FOCALPOINT
SPOTLIGHT ON THE AMERICAS
SPECIAL EDITION
CANADIAN FOUNDATION FOR THE AMERICAS / FONDATION CANADIENNE POUR LES AMÉRIQUES
WWW.FOCAL.CA

Special Edition November 2004
ISSN 1703-7964

Brazil–Canada Special Edition

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Brazil Matters

FOCAL Editorial by Florencia Jubany

The official visit of Paul Martin to Brazil on November 22 and 23, 2004, and the Trade Mission led by Minister Jim Peterson that same week offer a renewed opportunity for FOCAL to highlight a changing Brazil and various aspects of its evolving relations with Canada. We very much welcome these developments as FOCAL has been an advocate since the first hour for deeper and expanded relations with Brazil. Anyone taking a careful look at Brazil would understand why.

The Brazilian economy makes over half of South America's total GDP, is a key destination for Canadian investment and Canada's largest export market in South America. Moreover, Brazil is a major, sophisticated and influential player on the multilateral scene, whether it is in world trade negotiations as leader of the G20 or in UN peacekeeping operations. Brazil is also a central actor in the Americas, and shares many points of convergence with Canada's own foreign policy. These are just some of the reasons why FOCAL has consistently made the case for Canada's attention to Brazil and has put forth specific proposals to build on affinities and bring relations to a higher level of mutual importance.

By all accounts, the upcoming trip signals a new phase in bilateral relations. It follows a six-year hiatus in visits at the highest political level during which the ties that bind both societies have multiplied, making inroads in the benign indifference that has characterized much of the history of Canada-Brazil relations. And there is a prevailing sense that these changes, and advanced negotiations to settle the aircraft subsidy dispute, are giving way to a new climate in bilateral relations.

The agenda for the visit is expected to be broad and to include proposals to revitalize bilateral ties, and opportunities for common cause regionally and internationally. The well-known international vocation of both Prime Minister Paul Martin and President Luiz Inácio "Lula" da Silva will most likely define the focus of discussions, including the Canada-led G20 of developed and emerging-market countries, the "Zero Hunger" international initiative of President Lula, Haiti, and the reform of the UN Security Council—a Brazilian perennial.

These and other topics important to bilateral relations are reviewed by Brazilian and Canadian authors in this special issue of *FOCALPOINT*: *Spotlight of the Americas*. One striking feature of this collection of articles is the diversity of backgrounds of contributors, including scholars, diplomats, parliamentarians and businesspeople. Another striking feature is the consensus among authors on the diagnosis of bilateral relations; recurrent themes throughout the articles are the unrealized potential of Canada-Brazil relations, lack of mutual knowledge and understanding, perception gaps—all notions crystallized by Ambassador Carneiro Leão's expression "relationship deficit".

On a similar vein, Ted Hewitt notes that "... we simply do not know each other well enough to develop broad understandings which allow us to effectively resolve these and other irritants"—e.g. Lamont-Spencer consular case, aircraft subsidies, and beef ban—"as they arise;" a reality he calls "the fundamental contradiction" underlying much of the coolness between the two governments.

Yet, this is changing and testimony to that is the proliferation of bilateral links between municipalities, scientists, students, professors, and parliamentarians that are granting a new texture and dynamism to Canada-Brazil relations. Some noteworthy examples are collaborative exchanges in the areas of waste management and port renewal through Canada's Sustainable Cities Initiative, the bilateral Group on Science and Technology, and Canada's Visiting Chair in Brazil Studies. Another interesting development is the growing number of Brazilian companies investing in Canada such as Gerdau (steel), Votorantim (cement) and Ambev (beer).

BRAZIL MATTERS

- Brazil's GDP (US$492.3 billion in 2003) is equivalent to India's and estimated to grow at 4.0% in 2004 and 3.5 in 2005
- Brazil is the twelfth largest world economy contributing over half of South America's total GDP
- Brazil is the most suitable production base for foreign companies to enter South American markets
- Brazil is the second-most important destination for direct foreign investment (US$16.6 million in 2003) among developing countries, after China
- Of the 500 largest multinational companies more than 400 have operations in Brazil
- Brazil's population today is estimated at 184.1 million and is growing by 2 million per year
- About 14.3 million people in Brazil used the Internet in 2002 and usage is expected to total 16.4 million in 2004
- Brazil is a key destination for Canadian investment; Canada's largest export market in South America, and the leader of Mercosur, with which Canada has been trying to increase links for sometime
- Brazil is a major, sophisticated and influential player on the multilateral scene, whether it is in world trade negotiations as leader of the G-20 or in UN peacekeeping operations. Brazil is also a central actor in the Americas, and shares many points of convergence with Canada's own foreign policy

For Tim Plumptre, Vice-Chairman of the Canada-Brazil Chamber of Commerce, "there has never been a better moment for Canadian businesses to take a much, much closer look at the plethora of opportunities available to them in Brazil." He identifies a series of sectors in the traditional and new economies that are opening up for investment in Brazil in which Canadian companies are internationally competitive, and exhorts the private sector "to seize the moment".

Annette Hester's review of Lula's trade policy and business mood in Brazil show there are "opportunities for both our government and business representatives to engage Brazilian business leaders and show them how much we do have in common: we are committed to the FTAA negotiations and work diligently to maintain our access to the United States." Her advice to Canadian officials and businesspeople going to Brazil this month is to be strategic and engage with like-minded constituencies in Brazil: the outward-looking private sector.

With a longer-term view, Canadian Senator Mac Harb makes a call on Parliamentarians to take the lead role to ensure that their respective governments fully appreciate that building the bilateral relationship is a task worthy of attention and investment. He recommends the establishment of a task force to closely examine Canada-Brazil relations, devise concrete initiatives and implement practical strategies to get both countries past the challenges that have kept them from reaching their full potential.

Underlying agreement on the need to tackle "the relationship deficit" evident in this special issue of *FOCALPOINT* is a shared conviction in the potential benefits that a more mature relationship could bring to the two societies whether it is in municipal administration and scientific collaboration or business exchanges. All these bottom-up experiences that attest to the vast commonalities in interests and values between Canada and Brazil have grown in the virtual absence of dialogue at the highest political level. We hope that the upcoming visit of Prime Minister Martin will mark a turning point in relations, in which Canada and Brazil are able to recognize each other as significant partners not only bilaterally but also regionally and multilaterally.

Brazil and Canada: Addressing the "Relationship Deficit"

Ambassador Valdemar Carneiro Leão Neto

Any observer would easily admit to the fact that relations between Canada and Brazil fall short of what they should be, if one takes into account the size of their economies and the multiple dimensions of their societies. Indeed, here are two large hemispheric neighbours reaching out to the world and yet failing to find ways to cooperate with each other more closely. What is more, they tend to share similar perceptions of, and favour similar approaches to, some of the most significant issues currently featuring high on the international agenda but, for the most part, fail to coordinate their endeavours. There is great complementarity between their economies, they both cherish their cultural diversity, Canada sees Brazil as a country with great potential, Brazil sees Canada as a country with great achievements (not least in its social model) and yet there is no synergy as they relate to each other. Analysts also coincide in that numerous opportunities of mutually beneficial cooperation are being missed. Are we faced with some kind of "relationship deficit"?

It is important to begin by mapping out some deep-rooted and historical affinities. Brazil and Canada share nation-defining commonalities and key aspects of their respective international identities

Despite obvious structural and circumstantial differences, historical links and similarity of views go much beyond the anecdotal and explain nation-defining political characteristics. One among them is overarching and particularly rich in the way it is reflected in international behaviour: both Brazil and Canada are complex and dynamic social constructions mainly based on the notions of evolution and negotiation rather than revolution and imposition. This is especially evident in what is arguably the single most important development in the institutional life of any former colony: the independence process.

