

## BRAZIL: POWERING AHEAD

Brazil has enjoyed several years of strong economic growth and has made considerable progress in alleviating poverty. Its regional profile within South America has grown, and it is now a major player in the international energy market. Challenges remain however, especially in managing relations with the United States and in creating a globally competitive, skilled workforce. Even so, the country's cordial neighbourhood relations, backed by diplomatic engagement with other rising powers and a focus on social welfare programs, suggest a bright future.



*Brazil's new President Dilma Rousseff attends a ceremony in Brasilia, 21 March 2011* REUTERS / Ueslei Marcelino

Long derided as a country whose potential would remain untapped, Brazil has recently been riding a wave of good fortune. In 2011, it became the seventh largest economy in the world, with a Gross Domestic Product of US\$ 2.2 trillion. Exports have tripled since 2003, and poverty has been halved due to a combination of strong economic growth (7.5% in 2010) and social programs aimed at wealth distribution. Even with a likely fall in GDP growth rates to 4–5%, poverty levels are expected to halve yet again in the period 2011–14. From all indicators, Brazil is headed for a period of continued prosperity. With this is likely to come greater international influence.

Many Brazilians view this trend as fulfilment of their country's quest for international respect. Brazil has traditionally seen itself as a great power, akin to the United States. It is the fifth largest country in the world, in terms of size and population. Within the Western hemisphere, it has the second-largest population after the US. Yet, it has not been accorded the recognition which it believes is due. Part

of the reason for this has been its inability to position itself as a regional leader within South America, and part, has been decades of economic instability. Both constraints have now diminished to a considerable degree, although they have not completely disappeared.

With inflation having fallen from the very high levels of the 1990s and the Real presently being a strong currency, Brazil appears to have overcome the two main macroeconomic obstacles that it had long faced. The end of military rule in 1985 and the subsequent opening up of the economy have been crucial in turning around the country's international image, as well as its fortunes. Under the presidency of Luiz Inacio Lula da Silva (2003–10), Brazil used diplomatic activism to emerge from under the limiting influence of the Monroe Doctrine. It now faces the triple task of engaging its South American neighbours constructively, forging long-term ties with other emerging powers, and cooperating with the United States without sacrificing its own strategic ambitions.

### Regional engagement

Until the 1990s, Brazil had viewed South America as a region with little to offer. However, a combination of growing trade relations with neighbouring states as well as concern over an increased US profile in the continent, forced a modification of this stance. To limit the extent to which its neighbours felt tempted to ask for US military assistance in their internal conflicts, Brazil began sharing intelligence on drug traffickers and leftist rebel groups. Its soldiers also grew more involved in regional policing duties. For instance, Brazilian peacekeepers make up the largest single component of the UN Stabilisation Mission in Haiti, which has been active since 2004. At a diplomatic level, during the late 1990s and early 2000s, Brazil's foreign ministry took a lead role in mediating an end to the Peruvian-Ecuadorian border dispute and thwarting coup attempts in Paraguay and Venezuela.

While these developments were unfolding, many South American governments grew disillusioned with what they saw as American indifference to their concerns. Washington, as a self-proclaimed hemispheric leader, was perceived to be unhelpful to the developmental efforts of South America. With such views cutting across both Spanish-speaking countries and Portuguese-speaking Brazil, the latter's bid for a more prominent role in regional security was viewed with less suspicion than before. This allowed Brazil to overcome the irritants which characterised its bilateral relations with Argentina, opening the way for expanded contacts with other neighbouring states.

Today, Brazil's only real rival in South America is Venezuela – an unequal con-

test, given that the global economic recession has hit the Venezuelan economy hard. Both countries massively increased defence spending in 2005–10, compared to the previous five years. Although neither is likely to wage war upon the other, military muscle gives weight to their respective claims of regional leadership. Brazil is also concerned about a potential spillover of insurgencies and drug trafficking into its thinly policed Amazonian region. It is therefore building up communications and logistics capability, including transport aircraft and helicopters, to strengthen border surveillance. For the same reason, the country is also believed to be building a nuclear submarine, having acquired important offshore assets in the form of three mega oilfields near Rio de Janeiro.

