutionized international politics for the last four decades. More recently, the political class was not able to register China's slow down in time, and its immediate impact was the worsening of the severe economic recession we are now experiencing. Additionally, the impetus that the authorities have apparently given to the subject of public safety seems to be advancing without an explicit understanding of the rapid transformation of Brazil's place in the political economy of transnational organized crime and South American drug trafficking, making it even harder to reverse alarming statistics in major capitals, and in cities in the country's inland and along its borders.

Incapable of detecting and analyzing international trends in time to react strategically, the governments are caught off guard by phenomena over which they have little or no control. When it arrives, the reaction is late.

What explains this situation?

---

<sup>161</sup> DREZNER, Daniel. *Avoiding Trivia: the Role of Strategic Planning in American Foreign Policy*. Brookings Institution, 2009 e BRANDS, Hal. *What Good is Grand Strategy? Power and Purpose in American Statecraft*. Cornell University Press, 2014.

Our difficulty in anticipating strategic surprises is not governmental ineptitude, but something more complex. First, Brazilian society is little exposed to global flows of ideas or people. This occurs for several reasons. Brazil receives very few tourists, immigrants and foreign students. English is not a *lingua franca* in the Esplanade of the Ministries or in the Faria Lima business district, nor is Spanish, the hegemonic language in our region. In addition, the Brazilian economy is the most closed to global trade among the major emerging countries, taking more time to detect and react to the dynamics of capital and production than do more open economies. Likewise, the Brazilian ruling elite is neither particularly cosmopolitan nor attuned to what is happening in the surrounding world, especially when compared to its counterparts in emerging countries such as India, Mexico, Turkey, or Colombia. If taking the temperature of the world in real time is a challenge for any society, here we have these additional difficulties.

None of this, however, need be destiny. After all, the Brazilian state has an excellent established capacity to collect and process data on global trends. Institutions such as the Central Bank, IPEA and IBGE produce internationally competitive research. In turn, the Ministry of Foreign Affairs has a vast network of outposts, where skilled professionals process huge amounts of information and conduct political risk assessments every day. There are human and material resources to address the problem.

What the Brazilian government lacks is a knowledge management model for international politics and economics that is capable of absorbing and integrating the massive volume of information that is now dispersed. A well-structured strategic foreign policy analysis system would allow the political class to make a qualitative leap, facilitating the assessment of risks and opportunities in the international arena.

It is easy to end the costly mismanagement that is the hallmark of this area. To address this, the chapter identifies institutional and political obstacles to create a strategic analysis system and then proposes six low-cost, high-impact tools that could help reverse this situation.

## **The Obstacles**

This section identifies the types of obstacles that impairs conducting of prospective exercises in Brazilian foreign policy and which, at least as of now, have hindered the emergence of a culture of strategic reflection integrated with the needs of those who govern the country.

*Strategic Coordination.* There is no example today of delegated powers of the Presidency of the Republic to coordinate the work of prospective reflection of the many governmental organs that conduct some type of international activity. This means there is no structure analogue to the National Security Council (United States), to the Prime Minister's Strategy Unit (United Kingdom) or to more or less informal councils that provide strategic analysis for decision making by government leader in countries like Russia, India and China. Therefore, although the Brazilian State is rich, powerful and capable of projecting influence beyond its borders through its ministries, autarchies, armed forces, state-owned enterprises, public banks, judiciary, legislative and federal entities, this work is diffuse, with no central nervous system dedicated to coordinating the many observations of its agents on the world. Even when there are units of the government conducting prospective scenarios— as is the case of the investment in scenarios that has been conducted separately by the three armed forces -, the production almost never actually informs governmental

action abroad. As there is no coordination among the many agencies and autarchies of the Brazilian government, there are no work teams dedicated to analyzing in a systematic way the most critical international situations faced by the country. In recent years, the many attempts to create a Department of Strategic Affairs, Institutional Security Cabinet or a Special Council for diplomatic affairs in the presidency of the Republic have not resulted in greater capacity for coordinated reflection on the state of the world.