In Brazil, independence turned out to be essentially a "transaction", in historian Oliveira Lima's words, between the colonial elites, the Portuguese monarch and his own heir. Brazil consolidated its independence as the result of negotiation, not warfare. In Canada, the path to independence was even less confrontational. In both countries the emergence to sovereign status came as a result of typically political process, namely through dialogue and compromise. The importance of such background should not be underestimated. It emerges as a pattern in numerous instances and gives Canada and Brazil a distinctive image in the international community. They are both seen as "consensus-builders" or "facilitators" among different players and conflicting agendas. They regard themselves and wish to be regarded by others as essentially committed to an inclusive, participatory system of international governance.

Profound commonalities between Brazil and Canada are not limited to their political histories, however. Similarities can also be found in other fundamental aspects of their lives, such as the ethnic composition of their societies, both being examples of multiracial and multicultural countries with a strong native component that played and still plays a significant role; their longstanding association with ideals of freedom (the only two countries in the Americas other than the United States who actually fought in the Second World War against fascist and Nazi powers); and in the administrative, economic and military challenges involved in ruling over massive national territories, of which large areas are thinly populated, with various (and in some cases delicate) ecosystems to protect.

Sharing important historical and social developments at home and even a central element of their international identities could not but lead Canada and Brazil to profess similar values and adopt similar positions on a number of issues of the international agenda: a strong commitment to the peaceful settlement of disputes and to collective security rather than the unilateral use of force; a continuous support for multilateralism; an adherence to democratic values; a keen interest in the social development role played by international organizations; and a particular attention to international environment-protection initiatives.

In addition to political considerations, the Canadian and Brazilian economies are large enough to generate strong bilateral links

Brazil, with a gross domestic product (GDP) of approximately US$500 billion, is the largest economy in South America, while Canada, with a GDP of around US$850 billion, is the eighth largest economy in the world. After a period of unimpressive and unstable growth (2001-2002) and a year of full-fledged recession (2003), the Brazilian economy stands to grow some 4.5% in 2004 and, more importantly, seems to be initiating a long-term cycle of sustainable expansion.

The industrial sector in Canada and Brazil are the most diversified and technologically advanced in the continent (second only to the United States), and their agriculture is among the most competitive in the world and, in many ways, complementary.

Brazil's imports in 2004 should stay above US$60 billion and Canadian purchases abroad posted the astounding figure of US$240 billion in 2003. Brazil is a relatively large importer of goods in sectors where Canada has much to offer: industrial machinery, office equipment, chemicals and petrochemicals, fertilizers and coal. Canada, in turn, demands a great deal of some of the goods Brazil produces with great efficiency: iron and steel products, auto parts, footwear, orange juice, coffee and sugar.

Brazil has been featuring as the second largest recipient of foreign direct investment in the developing world after China, while Canada is a significant exporter of capital with a global stock abroad of almost US$300 billion. Canadian investors have been in Brazil for more than a hundred years and possess extensive knowledge of the legal and business environment there.

In other words, there is a strong underpinning to bilateral economic ties such as cannot be easily found in most relations between developed and developing nations.

Yet the gap is visible

Canada and Brazil rank a distant 16ttth on each others' list of trading partners. Brazil's sales to China are nearly three times larger than its exports to Canada. And the stock of Canadian investments in Brazil represents a mere 1.8% of total Canadian assets abroad.

Brazil spends approximately 1% and Canada around 1.8% of their respective GDPs in science and technology. Both have considerable research capability in relevant areas, some of which are of common interest (e.g. oil and gas, information technology, biotechnology) and yet bilateral cooperation has not been a relevant component of each nation's strategy for advancing their scientific agendas.

No doubt circumstantial difficulties in recent years have proved an inhibiting factor. The trade dispute involving regional jets and the groundless—fortunately short-lived—ban on Brazilian beef in February 2001 have had lingering effects which should not be underestimated. Mutual trust has been shaken and it is only now, as negotiations on an agreement to put an end to the aircraft dispute raise hopes for a positive outcome that a better dialogue seems to re-emerge. But although an unfavourable climate for government relations can take a toll on a number of activities (procurement being one of them), it does not account for everything. In two open economies like Canada and Brazil, business, for the most part, depends on market knowledge and opportunity, not on government-to-government relations. If anything, the bilateral trade disputes only widened a gap that had been there for some time.

Nevertheless, such a "relationship deficit" must be put into perspective

One fundamental factor comes into play as the broader context of Canadian international relations is taken into account and such factor is the very prominent place understandably occupied by the United States. The overwhelming weight of the United States in Canadian foreign business, only to take that example, leaves limited room for third parties. Any analysis of Canada's other interests in the world economy cannot but be made against this background. Japan, the second largest GDP in the world and Canada's second export market, represented only 2.1% of Canadian sales abroad in 2003 and China, Canada's second source of imported goods, amounted to modest 5.3% of all Canadian imports in that same year. In the United Kingdom, the second largest destination of Canadian direct investment, the stock held by Canadian companies and individuals in 2002 was less than one fourth of what is presently found in the United States.

But here again one should not jump into conclusions. However strong the power of attraction of the American market may be, it should not be seen as an obstacle in itself to the expansion of Canadian links with other partners. Furthermore, it is in Canada's best interest (as it is in Brazil's and in any other country's) to seek to diversify its ties and expand its links as a way to promote growth and prosperity, not to mention the political benefits such expansion generates.

So there is room for manoeuvre, after all

Raising business awareness and deepening the political dialogue are effective ways to start addressing the "relationship deficit".

In the commercial domain, business people are those best able to detect opportunities. Governments' role therefore is to make those opportunities more visible. Their assistance may help companies escape the common trap in which present gains stop them from looking for new and equally—or more—profitable markets and partnerships. That is why a clear priority should be to raise business awareness through trade missions, fairs, seminars and institutional marketing in both countries. The visit to be made by Prime Minister Paul Martin to Brazil in late November, at the same time as Minister Jim Peterson heads a Canadian trade mission, must be seen as crucial and timely initiatives in that regard.

In a few areas where economic-related activities are not entirely in the hands of private companies, such as science and technology, the two governments can create institutional mechanisms meant to bring together individuals and entities for mutually beneficial cooperation. A good starting point is the bilateral technical group on science and technology whose work is currently under review for possible expansion.

On the political side, a more structured and systematic dialogue between policy-makers on issues of the international agenda can also prove useful. As mentioned before, a genuine similarity of views exists on a variety of global and regional issues and the more both countries can bring them up the more they will discover how significant their cooperation can be. Diplomatic exchanges of this nature might help not only coordinate Canadian and Brazilian efforts on matters about which they are on the same wavelength but also give both governments a better understanding of each other's views when they differ. There is often a mismatch of expectations between Canada and Brazil that must be addressed. Perception gaps are at the base of misunderstandings.

In essence, the time has now come for both Brazil and Canada to push for a closer and more dynamic relationship. The strengthening and expansion of bilateral ties, building on the historical links of friendship and cooperation and, even more so, on their common desire to work for peace and prosperity in the world should be pursued by both sides. They are likely to bring benefits that would go much beyond their two societies to extend to the international community as a whole.

Valdemar Carneiro Leão Neto is Brazil's Ambassador to Canada.