Even as it expands contact with other South American states, Brazil has been careful to maintain its own strategic autonomy. Although it is the main builder of regional institutions, it has ensured that these do not become sufficiently powerful as to challenge its own nationalistically-driven foreign policy. Brazil primarily regards forum-building as a means of gaining regional and global influence for itself, and has avoided surrendering its sovereignty to multilateral structures. Thus, organisations such as UNASUR (Union of South American States) are unlikely to fully emulate the European Union, despite having been nominally modelled on this organisation. Brazil constitutes 50% of the wealth and population of UNASUR, and remains resistant towards any efforts to limit its growing commercial and strategic interests across South America.

Furthermore, while Brazil enjoys cordial relations with its neighbours, these have not been sufficient for it to assume the role of regional hegemon. Argentina for instance, opposes Brazil's bid for a permanent seat on the UN Security Council. US pressure has led some other South American countries to opt not to join MERCOSUR (Southern Common Market), an incipient customs union dominated by Brazil. The latter is seen in some quarters as disinterested in the views of its smaller neighbours, which prompts them to hedge against its rise by occasionally bandwagoning with the United States. To get around this perception, Brazil has increased the size of its foreign service by a third and posted more officers to

neighbouring states. However, it has simultaneously persisted with its international agenda and opened 37 new embassies elsewhere, mostly in the developing world. The country thus seems to be engaged in a hedging strategy of its own, having calculated that while dominance within South America would strengthen its profile overseas, the same principle would also apply in reverse. A Brazil with global influence would be more attractive as a business partner and regional leader than one bogged down by neighbourhood squabbles.

### A growing international profile

Brazil's rise has been driven mainly by its growing commercial presence across the world, as well as a capacity for diplomatic activism. The country has framed its national interests in terms of common goals shared by other emerging powers. Together with India and South Africa, it floated a South-South partnership in 2003, in opposition to the industrialised economies of the global North. It participated in negotiations on the World Trade Organisation Doha Round, as part of a select group of developing countries. It has been proactive in calling for more representativeness on the part of organisations such as the UN Security Council and International Monetary Fund. All of these initiatives demonstrate a link between economic and diplomatic agendas in Brazilian foreign policy.

Brazil's greatest successes are to be found at the interface of business and diplomacy. After becoming energy self-sufficient in 2006, it received a rare windfall when three massive oilfields were discovered off the coast of Rio de Janeiro. The size of these discoveries promises to make Brazil an important energy supplier to China and India, which have pressing energy demands. For this reason, both countries have responded positively to Brazilian diplomatic overtures, even if they do not self-identify with the developing world with the same enthusiasm as Brazil does.

Elsewhere, Brazil is rapidly establishing a commercial footprint in Africa, having much to offer African countries in the form of knowledge transfer and investments. It hosts the world's most sophisticated research institute on agricultural productivity, which makes it a vital partner in ensuring food security. Brazilian-owned multinational companies have considerable expertise in resource ex-



traction and infrastructure development, both of which are relevant to poverty alleviation in Africa. Furthermore, being a democracy, Brazil offers a counterweight to the Chinese model of economic development, which prioritises development over civil rights.

Brazil's approach to overseas investment focuses on job creation and engagement with private entrepreneurs, even as political contact with local elites is deepened. This has allowed it to protect its core economic interests, while avoiding accusations of being a rapacious extractor of raw materials. Using such methods the Brazilian mining firm Vale, the second largest such company in the world, has acquired substantial assets in Africa. Likewise, the oil company Petrobras has invested in 18 countries worldwide and pushed Brazil to the front of the global energy market. Strategic planning has also ensured that Brazil's relevance goes beyond just fossil fuels. The country is the world's second largest producer of sugarcane-based ethanol. Although 40% of its energy demand is met by this fuel, only 1% of its agricultural land is used in production. This gives Brazil a large margin to expand supply, as rising oil prices trigger increased demand for renewable energy.

On other counts too, Brazil is well-placed in terms of natural resources. It has the largest reserves of iron ore in the world, making it an attractive investment destination for Chinese and Indian businesses. Its large working age population is

expected to provide it with a demographic dividend, bypassing the problem of ageing that has adversely affected developed countries in Europe and North America and that might soon afflict China as well. However, for this dividend to be actualised, significant reforms in the educational sector are essential. Brazil is currently experiencing a mismatch between the competencies of its workforce and the requirements of the global economy. Most technical specialists in the country are not fluent in English, which limits their employability by multinational corporations. Furthermore, there are worries that high economic growth rates could create an employment gap, as jobs are created faster than new workers can be trained to fill them.