*Data science.* The Brazilian government is swiftly advancing in the area of information technology and data science regarding official statistics, governmental documents and process management. However, this knowledge has not yet been applied to external politics, in terms of applying existent software to identifying tendencies, activating alerts or systematizing the huge volume of cables that arrive daily from dozens of embassies and stations spread worldwide. It should be noted that the majority of the Itamaraty dispatches is archived without being processed or submitted to data crossing.

*Critical mass.* Brazil is one of the few countries of its size that does not have a vibrant community of people involved in international politics and external politics beyond the government structure. The existing think tanks are small in number and size, and organized civil society rarely really operates outside national borders. The academic community on International Relations does not offer professional training in risk analysis, scenario elaboration or international strategic analysis. Additionally, the engagement of the Brazilian academy with the governmental community that is dedicated to Brazil's external relationships is minimal and intermittent when compared with those prevailing in other South American countries and in large emerging economies. In this same way, the national press is focused on domestic affairs, having developed little or no experience in handling global or transnational topics. To make things even more difficult, the largest print and television outlets have been cutting their numbers of correspondents abroad, without investing in high-quality international journalism in their new online platforms.

*Diplomatic culture.* The Brazilian diplomatic culture is rich and a great comparative advantage for Brazil in the international system. However, five of its main distinctive characteristics hinders an entrenched culture of strategic analysis.

First off, this institutional culture values the practical resolution of diplomatic problems, at the expense of analytical work. As occurs with most of the world's chancelleries, the dominant climate of Itamaraty is suspicious of the intellectualism that so often contaminates the evaluations of politic risk and of emerging scenarios.

Second, the chancellery culture not only values but prioritizes the accumulated knowledge of past generations. A great part of the young diplomats' education is based on writings by former diplomats and through oral transmission of cases, anecdotes and memories from established ambassadors, at the expense of active intellectual engagement with high-quality production emanating from the main universities and research centers worldwide and in South America (although the Ministry of External Relations carries out sporadic seminars with the Brazilian academy, there is few or no interaction with the top notch centers worldwide). With no systematic and institutional interaction with such sources of reflection on world politics, professional Brazilian diplomacy remains at the mercy of inherited strategic concepts that do not receive critical analysis. Note that there is no lack of structure and resources for such *aggiornamento*. After all, FUNAG (a

public foundation linked to the Ministry of Foreign Relations with a vast collection of archives) possess all the necessary tools to facilitate intellectual engagement through a process of regular consultations with international specialists at minimal cost, thanks to existing video conference technologies.

Third, Brazilian diplomacy suffers from the same problem as *groupthink* – the psychological phenomenon that occurs in groups of people where conformity and aversion to opposition and to open confrontation of ideas take precedence over systematic and professional reflection on the problems in question. In such contexts, the appearance of controversial ideas or the mere creation of alternative scenarios are seen as threats. It is an institutional environment where there is little space for playing devil's advocate and for professionals to explicitly question the dogmas and agreements generated in their own workplaces.

Fourth, the daily routine of most Brazilian diplomats is dominated by an administrative or strictly bureaucratic agenda, in which there is no space for strategic reflection, which is many times discarded as dilettantism or a luxury that duly busy workers cannot afford. Even at the highest levels and in front-line areas, most professional diplomats dedicate their days to administrative-bureaucratic problems, with little mental space or real time left for analytic exercises.

Fifth, the strict observance of hierarchy within the diplomatic arena has the advantage of creating consistency among 2,000 employees, but it also comes at a price. There are tacit and explicit barriers to the culture of questioning and creativity that are essential to any serious work in strategic analysis. This culture does not encourage the critical analysis of theses and dogmas of the present government. But even among those professionals most inclined to study, it is rare to find someone willing to point out circular arguments or to expose propositions that, although repeated by the leaders, does not have empirical support. It therefore occurs that the valuing of seniority, institution and tradition, in detriment of systematic and critic reflection, comes at great cost to Brazil in the international arena. After all, the political class is prepared for everything that is recurrent and predictable, but not for the unexpected, surprising and counter-intuitive dynamics currently found in the international scenario.