Building Better Bridges Across the Hemisphere: Canada-Brazil Relations at the Dawn of the 21st Century

W. E. (Ted) Hewitt

"It was the best of times, it was the worst of times",
Charles Dickens, A Tale of Two Cities

Who would have thought that a 19th century English author would have had so much to say about the state of contemporary Canada-Brazil relations? Most analysts agree that the relationship between the two countries has been up and down at best, with the downside the subject of much media attention over the past 10 years or so. During the 1990s, some of Canada's best-known exports to Brazil were kidnappers (remember Lamont and Spencer?), not electronics. As the new century dawned, bilateral discussions were conducted not by diplomats but more often through aircraft manufacturing executives and lawyers at the World Trade Organization (WTO). Scientific exchange concerning the latest discoveries and collaborative research opportunities was supplanted by accusations of missing forms and the supposed public health threats posed by Brazilian corned beef. All the while, Canadian rye whisky—that most sacred of commodities—was gleefully poured down the drain at public rallies in Brazil denouncing the northern infidel. Not a pretty picture.

It would be fair to say that the situation has calmed somewhat in recent months, but the fundamental contradiction underlying much of the hostility between the two governments remains. To a considerable extent, whether at the level of government or the average citizen, we simply do not know each other well enough to develop broad understandings which allow us to effectively resolve these and other irritants as they arise—or at very least to be able to minimize their effects within the context of a broadly conceived and maintained, mutually beneficial, bilateral relationship.

Will such a relationship emerge? In the short term, this is doubtful. At the same time, the seeds are being planted to effect the kind of bilateral interactions—through official government channels, the private sector, and civil society—which can ultimately pave the way to an effective and productive long-term alliance.

For its part, the Government of Canada has signaled its intention to focus on Brazil, India, and China as prospective partners for trade and scientific exchange. The Department of Foreign Affairs has clearly signalled its commitment to work towards opening channels of communication and cooperation between the two countries. As an example, through the Canadian Embassy in Brasilia, the government has provided both financial and moral support to a network of Canadian studies centres, now in operation at over a dozen universities throughout Brazil. Canadian diplomats and officials were also front and centre at the 2003 international congress of Canadianists in Belo Horizonte in 2003. This event, hosted by the Brazilian Association of Canadian Studies (Associação Brasileira de Estudos Canadenses, ABECAN), attracted nearly 200 Latin American scholars doing work on Canada—a majority of them from Brazil—as well as a large contingent of Canadian scholars.

Municipalities are also getting in on the act. Between 1987 and 2000, through Toronto's well-publicized exchange program with the city of São

Paulo, literally dozens of public officials from both cities traded notes and experiences on aspects of municipal governance, from leisure and recreation to administrative reform and waste management. The program generated immense goodwill, and produced a number of concrete benefits for both cities. And while this program has wound down in recent months, new relationships are emerging. Through Industry Canada's Sustainable Cities initiative—involving over a dozen municipalities worldwide, Vancouver is now partnered with the city of Salvador to explore new technologies in the waste management field, port renewal, and public administration.

Some of the most dramatic and visible efforts to develop effective Canada-Brazil linkages are occurring in Canada's universities. One development of note is the establishment of the Centre for Research on Brazil (Centre d'études et de recherches sur le Brésil, CERB) established at the Université du Québec à Montréal (UQAM) in 2001. The Centre has provided a central point of contact and exposure for the many initiatives which UQAM has in place relating to Brazil, including nearly two dozen exchange agreements with Brazilian universities, and large scale environmental projects funded by the International Development Research Centre (IDRC) and the Canadian International Development Agency (CIDA). To date, CERB has hosted a large number of talks and seminars on Brazilian topics, welcoming leading researchers and other well-known figures from both Brazil and Canada. Within the Montreal community, CERB has also hosted public events designed to showcase Brazilian films, television, and the arts.

The other critical initiative has been the establishment of the Canada Visiting Chair in Brazilian Studies in 2003. Initiated by a consortium of four Canadian institutions—the University of Calgary, the University of Western Ontario, York University and UQAM—and with support from IDRC, the Canadian government, and the Brazilian Embassy in Ottawa, the primary objective of the Chair has been to promote the study of Brazil in Canada, and to strengthen academic relationships between the two countries. By agreement among the partners, two distinguished Brazilian scholars are invited to Canada each year for a period of at least two weeks. Typically, Chairs are expected to deliver at least one major address at each of the participating universities, meet with faculty, students, and representatives from both government and the private sector, and participate in organized events such as conferences or workshops. In the fall of 2003, the inaugural Chair—hosted by the University of Calgary—was Prof. Marcos Jank, a specialist in global trade in agriculture. The second appointed chair was Prof. Germano de Paula, a Professor at the Universidade Federal de Uberlândia and an expert in international trade in steel. As part of the program, two new Chairs will soon be appointed, with a major conference on urban development and cities being planned for the spring of 2005 at York University's Glendon College.

Canada's universities have also been doing their part in educating Canada's next generation of Brazilianist scholars, as much of the current cohort (approximately 15 academics in all) moves gradually toward retirement. Indeed, as compared to past decades, there has been a virtual explosion in graduate study interest in Brazil in recent years. During the ten-year period from 1981-1990, a total of 16 Masters and 20 Ph.D theses were produced on topics related to Brazil. During the following decade, however, those numbers had more than tripled, to 58 and 63 respectively (National Library of Canada, 2004).

Of all the sectors where Canada-Brazil interaction has been on the increase in recent years, perhaps the most surprising—given our recent history of trade issues—is the business sector. On the one hand, two-way trade has not increased significantly in recent years, hovering at about $2.5 billion. Total Canadian investment in Brazil over the past decade has skyrocketed, however, from about $2 to $7 billion. Although less spectacular in monetary terms, Brazilian mergers and adquisitions of Canadian firms have become almost commonplace. Of particular note have been the Brazil's steel giant Gerdau's acquisition of Nova Steel in Cambridge, Ontario, a steel recycler. Votorantim, a leading Brazilian producer of cement and cement products, has also recently acquired St. Mary's Cement, with major cement producing operations in St. Mary's and Bowmanville Ontario, and one in Detroit Michigan. And just this year, Interbrew of Belgium acquired Labatt's, but immediately handed over the brewing portion of the company to its global Brazilian partner, Ambev, bottler of the Brahma and Antarctica beer brands.

Clearly, as the first decade of the new century reaches its mid-point, we are on the right track in our relationship with Brazil. Will the problems of the past be resolved and disappear? Not likely, and certainly not in the short-term. What is emerging, however, is a new climate in which to grow a better, more productive bilateral relationship and to manage difficult issues as they do—and inevitably will—arise.

Ted Hewitt is Professor of Sociology and Acting Vice-President (Research), University of Western Ontario. He has published extensively on urban development issues in Brazil and is currently managing editor of the *Canadian Journal of Latin American and Caribbean Studies*.

Canada and Brazil 2004: Realizing the Potential

Senator Mac Harb

A review of the history of Canada-Brazil trade relations reveals the persistent theme of unrealized potential. They are two vast countries with tremendous natural resources, yet their economic ties remain inexplicably underdeveloped. Unfortunately, although our bilateral relationship has expanded and diversified somewhat over the past several years, a few stumbling blocks have prevented a more significant progress, which we know to be possible.

Trade disputes and misconceptions have been allowed to influence our perception of each other, both bilaterally and on the world stage. Geographical and historical circumstances have resulted in the Brazilian view of Canada as an extension of the United States, in policy and priority. At the same time, the long-standing focus on the aeronautical industry dispute has unfortunately dominated our bilateral relations.