Similarly, Brazil's strong trade relations with other emerging economies are proving to be a mixed blessing. Concerns have particularly focused on the country's trade relationship with China, which is centred on the export of commodities and the import of manufactured goods.

These exchanges have allowed China to become Brazil's biggest trading partner. However, owing to the low cost of Chinese labour, Brazilian industrialists have begun to complain that they are being forced out of the domestic market. There are worries that Brazil is being forced into a long-term process of export dependency that could be harmful for indigenous industries. Although the government of President Dilma Rousseff has attempted to lobby Beijing to grant access to the Chinese finished goods market, its efforts have only been moderately successful. Furthermore, given China's continuing opposition to expansion of the UN Security Council, a stance which adversely affects Brazil's bid for a permanent Council seat, some Brazilian analysts question whether Lula's policy of reaching out to emerging powers and distancing the country from the developed world is wise as a long-term strategy.

### Uneasy relations with the United States

A great deal of how Brazil's foreign policy takes shape in future years will depend on the country's relations with the US. Traditionally, Brazilian elites have regarded Washington as more of a hindrance than a help in Brazil's path towards great

power status. US-led capitalism has long been one of the reasons for Brazil's poverty and income disparity, according to conventional narratives of the bilateral relationship. Further difficulties have been caused in recent years by the perceived unilateralist posture of Washington under the Bush presidency. Under Lula da Silva, Brazil for its part adopted a moderately anti-American discourse. In May 2010, Lula attempted to bail Iran out of international isolation regarding its nuclear program. Other points of friction have included American endorsement of a 2009 coup in Honduras, a move strongly opposed by Brazil, and differences over the economic embargo imposed on Cuba.

Under President Dilma Rousseff, Brazil-US relations have improved to some extent. The change is driven mainly by economic considerations – Washington has recognised the importance of Brazil to the world energy market, as well as the potential of its new-found prosperity to

***“Some question whether Brazil's emphasis on South-South cooperation is wise as a long-term strategy.”***

revitalise demand for American consumer goods. Shared worries about low-priced Chinese products are also prompting the two countries to cooperate more closely on trade relations. Such cooperation however, did not come in the way of Brazil's decision to abstain from a UN Security Council vote in March 2011, authorising military action against the Gaddafi regime in Libya. Given that Washington faces far more hostile South American governments in Venezuela and Bolivia, it serves American interests to ignore or at least underplay such occasional disagreements with Brazil.

This leaves Brazil in a strong position of being able to use its integration into the global economy to its own narrowly-defined advantage. It can afford to free-ride on international institutions without being coopted by them. Furthermore, as part of a long-term effort to limit American influence in its own 'backyard', Brazil has moved away from defining itself as a Latin American state. Instead, it prefers the label of South American, implicitly placing Mexico and Central American states within the US sphere of influence and carving out a distinct sphere for its own strategic interests. For the foreseeable future, Brazil seems set to continue cooperating with the US when their interests converge and opposing it when nec-

essary, all the while taking care to avoid a serious rupture in bilateral relations.

### Prospects

The Brazilian economy is central to the country's recent successes in breaking into the great power club. However, the country still only accounts for roughly 3% of global trade. Further economic growth is dependent upon the introduction of reforms such as more privatisation and a reduction in interest rates and government expenditure. The Rousseff government has already announced a US\$ 30 billion cut in spending to control inflationary pressures, which are rising once again. It needs to be careful however, about how it handles the social welfare programs introduced by the Lula presidency, as these were crucial in reducing poverty levels. Nevertheless, considering that Brazil is exceptionally wealthy in terms of natural resources, it would likely have an overall advantage in a world order increasingly dominated by resource competition.

The Rousseff government still has to wrestle with the question of how to balance out Brazil's overarching policy agendas: acquiring international influence, projecting its influence within South America, and preventing an overflow of political instability and armed criminality across its borders. Although Brazil pursues a policy of dissuasive defence ie., its strategic posture is not one of initiating offensive operations but of reacting promptly to aggression, its neighbours remain wary of its growing power. Making concessions to them will yield limited returns, since these countries have the long-term option of playing the US and Brazil off against each other without completely aligning with either. In the medium term therefore, it is likely that Brazil will meet with impressive but not spectacular success both overseas and regionally, as it seeks to promote its interests.

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