It is worth noting, however, that Itamaraty's culture did not always hinder the collective capacity for strategic reflection. During a good part of the 20th century, the ministry implemented a collegiate system where opposition was a valued component in the decision-making process. Such a practice was never formalized, but it regularly occurred in the form of manuscript comments in the margins of official papers that made their way up from the divisions and departments to the leaders of the ministry.

From the 1990s on, however, this management model gave way to another, which concentrated authority in the cabinet of the Ministry of External Relations. If the previous practice provided some space for lively debate of ideas, the current practice is less deliberate and, therefore, less equipped to deal with the unexpected. Even long-time ambassadors frequently avoid discussing with sincerity their perspectives that diverge from the current official line.

In addition to intellectual impoverishment, this way of dealing with diplomatic issues introduces some additional risks. The more glaring one is an organizational style averse to bad news, where employees who identify significant problems are afraid that the mere formal communication of such

issues to their superiors might have a deleterious effect on their own careers. The result of this may be catastrophic. A recent example was the episode in which Senator Roger Pinto fled from the embassy in La Paz, where requests for assistance coming from the office were supported by risk analysis expressed in detailed telegrams, but fell on deaf ears within the command chain in Brasilia. Another example was the botched process of evacuation of the Brazilian embassy in Mali, when a coup d'état precluded the presence of official foreign missions in the country. Previous alerts from the office had arrived at the Secretary of State in a systematic way, but did not find open channels. With no efficient mechanisms to process evaluations or critical alerts, the institution holds back from being able to take corrective measures to impede disasters. There are simple methods to reverse this situation, through anonymous systems of recommendations and suggestions, as indicated below.

The variables listed above contribute to a decision-making process in foreign policy that is nearly never informed by systematic studies on the most plausible strategic scenarios. The explicit strategic deliberation, when it occurs, is *ad hoc*.

The next section identifies the central elements of the many strategic analysis tools for foreign policy.

### **Range of methodologies**

Numerous foreign governments draw from a varied selection of methodologies for strategic analysis in foreign policy, global economy, and international security and defense. As a general rule, these instruments are adopted by different government units and organs, and coordinated by an authority linked to the government's leaders capable of an overall vision. Here is a list of the most recurrent.

*Alternative scenarios* This methodology produces scenarios with an eye on the future, mapping risks and identifying in an explicit way the main sources of uncertainty and risk<sup>162</sup>. Such scenarios define the most plausible alternative future developments. The goal of this exercise is to reduce negative impacts of strategic surprises. For example, in what way can a technological innovation in the area of renewable energy affect Brazilian investments in the production of electricity in South America? Or what is the effect on the Brazilian cocaine flow due to changes in drug trafficking policy in Bolivia? In both cases, the exercise consists in conceiving the most plausible scenarios. The methodology of alternative scenarios still covers another larger function: to help legitimize the options made by the government, through the validation of its fundamental premises. This is what president Dwight D. Eisenhower did following Stalin's death through the Solarium project, when a team of researchers and diplomats carefully evaluated three options: keeping the Soviet contention policy intact, incrementing it through a demonstration of force, or substituting it by a military offensive capable of forcing the Soviet Army's withdrawal from key territories in Europe. By contrasting the strengths and weaknesses of each alternative, the study strengthened the option in place in the era, breathing new life in into this policy (and the president). Since then, Solarium has inspired a series of analogous exercises.<sup>163</sup>

---

<sup>162</sup> BREMMER, Ian. *Fat Tail: the Power of Political Knowledge in an Uncertain World*. Oxford University Press, 2010.

<sup>163</sup>See "The Princeton Project on National Security".