Yet even with these serious setbacks along the way, bilateral trade between the two countries is currently in the vicinity of CND$2.9 billion per year. With Canadian investment in Brazil estimated at close to CND$7 billion, Brazil is Canada's largest trading partner in South America. More than 500 Canadian companies are doing business with Brazil, with close to 100 maintaining a permanent presence. These are major companies such as Alcan, Bank of Montreal, Brascan, Molson, Nortel and Scotiabank. And Brazilian products such as sugar, orange juice, coffee and fruit, not to mention the popular VW Golfs, are coming to Canada in great numbers, proving that Canada is a large and increasingly important market for Brazilian business as well.

It does not take much imagination then to see how our common interests are served by continued growth of these trade relations. It will, however, take some imagination and a leap of faith to ensure this growth continues to its highest, most beneficial level. It is time to step away from the past and re-brand the relationship between Brazil and Canada. There are four key steps that should be taken to ensure progress is made.

1. Only by changing the parameters of our relationship will we be able to take full advantage of the myriad of benefits inherent in a solid bilateral association. Brazilians must re-think their perception of the relationship between Canada and the United States, recognizing that Canada is an autonomous nation with its own very distinct cultural, foreign and trade policies. At the same time, Canada must work to underscore this fact, stepping up to prove that, as was the case with the Free Trade Area of the Americas (FTAA), we are an independent trading partner worthy of a bilateral relationship. Canada can also support Brazil on some of its issues in international organizations, such as the inclusion of both Canada and Brazil as non-permanent members of the United Nations Security Council.

2. Canada remains committed to the FTAA process and to negotiating, multilaterally, a comprehensive agreement compatible with the World Trade Organization (WTO). At the same time, it is essential that we also work towards a bilateral free trade agreement between Canada and Brazil. By using the WTO to resolve outstanding issues, we can concentrate on the future, putting our time and energy into trade liberalization between our two growing economies.

3. As a Parliamentarian, I am keenly aware that for real progress to take place, both the human resources and the necessary capital must be in place. Parliamentarians from Brazil and Canada must take the lead role to ensure that their respective governments fully appreciate that building our bilateral relationship is an important task worthy of attention and investment.

4. Lastly, and perhaps most importantly, I recommend the establishment of a task force to closely examine Canada-Brazil relations and take them to the next level. At any given moment, connections are being made between our two countries in the areas of development and environmental cooperation, democratic institutions, security and policing issues, cultural and academic exchanges, technology-sharing, and trade and investment. It is vital that the initiatives taken by organizations such as the Canadian International Development Agency (CIDA), the Brazil-Canada Chamber of Commerce, the Canadian Council for the Americas, the Canadian Foundation for the Americas (FOCAL), and the Inter-Parliamentary Forum of the Americas (FIPA) be coordinated so that appropriate goals can be set and mechanisms put in place to achieve them. This task force could be used as the vehicle that devises concrete initiatives and implements practical strategies to get Canada and Brazil past the challenges that have kept us from reaching our full potential in the past.

Ultimately, it must be understood that we have much to gain by reinforcing and strengthening this relationship, and an equal amount to lose should we fail to do so. As Chair of the Canada-Brazil Parliamentary Friendship Group I believe that there is genuine good will on both sides to ensure that the relationship between Canada and Brazil is placed on a solid foundation, capable of promoting prosperity, security and stable democracies in both nations.

Senator Mac Harb is the current Chair of the Canada-Brazil Parliamentary Group and former Chair of the House of Commons Subcommittee on Trade, Trade Disputes and Investment.

On Brazil and Trade: Does the South-South Agenda Add Up?

Annette Hester

On the eve of a high-level Canadian visit to Brazil—the delegation includes the Prime Minister, the Minister of International Trade, and a group of business people—it seems like a logical moment to reflect on the current state of Brazilian foreign and trade policy. Clearly, some insight into how Brazil functions with the world is critical to making the most out of this visit.

Almost two years into "Lula" da Silva's presidency, we observed that in spite of dire predictions of economic chaos and radical change, the country is quite stable and finance and economic policy have followed a very conservative tone. But there have been changes, and none so remarkable as in the foreign affairs and trade files. President Lula's vision for a South-South trade agenda is timely and refreshing, but it is only a small part of the picture. His old left-wing, anti-US attitude towards trade is starting to polarize the government and the business community. Of all the government policy portfolios, these changes are the most consistent with Lula's election platform; unfortunately, they are the source of growing contradictions that are becoming increasingly problematic.

The party's election material talked about a presence on the world stage as a developing-world leader and alluded to the Mercosur almost in terms of "destiny". The international trade agenda focused on ties with developing countries—with special attention to China, India, other Asian countries and South Africa; the strengthening of relations with the European Union (EU); and a total repudiation of the United States and its trade project, the Free Trade Area of the Americas (FTAA). In an essay published during the presidential election campaign, Lula singled out the FTAA proposal as "in practice being an annexation attempt of the Latin American economies to the US economy—causing enormous damages to our industry, agriculture, commerce, services, and our own culture (Luiz Inácio "Lula" da Silva, "O Brasil e a Alca," 15/08/02).

How does this fit with reality?

Brazil might not yet be a world leader, but it is certainly making progress towards that objective. In a move to secure a seat on the United Nations Security Council it has agreed to lead the peacekeeping mission to Haiti; together with the United States, the European Union, India and Australia, and as a representative of the G-20, Brazil managed to move the Doha Round of the World Trade Organization (WTO) forward to the next stage; scored some significant victories at the WTO against the European Union (sugar) and the United States (cotton); and Lula did attract some attention, although nothing substantial or concrete, for his "world hunger" initiative.

This is all good

So was his work on the South-South trade agenda, where Lula is doing exactly what he said he would. He has led several trade missions to developing countries, including China, the Arab world, and Africa. His commitment to Latin America is showing results as exports to the region's countries—especially Argentina and Mexico—showed the largest increase of all other regions according to Brazil's Development Ministry statistics; two way trade with China is buoyant; and the Mercosur and the Andean Community have just signed a free trade agreement.

But this is where the good news stops

In spite of the president's rhetoric and the agreement with the Andean Community, the Mercosur as a trade bloc seems to be going backwards instead of forward. In a recent article, Marcos Jank, first holder of the Canadian Chair in Brazilian Studies and a well-known Brazilian trade economist, put it succinctly:

> To date there are no signs that the Customs Union [Mercosur] will happen and even the Free Trade Zone is faltering, with successive arbitrary actions from Argentina—product by product—against stoves, fridges, washing machines, TVs, shoes, and vehicles. Brazilian lenience with Argentina's abusive restrictions weakens, rather than strengthens, Mercosur. Even the external coordination of the bloc is being affected by Argentina's neoprotectionism, which seems to oppose a forceful commercial integration policy with the rest of the world [*O Estado de São Paulo*, 05/10/04].

This is probably one of the main reasons why the negotiations of a Mercosur–EU trade agreement have stalled. Yet when it came to the FTAA negotiations, it was Brazil who derailed the talks. Either way, there are no trade agreements between Mercosur and the wealthiest markets on the planet—the United States and the European Union.

And the business community is starting to criticize the government's strategy openly. In a recent seminar organized by the American Chamber of Commerce in São Paulo, the criticism came from all sides: from the powerful industry federation, Industrial Federation of the State of São Paulo (Federação das Indústrias do Estado de São Paulo, FIESP), the words were sharp: "We need less ideology and more strategy . . . it is okay to build up relations with Saudi Arabia, Syria, but we need to strengthen the commercial ties with significant markets." Pedro de Camargo Neto, Director of the Brazilian Rural Society is quoted as saying, "I do not see a problem with a strategy that remembers that Africa exists . . . however, one can not give preference to the southern countries and forget that the United States is the biggest customer for Brazilian manufactured goods, and the European Union is our biggest agriculture market." Júlio de Almeida, Executive Director of the Institute for Industrial Development Studies (Instituto de Estudos para o Desenvolvimento Industrial, IEDI) points out that this trade policy is leading to a loss of investments in Brazil, as companies such as steel giant Gerdau and Dixie-Toga choose to invest in Canada, Chile and Mexico as a way to guarantee access to the United States' market.

This is the scenario the Canadian delegation will encounter when it gets to Brazil. What does it mean?

It means that there are a host of opportunities for both our government and business representatives to engage Brazilian business leaders and show them how much we do have in common: we are committed to the FTAA negotiations and work diligently to maintain our access to the United States.

Now all we need is for Canada to show some flair, some strategic thinking, and engage the right interlocutors when it gets to Brazil.

Annette Hester is a Calgary based economist and policy strategist, specializing in the Americas

Canada-Brazil Relations: A View from Canadian Business

Tim G. Plumptre

The Canada-Brazil trade and investment relationship has been blighted in recent years due to mutual misunderstandings and mistrust. At least from Canada's perspective, it has be one of the relationships with the greatest "achievement gap" when it comes to the difference between the relationship's potential and the actual results achieved.

Fortunately governments and business—notably, business student communities—in both countries now appreciate this. Both Federal governments are committed to improving the bilateral relations, but it will be up to the private sector—certainly in Canada's case—to take up the challenge of forging more productive links. Minister Jim Peterson's Trade Mission at the end of November will provide a reading on how well both the government and private sector are doing to increase cooperation.

There has seldom been a more opportune moment. President "Lula" da Silva's administration is planning a massive expansion of strategic sectors, which will open considerable opportunities for investment. Brazilian priorities mesh nicely with the sectors in which Canadian enterprises excel, whether they are industries considered part of the "old or traditional economy" or of the "new economy". In both cases, Canada has world-class competitive enterprises ("world leaders") in a number of Brazil's priority areas. Sectors in the "old economy" include infrastructure, energy, mining, agrifood, and tourism. Potential areas for investment in infrastructure are roads, railways, ports, bulk goods-handling and airport upgrades. The energy sector requires giant new cash inflows as well as a daunting list of infrastructure upgrades in hydro, as well as in oil and gas, including deep offshore drilling. Mining is also promising in non-ferrous metals: Brazil is already the world's largest iron ore producer and boasts the world's second largest—and largest in the hemisphere—mining group. In agrifood, areas of interest are both livestock—especially beef—and crops. Finally, tourism is a sector where opportunities remain untapped considering the length and beauty of Brazil's coastline. In sectors of the "new economy," Brazil already outpaces many of the G7 countries in terms of population penetration, especially in communications and semi-conductors, but intends to attract large investments into these and other related technology-based sectors. In all of the above, there will also be enormous "horizontal" opportunities, in environmental controls, processing, measuring and control systems, among others.

Following the brave, ultra-orthodox measures the Lula administration took in its early days to lay the foundations for sustainable growth, economic recovery is no longer in doubt, nor likely to peter out in the foreseeable future. By addressing the fundamentals and eliminating or reducing some of the negative factors that discouraged investment in the past, the Lula administration sent a clear signal to potential investors. Furthermore, because of Brazil's much-improved economic situation, it is easier and cheaper for cautious and less experienced "first time" investors to obtain insurance to cover some of the political risks that caused concern.

One reason for the historical failure of Canada-Brazil trade and investment relationship was that neither country has had an accurate understanding of the other, despite some very early successes and friendships. Most Canadians have tended not to see Brazil as part of Latin America because Brazilians do not speak Spanish, and most Canadians have no idea of the size of the Brazilian economy or the potential it offers. Meanwhile, Brazilians have seen Canadians as quasi-Americans, and have mistakenly believed that because of our economic dependence on the United States, Canada would always side with the Americans on major issues; whereas other possible strategic partners, such as the European Union (EU) or its major component countries, would be more likely to support Brazil if it were opposing the United States on a given issue. In Canada we know this scenario is not true. In reality, the maturity and depth of our economic relationship with our neighbour enables rather than prevents us from taking an independent view on a range of political and economic issues. Brazil does not seem to have realized that we could leverage this special relationship to advance their views in instances where we share them, as proved to be the case with Mexico in the North American Free Trade Agreement (NAFTA) negotiations. Canada carries far more weight with the United States than the Brazilians realize. Despite our relatively small population—which Brazilians assume is a measure of our limited clout—we are the United States' largest trading partner. At least for the moment, until we are overtaken by Mexico, in part due to our help.

As evidence of the importance that Canada now attaches to the Brazilian market, and its interest in adopting trade policies independent from the United States, many have argued that Canada should be actively promoting a Canada-Mercosur Free Trade Agreement (FTA). This could be done without detracting from the Free Trade Area of the Americas (FTAA) or other ongoing discussions at the World Trade Organization. The Brazilians, like the Mexicans a decade ago, are eager to sign FTAs where they do not have them, either individually or as part of Mercosur, as is the case with the recent deal signed between Mercosur and the Andean Community countries. Canada set a precedent with our successful FTA with Chile, a country that Canada managed to engage before the United States did so.

There has never been a better moment for Canadian businesses to take a much, much closer look at the plethora of opportunities available to them in Brazil. Canada's federal and provincial governments, as well as Export Development Canada, have been proactive in laying the groundwork and will hopefully continue to work on some of the issues suggested above. It is now up to the private sector to seize the moment.

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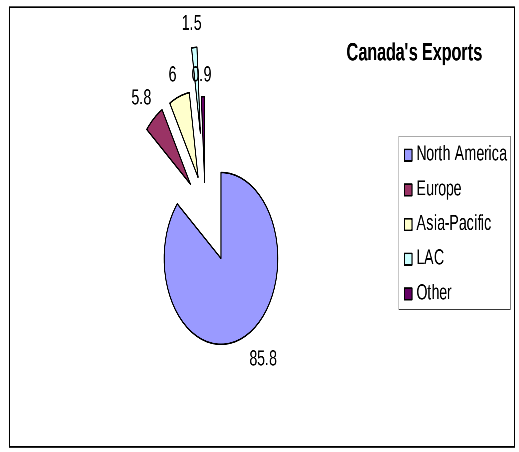
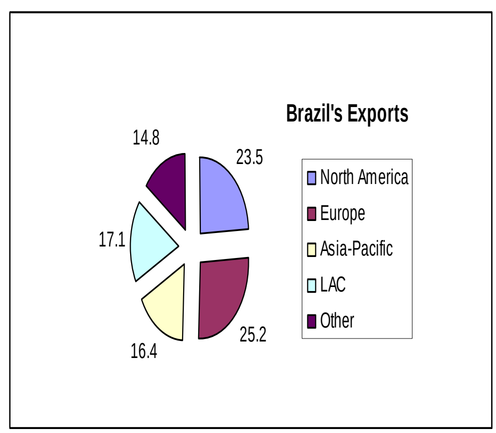
Canada's Exports



Source: Statistics Canada. International Trade Canada (*http://www.dfait-maeci.gc.ca*)

Brazil's Exports



Source: Ministério do Desenvolvimento, Indústria e Comércio Exterior do Brasil, Secretaria de Comércio Exterior Departamento de Planejamento e Desenvolvimento do Comércio Exterior (*http://www.desenvolvimento.gov.br/*).