*Identification of Trends.* This exercise seeks to equip decision makers with the necessary instruments to take advantage of tactical changes in the future behavior of other countries and to control damage, when such circumstances produce negative externalities. The procedure is simple: the analysts begin by evaluating how a country or a subject will respond to economic, political and demographical changes in a 5- to 10-year timeframe (necessary time for deep changes to render effects and for completion of election cycles). Next, the analysts specify in which way those tendencies may translate into a crisis or activate unexpected dynamics in the timeframe of one to five years, using the methodology of *alternative scenarios*, described above. Finally, the analysts identify which *signposts* signal the most plausible alternative scenario. The exercise is concentrated on creating casual connections: if X happens, then it is probable that scenario Y would develop. In other words, signposts functions to predict which situations have the highest chance of happening. It is, in practice, an alert system, which warns decision makers about which potential crisis are more imminent or when there will be a decisive movement in other countries. Having marks that indicate when something significant is happening or about to happen reduce the risk of a negative surprise. This gives the reader of the report the necessary time to adjust under the expectation of what will come. In the *identification of trends*, analysts offer an alert system with increasing levels of specificity, allowing decision makers to regularly adjust their strategies.

*Resiliency Tests.* This exercise is dedicated to systematically questioning the strategic concepts used by the government, and is aimed not at replacing them with others, but rather to strengthen and refine them. The methodology requires the involvement of people willing to play the role of the "devil's advocate." Therefore, specialists are separated into two groups: one is concerned with defending the official position of the government, the other to attacking it. After a session of such work, the groups change positions. This learning experience removes those responsible for conducting foreign policy from their "comfort zone" provided by the institutional environment of a foreign ministry. In addition to better preparing employees for tough discussion and closed opposition, the exercise helps identify contradictions, circular reasoning, and areas of weakness or inconsistency in official positions. At the end of the process, both groups decide which arguments merit reinforcement, which require additional work, and which can be tabled, in order to make government word and action more robust in international initiatives.

*Data science applied to diplomacy.* Information technology offers new possibilities for the systematization of knowledge in international politics. For example, there exist computational tools that permit analysts to immediately identify the emergence of trends, patterns or ruptures in a country's international relationships. There are also tools to systematize knowledge produced through the semantic analysis of the telegrams sent by the diplomats who serve throughout the world in the Secretary of State. Given that the volume of documents is overwhelming, no individual or group of individuals could do this work with the naked eye. For this, there are machine learning techniques that allow for automation of analysis of databases that use concepts typical in political risk analysis. With the help of software, the processing of this data can be done in a way that directly and explicitly informs the decision-making process. In the Brazilian case, with numerous diplomatic posts around the world, this type of investment would bring very substantive results, considering that the telegraphic model is already in a friendly format for computational treatment. For example, how do Brazilian posts in Africa assess the rise of China? In what way do Brazilian embassies in NATO countries report on the evolution of this body's attitude towards the South Atlantic? What is the trajectory of the so-called "pivot" from North American to Asia, from the perspective of the Brazilian posts in that region? Such tools can help develop robust adaptive strategies and identify

key scenarios that would be impossible to identify without the aid of such programs capable of processing a vast volume of documents. To achieve this, Itamaraty would need to conduct trial exercises aimed at developing pilot software that allows the head of the House to have a good instrument to immediately identify the trends reported by its own diplomats and, in the process, quickly identify issues, problems and unexpected trends.

*Identification of vulnerabilities.* This exercise seeks to make explicit the most significant vulnerabilities of foreign policy strategies adopted by a country. An example was done by RAND when studying alternative ways of dealing with climate change. The researchers tested alternative strategies: one based on market mechanisms and another on the cap-and-trade formula. For each strategy, different demographic, economic, environmental and technological trends were tested. The program designed to carry out this study also introduced elements of technological surprise and changes in the social values of the country in question. The resulting scenarios allowed researchers to identify the points where official government policy was most vulnerable. As a result, responsible authorities could identify more intelligent approaches to address the challenges of sustainable development. This robust model of strategic analysis would allow Brazilian diplomacy professionals to identify in a rigorous, systematic and reproducible way the set of ambiguous and surprising scenarios that the world presents, in addition to clearly identifying the costs each of them brings. There are areas that are particularly fertile for this type of study. For example, what are the main vulnerabilities of the Brazilian policy of incentives for the automotive sector? What are the main vulnerabilities in the BNDES model of provisions for external financing? What are the recurring vulnerabilities in the Brazilian position regarding international norms in the areas of nuclear non-proliferation and disarmament?