Future Common Agenda for Brazil and Canada: Synergies on New Issues in Agricultural Trade

Florencia Jubany, William A. Kerr, and Laura J. Loppacher

For Brazil and Canada—one of the world's most efficient producers in agriculture and the world's third largest exporter of agri-food products, respectively—looking for synergies in multilateral trade negotiations should be a natural choice. There are a number of themes that arise regarding trade negotiations in agriculture and a possible common role for Brazil and Canada in shaping them.

The first is that at the current stage of the negotiations, both at the World Trade Organization (WTO) and for the Free Trade Area of the Americas (FTAA), there is little room to manoeuvre—the agendas are set. The current agendas in agriculture are primarily concerned with what might be termed "old issues"—market access, export subsidies and domestic support for agricultural producers. While these issues are important for both Brazil and Canada, their common interest has already been articulated in the Cairns Group position at the Doha Round. Better market access, elimination of export subsidies and constraints on levels of government support for farmers are areas where Canada and Brazil concur. Given that the agenda is already established, negotiations will take place over the degree and rate at which these objectives are to be accomplished.

Second, there appears to be ample opportunities to co-operate in devising mutual proposals in areas that have not yet received much attention from trade policy-makers. There are a number of "new" issues that are either not on the current agendas for negotiation, or included only in tangential ways, that are already becoming major issues in the trade of agricultural goods—anti-dumping, sanitary and phytosanitary standards, trade in the products of agricultural biotechnology, and trade in agricultural services. These will be the matter of future international efforts in trade policy-making and offer opportunities for Brazil and Canada to co-operate in establishing trade negotiation agendas.

Some specific suggestions for further exploration, and ultimately, future joint action, include:

Anti-dumping

When examining the positions of Brazil and Canada at current negotiations, there appears to be little they disagree upon. There seems to be an opportunity for collaboration, in the first instance, on issues such as raising the threshold for industry support in an anti-dumping action, transparency in proceedings, normal price determination, application and calculation of duties, *de minimis* standards and sunset clauses. While these areas represent just tinkering with the present system, Canada and Brazil could build on their common interests to push jointly for fundamental reform of the anti-dumping system over the long run.

Both Canada and Brazil, through the "Friends of Anti-Dumping" (an ad hoc grouping of 16 countries), want the system reformed in ways that prevent anti-dumping actions from being used as disguised barriers to trade. Such a goal must involve changing the fundamental definitions of what constitutes dumping through the formal incorporation of predatory pricing as the criteria upon which anti-dumping actions can be initiated. While acknowledging that such an initiative would face resistance from the United States' Congress, together Canada and Brazil could exert greater pressure to achieve such an outcome, which would benefit both. Another avenue for joint action in this area could be to steer the negotiations toward accepting safeguards as an alternative to anti-dumping.

Issues in Sanitary and Phytosanitary Agreements (SPS)

As Cairns Group exporters and trade partners, Canada and Brazil have experienced conflict associated with the use of SPS measures both by third countries and by each other (e.g. 2001-Canadian control measures on bovine spongiform encephalopathy (BSE); 2002-Brazilian measures to control seed potatoes and PRAs for imports on Plant Origin; and 2003-Brazilian emergency measures for BSE). As noted by Grant Issac at the conference "Trade Negotiations in Agriculture" (Calgary, 23/09/03), the two countries share an urgent need to prevent the discretionary use of temporary and permanent market access barriers without any clear process for regaining market access. For example, Canada currently finds itself in this position with BSE measures. They, therefore, have a common interest in clarifying the "principles" underlying the SPS Agreement's use of the Risk Analysis Framework. Moreover, Canada and Brazil both want to ensure that market access negotiations address the increasingly central role that the SPS agreement has in agricultural trade.

Trade in Services

A great many of the challenges related to negotiations in services at the multilateral level (GATS) derive from the linkages between services-related areas such as competition policy, investment, subsidies and government procurement. These are areas in which Canadian and Brazilian positions tend to diverge, thus limiting the scope for synergies. Brazil and most developing countries wish to exclude rules on domestic regulations, industrial policy subsidies and government procurement from market access negotiations on services. Canada, for its part, would like markets opened for agricultural services, an area of knowledge-based trade where it believes it has a comparative advantage. Another challenge for the services negotiations is that Brazil and other developing countries have directly linked concessions in services to those attained in other areas such as agriculture. This said, at the same conference Eugene Beaulieu identified some common ground between Brazil and Canada in negotiations in services, and one area identified is the reduction of barriers and discriminatory measures such as economic needs tests (ENTs) that both countries want eliminated.

These are some of the issues that will make the post-Doha agenda, and that will require novel solutions from countries like Brazil and Canada to break the stalemates that inevitably arise when positions in the major economic powers harden. Already, positions in the United States are hardening over anti-dumping, in the European Union over SPS and biotechnology, and in India and China over trade in services. If “unfair trade”, food safety and technological change are allowed to become major contentious issues, even if the questions of market access and subsidies are solved, it will all be for naught. Cooperation between middle-sized economic powers like Canada and Brazil where agricultural exports are significant would seem to be a necessary result of the new challenges for agricultural trade policy-making in the 21st century.

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The Brazilian Economy: “O Vôo de Galinha”

Philippe Faucher

Electors were warned during the 2002 presidential campaign. Candidate Luiz Inácio “Lula” da Silva of the Workers Party (PT) pledged that, if elected, he would honour the agreement signed with the International Monetary Fund (IMF). Stability was the key word: inflation was to be controlled, the commitment to a primary surplus honoured and the currency was to continue to float. As a result of this very public announcement, the international financial community seemed satisfied and markets' nervousness was dampened.

After the election, the population enthusiastically rallied behind the working-class hero turned President. Lula's personal approval rating was in the 80% range (“astronomical” wrote *The Economist*) during his first 8 months in office. However, the decline in his personal popularity was slow but steady, and reached a low of 50%, while the positive evaluation of his government bottomed out at 29% in July of this year. Stagnant economic growth and the government's apparent lack of policy alternatives were said to be responsible for this deterioration.

During Fernando-Henrique Cardoso's second term in office (1998-2002), growth had averaged 1.9% and gross national product (GNP) per capita stagnated (from US$2,726 to US$2,824). Private and public investments were low as interest rates were kept at record high levels. Registered unemployment reached 12%, while payment of the foreign debt claimed as much as 26% of export revenues on average during the same period.

Brazilians and foreign observers rightly expected a PT government to spend freely on the social agenda and initiate a new cycle of growth through increased public investment. In a word, to be more “populist”—as such policies would be labeled by liberal-minded economists. After all, Lula inaugurated his mandate by declaring war on hunger, launching a national program named “Zero Fome”. Similar but more traditional and urgently needed initiatives were expected in housing, sanitation, health and education.

Staying the course

To the surprise of all, and in particular to the disappointment of Lula's supporters, the government maintained the course with high interest rates—which reached up to 9% in real terms—and tight fiscal policy; the primary surplus exceeded the IMF target by more than 60 points to reach 4.37% of GDP. Orthodox economists cheered while the masses moaned as unemployment remained high. During Lula's first year (2003), GNP declined by—0.4%, pulling down per capita income by 1.6% while unemployment increased slightly, surpassing 12%. Under increasing pressure, the government claimed that it would stay the course, blaming the previous administration for the bad economic performance. Observers anticipated internal tensions, as pressure from PT's grassroots claiming for a change of course reached the cabinet. But Lula stood firmly behind the monetary policy of his economic team, headed by Finance Minister Antonio Palocci, and Central Bank President Henrique Meirelles, chanting the necessity of orthodoxy with the conviction of a new convert.

This year annual growth could reach an encouraging 4.5% (Economic Commission for Latin America and the Caribbean). As expected, the government claims its policies are responsible for the turnaround. Most observers are more cautious. I side with the sceptics.

Projections from 2002 announced that Latin America as a whole would benefit from growth in the world economy, particularly in China, taking advantage of the resulting increase in the prices of primary products, and low interest rates. Brazil's target growth rate was forecasted at 4.1% for 2004 (*Economist Intelligence Unit*).

The predictions were founded. China discovered Brazil as a supplier and President da Silva led an important delegation of political leaders and business people to China last May. Export to China could exceed US$8 billion this year, which according to the *Financial Times*, would make China responsible for a quarter of Brazil's growth in GDP (18/05/04). Commodities, mostly agricultural (soyabeans), constituted the bulk of these exports, followed by minerals (iron).

Industrial production is also experiencing a surge in activity. But the peak has already passed. From August 2003 to August 2004 industrial production registered an increase of 13.1%. The Institute for Industrial Development Studies (Instituto de Estudos para o Desenvolvimento Industrial), a business lobby, has estimated a growth rate of 6.5% for 2004. Industrial capacity was being utilized at an average rate of 84% in July 2004, with capacity in some sectors, such as paper and cardboard, rubber and metallurgy, operating above 90%. In its newsletter, the influential business lobby argued that to sustain growth, new investments are needed, requiring that the price of credit drop. Further, the economic model has to be changed, and the policy of high interest rates and inflation targeting need revision (*www.iedi.org.br*).

A vicious circle

It is true that stability brought much needed relief. Country risk evaluations improved and the C-bond spread is now below 500. Exports have been increasing, and are expected to generate a trade surplus of close to US$30 billion. Inflation is stable around 9%, while unemployment has declined to 10.9%. Interest rates (SELIC) declined steadily from an average of 23.35% in 2003, but have been stubbornly maintained at between 15.5% and 16.25% for the past 10 months. In October 2004 the Central Bank once again raised the prime rate by half a percentage point to 16.75%. It is estimated that this increase is responsible for an additional US$700 million in public debt. Monetary authorities had warned that they would not hesitate to prematurely halt any inflationary pressure. They obviously kept their word.

Making a difference?

The debate is raging anew. High real interests have increased the public debt, which was on average 58% of GDP in 2003, up from 33% in 1993. Some see a poor economic strategy resulting in a vôo de galinha or "chicken hops", referring to the expression used by Brazilians to describe their economy's performance: it advances like a chicken flies, in short disheveled hops, but walking most of the way. High interest rates are used to boost the exchange rate, control inflation and attract the foreign currencies required to cover the current account deficit. But high interests restrict growth, and increase the public debt, which to be financed requires high rates. This is why the current policy should have been changed ten months ago. Now the momentum is lost, as economic indicators are pointing towards a slowdown. Predictions for 2005 for Brazil are not optimistic. With China cooling off, commodity prices will stabilize, if not decline. Interest rates are already increasing, while high energy prices will reduce the trade surplus. A 3.65% growth rate is forecasted for 2005 (*Economist Intelligence Unit*).

We should remember that a minimal 5% growth rate is required for significant development to take place in Brazil. By significant development we mean economic growth that will generate a surplus that can be invested in the social programs promised in the PT's electoral platform, and in much needed infrastructure. Most of these good intentions have been put on hold by the government, at a cost of falling popular support for the president, his party and allies, demonstrated by the disappointing municipal election results. In the first round of the October elections, Lula's coalition received 33.6% while the opposition got 28% of popular vote (*Brazil Focus* 22/10/04). In the second round, the PT lost political control over São Paulo, and the symbolically charged capital of Porto Alegre, which the party has ruled for the past 16 years.

It was understood from the beginning that to improve the living conditions of the majority of Brazilians, President Lula and his party would need at least two mandates. The Presidential campaign of 2006 is around the corner. Lula has to prove that his leadership makes a difference to the poor. This could be an expensive demonstration.

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The Brazilian Foreign Policy: Another Route or a New Step Forward?

Ricardo Sennes and Alexandre Barbosa

The period between the end of the 1980s and the late 1990s was marked by a series of events that brought about significant changes in the political and the economic international order. Such developments gradually eroded the foundations that supported Brazilian foreign policy, as well as its political alignments and ideological bases.

Undeniably, the reforms of the 1990s triggered growing tension and contradiction between the search for economic objectives and the traditional goal of political autonomy. If such objectives once were articulated and mutually reinforced, forming the core of Brazilian independent foreign policy, in the current situation they seem to be in growing conflict.

After years of reluctance to accept international authority over issues considered of domestic domain, Brazil began "bringing its international agenda" in line with the current international context. Issues that before were not considered to be open to negotiation—such as human rights, environment, nuclear programs and computers—were quickly placed on the foreign agenda and the country became a signatory of treaties and a member of international agencies.

Another change in the Brazilian stance happened in its policy of regional engagement, where the country has been able to balance its objectives of economic development and political autonomy. During the 1990s, Brazil's presence in the region increased significantly reinforcing its leadership role, while taking advantage of the retraction of the United States' direct strategic interests in the region, and of its inability to move forward with the hemispheric integration process.

In summary, since the 1990s Brazil began to develop a strong, strategic regional policy that has progressively occupied a central place in its foreign relations.

Cardoso and Lula

Even though Brazil's foreign policy has been changing since the end of the 1980s, this has not been a linear process. One can point to some of the differences between Fernando Henrique Cardoso's first and second terms and Luiz Inácio "Lula" da Silva's government.

In Cardoso's first term (1994-1998), the single, overriding objective was to increase the qualitative presence of Brazil in the world. This strategy was grounded on Brazil's low and cooperative profile in multilateral fora, both financial and trade, and an attempt to "clear the air" in their bilateral relations with the United States. The latter motivated Brazil to modify patent legislation, to end state monopolies in strategic sectors (i.e. services), and to review of discriminatory constitutional clauses regarding foreign investment. It was an attempt to gain "credibility to fly higher". In terms of the World Trade Organization (WTO), there was no change at this point from the defensive and low profile stance taken during the General Agreement on Tariffs and Trade (GATT) to a more pragmatic stance.

It can be said that during Cardoso's second term (1998-2002) this line of foreign policy, still timidly directed, was affected directly by the external financial crisis of 1998 that culminated in January of 1999 in the devaluation of the Brazilian Real. On one hand, President Cardoso was then forced to follow an economic diplomacy against his will, negotiating packages of financial aid. On the other hand, the reinforcement of the MERCOSUR policy became clearly necessary and urgent, as well as the need to assume a "tougher" stance in international negotiations both at the WTO and with other trade blocs—the North American Free Trade Agreement (NAFTA) and the European Union (European Union)—always seeking to increase leverage by negotiating as a bloc.

Lula's government came to power in an environment of high distrust in national and international markets, which, in economic terms, had generated an inflationary bubble, very strong pressures on the exchange rate, capital flight and virtual freezing of investments. In that scenario, Lula's government did not have a wide margin of options. Even in the final phase of elections, Lula had already begun making contacts and commitments to guarantee that his government would not break signed agreements, nor alter the general line of the current economic policy. Economic diplomacy focused on recovering the country's external credibility, which included adherence to adjustment policies recommended by the International Monetary Fund (IMF). Brazilian financial authorities went to the extreme when negotiating the Argentinean post-moratorium foreign debt, with a mixture of coldness and indifference, providing mere formal support.