This is also the case for vulnerability studies that seek to systematically capitalize on the ideas derived from so-called game theory. Such an approach has been used systematically by U.S. and British government units. This type of effort has already yielded excellent results in areas as diverse as identification of the conditions that can facilitate or hinder the policy of combating terrorism; optimal allocation of resources to protect a country from attacks; tactics and alternative strategies that improve the chances of a negotiation producing favorable results; and development of models of political risk analysis and political engineering. In the Brazilian case, the application of this type of analysis could help clarify the best options in areas as diverse as the best regulatory frameworks to promote Brazilian investment in clean energy in South America or the best negotiating positions to build cooperation with neighbors for border control. It would be possible to apply this type of exercise to the study of what measures to take to facilitate the exit of Brazilian troops from Haiti, the welfare of the local population, or to promote Brazil's political projection in the political system in Beijing, with an eye on the distinctive characteristics of that capital.<sup>164</sup>

*Redteaming.* The process called redteaming seeks to understand the interests, intentions, and capabilities of a potential competitor by using simulations and vulnerability testing by introducing an element of systematic criticism to the official positions of a unit of government. The technique helps reveal and test the tacit assumptions that are part of everyday life of any foreign policy community by identifying blind spots in order to improve performance. It is about testing the validity of existing strategies and considering alternative hypotheses through the use of specialists dedicated to

---

<sup>164</sup> KYDD, Andrew. *International Relations Theory: the Game-Theoretic Approach*. Cambridge University Press, 2015 e BUENO DE MESQUITA, Bruce. *The Predictioneer's Game: Using the Brazing Logic of Self-Interest to See and Shape the Future*. Random House, 2009.

questioning official policies. The redteaming effort consists in identifying the main problems and contradictions of these policies through techniques that diverge from force of habit.<sup>165</sup>

## **Recommendations**

This paper proposes a plan for development of strategic analysis capabilities in the service of Brazilian foreign policy. It is about giving the political class a range of more sophisticated instruments than those now available and to explore opportunities that would otherwise be missed. Brazil already has the material and human resources for such a venture. There is, however, no effective model for building such inputs systematically.

No effort of this nature will be a success without a direct link with the presidency of the Republic. Only this can guarantee a holistic vision, resolution of conflicts among ministries, agencies and autarchies that make up the Brazilian government, distribution responsibilities and reaping of results. This work could be conducted by the presidency and be handled by the SPD of the Ministry of Foreign Affairs. The agency would have authority to form task forces composed scenario teams of the armed forces, researchers from IPEA, IBGE and Central Bank researchers, mobilizing the ABIN, Petrobras, BNDES, Embrapa, and a number of Brazilian government bodies.

It is recommended that this group test, in a pilot phase, the strategic analysis tools that were described above:

- Alternative scenarios
- Identification of trends
- Resiliency tests
- Application of scientific data
- Identification of vulnerabilities
- Redteaming

It is also recommended that the group responsible for this effort establish regular contact, through teleconference, with the major international experts in the areas in question. The culture of systematic consultation of globally renowned researchers dedicated to the professional study of their respective topics would have an immediate positive impact on the quality of strategic thinking in the Brazilian government.

The recommendation is for Itamaraty to institute a system to channel dissent on substantive issues. Establishing an electronic forum under the supervision of the SPD, in which professional diplomats could address strategic considerations anonymously, would be sufficient, if that is the preference of the participants. The quality of these materials will undoubtedly be uneven, but there would be useful inputs for reconsiderations on the most important assumptions and dogmas.

An effort of this type would be low cost and have high impact. Treating it seriously promises to inject dynamism and creativity into the decision-making process; these are two essential factors for Brazil to navigate through the turbulent waters of the contemporary international system.

---

<sup>165</sup> ZENKO, Mikah. *Red Team: How to Succeed by Thinking Like the Enemy*. Basic Books, 2015.