In face of that strategy in the economic sector, the Brazilian government attempted to raise the profile of its actions in the political arena and, to a lesser degree, in trade. It tried to balance the conservative handling of economic policy with a strong international rhetoric, manifesting a diplomatic activism in areas unlikely for Cardoso's government. This was illustrated by the assertive campaign Brazil launched to obtain a permanent seat on the United Nations Security Council—through a determined dialogue with middle powers such as India, South Africa and China—as well as in the regional context, placing more emphasis on Brazil's role as a leader in South America. The insistence on obtaining a permanent seat on the Security Council in a context of total paralysis in the UN reform discussions may indicate Brazil's attempt to increase the country profile in the international arena.

However, the idea of constructing strategic alliances with emergent countries—initially including Mexico, South Africa, China and Russia—had been expressed in Lula's government programme, presented as a means to counterbalance the representation and agenda of the G8. This group's leverage would be based on the volume of savings of these countries, the sum of their populations; at the same time their status as powerful developing countries would generate a convergence of economic interests and allow them to act as a political front before the bloc of developed countries.

Since the beginning, the difficulties to establish such group have proven to be considerable, particularly in the cases of Russia and China. As a result, Lula's government sought—and achieved—a partnership with India and South Africa, forming the G3. However, without the other members, its political importance and capacity to influence the international agenda became more limited.

In the regional context, Lula looked to strengthen Brazil's political ties with all South American countries. A first significant movement in that direction was the unprecedented way in which Brazil acted during a political crisis in one of the Andean countries: Venezuela. Lula began his regional foreign policy even before his inauguration: 15 days before taking office he sent a political representative to Caracas to mediate the conflict between the government and the opposition and to offer to act as facilitator and guarantor of political stability in that country. Soon after, he took the initiative of creating a Group of Friends, formed initially by several countries from South America and Europe, which were politically close to Brazil. That precipitated an action by the United States that tried first to block the formation of this group, and later, to dramatically alter its composition.

A second demonstration of Lula's approach in this area was that in the first six months of his government he managed to have one or more meetings with all of the presidents of South America. This signalled unprecedented priority given to the region.
Other political movements hinted at the general guidelines with which Lula would steer Brazil's actions in the international political arena. Taking advantage of his enormous internal and external popularity, in 2003 Lula participated in the World Social Forum in Porto Alegre, Brazil, and, in the same week, in the World Economic Forum in Davos, Switzerland. More remarkable still: he gave practically the same speech in both meetings, and was in fact applauded at both!

However, Lula's main proposal of international involvement has been the establishment of a world fund against hunger. Although the merit of such a proposal is unquestionable, it is insufficient as an international political proposal that seeks to alter the world economic system on behalf of the sustainable development agenda. Because it does not come from a representative group of countries, nor is it part of a wider initiative, it has unfortunately had more impact as political rhetoric than political action.

In any event, there is not a dramatic change of direction in foreign policy with respect to Cardoso's government. It seems more appropriate to characterize Lula's foreign policy by the deepening tension between a conservative economic diplomacy and a foreign policy that promotes Brazil's role in major international fora, and as an advocate of developing countries, and as guardian of its national interests—through MERCOSUR—in negotiations with big trading blocs. ■

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Lula's Liberal Social Policy

Sylvain F. Turcotte

The fight against poverty stands as the strongest priority for the government of Luiz Inácio "Lula" da Silva. This measure was partly expected considering the modest origins of the president and the fact that his political party has placed the issue of poverty alleviation at the centre of its agenda since the beginning of the 1980s. But Lula is now the president of a country that is amongst the most unequal in the world, a situation which will make his projects very difficult to implement due to numerous obstacles associated with politically complex reforms. Half-way through his mandate, the new government has already implemented some social reforms, but recent studies have shown an increase in poverty in Brazil since Lula took power. Much more must be done if he wants to satisfy the millions of voters who placed their faith in him after the lost decades following the debt crisis.

The unequal character of Brazilian society is the result of a range of social measures which have always had a regressive effect on income distribution. Since 1945, when the welfare state was created in Brazil, health, education and income security policies have always been highly advantageous to public sector employees and workers in strategic sectors (transportation, banks, ports, etc.), but have left out those in need. This is the main reason why the important rise in social spending in Brazil under the Cardoso government did not really succeed in reducing poverty on a national level. In fact, only 13% of total social spending reached the poor sectors of the country during the 1990s. Moreover, sectoral analyses provided by specialists have shown that social spending concentrates on older segments of the population and heavily urbanized areas. Reducing poverty represents a challenging task in Brazil, as the state's social policies need reviewing as a whole. However, the fact that the highly regressive policies benefit precisely those sectors of society that made the election of the Workers Party's (PT) candidate in 2002 possible, makes undertaking this review complicated for Lula's government.

There is now a clear consensus among Brazilian specialists about the necessity of replacing the old Bismarckian welfare state with a more liberal model that would concentrate spending on the most needy sectors of the population. As a result of the state of Brazilian public finance, the social protection enjoyed by the privileged cannot be universalized throughout the country. At this moment in Brasilia, social policy technocrats are reviewing ways to replace the fight against inequality with the fight against poverty—a more realistic goal given the weak capacities of the state. Even if this strategy meets with high levels of dissatisfaction within certain sectors of Brazilian society, an approach that balances both of these social intervention models is required. In the future, the Brazilian government is expected to place importance on conditional social policies that focus on the poorest citizens as it currently happens with certain social benefits distributed to families only if children are enrolled in school.

Lula's famous "Zero Hunger Programme" can easily be inserted into this new liberal logic that is slowly being incorporated into Brazilian social policy. Proudly announced at the beginning of his mandate and in March 2003 in a few pilot projects in the Northeastern states where poverty is highly concentrated, this program focused on the poorest segments of society and received support from the United Nations and the World Bank, who have invested US$5 million in the course of the first year. At the present time, Lula's government is greatly criticized for this politically profitable program that requires little domestic investment, due to external financial backing. However, positive results are still expected, as the program is being implemented at a time when unemployment in urbanized areas is at its highest since civilian governments returned to power in 1985.

In fact, the recent reform of state employee pension system is the only important success in Lula's government social agenda. Considering that the pressures exerted on public finances by an unreformed system risked paralyzing government at medium-term, reform was inevitable. But President Lula's government did not privatize the retirement system, a solution that most South American countries followed during the 1990s. Instead the government chose to follow his predecessor and reduce pension benefits. Although this decision was met with opposition from those state employees who were close to retirement, these did not enjoy much sympathy in Brazil and were unable to bloc the reform.

Overall, the government's social agenda is striving towards policies initially proposed by the Cardoso government: a wide range of measures directly linked to the goals contained in the 1988 civilian Constitution. Apart from the "Zero Hunger programme", Lula's approach integrates elements of continuity, in spite of elections statements which aimed to distinguish his ideas from those of the previous team. But the principal problem with Lula's social agenda is associated with the rise of the informal sector following the liberalization of the economy beginning in the 1990s, a situation that limits the state from financing its social policies. In the last ten years, contributions to the Brazilian social protection system have dropped steadily, while the cost of social programs has greatly increased. Studies consistently show that only a significant increase in the base salary could persuade workers to join the formal economy. This is why the question of raising the minimum wage is today at the heart of social policy debates in Brazil. ■

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