

A Letter to the President and a Memorandum on U.S. Policy Toward Brazil

Stephen Robert, Chair

Kenneth R. Maxwell, Project Director

FOREWORD

Following the global financial crisis of the late 1990s the Council on Foreign Relations sponsored four Independent Task Forces to examine in detail the U.S. economic relations with China, Japan, Russia, and Brazil and other matters as they bear on economic policy. The Task Force on Brazil has done its work with clarity and force in the form of a memorandum to the president. In this memorandum the Task Force argues that Brazil is the fulcrum of any successful U.S. policy initiatives in South America. If we want to sustain economic reform and democracy, promote free trade and open markets, and combat the scourge of drugs, terrorism, and transnational crime, Brazil is the essential partner. This report succinctly outlines the reasons Brazil is important to the United States. It stresses the urgency of developing a cooperative agenda with Brazil given the tightness of upcoming deadlines for trade negotiations, as well as the deteriorating conditions among many of Brazil's neighbors, not least in Colombia and Venezuela. The memorandum to the president also frankly lays out the obstacles to a positive agenda on both sides.

As the memorandum makes clear, we are at one of those watershed moments in history where the United States and Brazil share many key objectives and values. The Task Force recommends that the president initiate without delay a thoroughgoing review of U.S. policy toward Brazil and examine where the United States and Brazil can work together on vital matters such as trade, drugs, and regional security and move thereafter to engage in a high-level sustained and cooperative strategic dialogue with Brazilian leaders.

The Task Force reached a strong and meaningful policy consensus, with all Task Force members endorsing the general policy thrust and judgments reached by the group, though not necessarily every finding and recommendation.

I am very grateful to Steve Robert for leading this important initiative and to Kenneth Maxwell, the project director, ably assisted by Latin America Research Associate Tomás

Amorim. We also want to express our gratitude to the Arthur Ross Foundation for providing funding for this endeavor.

Leslie H. Gelb

President

Council on Foreign Relations

New York, February 2001

ACKNOWLEDGMENTS

We are indebted over the course of almost two years and 18 sessions for the hard work all the Task Force members put in under the leadership of Chairman Steve Robert. This was truly a collective effort where the individual contributions of our distinguished Task Force members provided a wide range of knowledge and experience that enriched our discussions as well as the substance of the final memorandum to the president.

We are also grateful for the very frank off-the-record discussions the Task Force had in lengthy meetings with Robert Rubin, former U.S. secretary of the Treasury, with Brazilian Vice President Marco Maciel, with Armínio Fraga, the president of Brazil's Central Bank, with then Foreign Minister Luiz Felipe Lampreia, and with Rubens Antônio Barbosa, Brazil's ambassador in Washington, as well as the private discussions individual Task Force members had with leading Brazilians across the political spectrum. We are also grateful to Ambassador Gelson Fonseca Jr., Permanent Representative of Brazil to the United Nations, for hosting the Task Force meeting with Minister Lampreia at his residence in New York.

We counted on the wise advice of Council President Leslie H. Gelb, and his unfailing ability to cut to the essence of an issue and sharpen our focus. Mike Peters, the Council's chief operating officer and Jan Murray, Council treasurer, were unfailingly supportive, as was Marie-Xavière Strauss, special assistant to the president. We also counted on the legendary skills of Trisha Dorff and Leah Scholer in Publications, and on April Palmerlee in the Council Communications office. The Council support staff were as always quietly effective behind the scenes, making our working sessions comfortable and smooth running, especially Mark Hudson's event managing skills. Valuable assistance was also provided by our Latin America Program interns, Jaime Salas, Katalyn Vidal, and Heather Singmaster. Last but by no means least, Tomás Amorim, research associate in our program, went far beyond the call of duty in his commitment to the success of this project, bringing as he does to all his activities an infectious enthusiasm and efficiency.

Kenneth Maxwell

Project Director

Council on Foreign Relations

LETTER TO THE PRESIDENT

February 12, 2001

The Honorable George W. Bush, President of the United States,
The Honorable Richard B. Cheney, Vice President,
The Honorable Colin L. Powell, Secretary of State,
The Honorable Paul H. O'Neill, Secretary of the Treasury,
The Honorable Donald H. Rumsfeld, Secretary of Defense,
The Honorable Donald L. Evans, Secretary of Commerce,
The Honorable Robert B. Zoellick, United States Trade Representative,
The Honorable Condoleezza Rice, Assistant to the President for National Security
Affairs,
The Assistant Secretary of State for Western Hemisphere Affairs,
The Honorable John F. Maisto, Special Assistant to the President and Senior Director for
Inter-American Affairs,
The Honorable Jesse Helms, Chairman, Senate Foreign Relations Committee,
The Honorable Joseph R. Biden Jr., Ranking Democratic Member, Senate Foreign
Relations Committee,
The Honorable Henry J. Hyde, Chairman, House International Relations Committee,
The Honorable Tom Lantos, Ranking Democratic Member, House International
Relations Committee,
The Honorable Cass Ballenger, Chairman, House Subcommittee on the Western
Hemisphere,
The Ranking Democratic Member, House Subcommittee on the Western Hemisphere

Dear Mr. President:

We are an Independent Task Force, sponsored by the Council on Foreign Relations,
which has been working over the past 18 months on future U.S. policy toward Brazil.

Brazil, we believe, can and should be a crucial player with the United States in promoting economic reform and free trade, in sustaining democracy and open markets, and in combating narcotics, terrorism, and transregional crime. The United States cannot act alone in South America, and there is no better strategic partner than Brazil in tackling these problems. A realistic and sustained dialogue with Brazil is central to any successful U.S. policy in the Western Hemisphere. Brazil is the fulcrum. Brazil is too important to everything that is going to happen in South America for a policy of benign neglect.

We urge you to move quickly to build a high-level working relationship with Brazil based on common interests. We recognize that this will not always be easy. Any new initiative toward Brazil will need to manage mutual differences. It cannot be seen as a relationship that excludes other South American neighbors. Nor will Brazil react favorably if it believes that the United States aims only to co-opt Brazil for exclusively American purposes.

We recommend:

1. A thoroughgoing review of our policy toward Brazil and an examination of where Brazil and the United States can work together on vital matters such as trade, drugs, and regional security; and
2. that you move swiftly thereafter to establish a high-level sustained and cooperative strategic dialogue with Brazilian leaders.

We append a succinct memorandum outlining why we make these recommendations and we flag the key issues-sustaining economic and political reform, free trade, drugs, and regional security-we believe will be at the top of any U.S.-Brazilian dialogue.

It is time to rethink and reenergize U.S.-Brazilian relations. Both nations have much to gain from an enhanced relationship. Now is the time to act.

Respectfully,

Independent Task Force on Brazil

MEMORANDUM

To:

The President of the United States, The Vice President, The Secretary of State, The Secretary of the Treasury, The Secretary of Defense, The Secretary of Commerce, The United States Trade Representative, The Assistant to the President for National Security Affairs, The Assistant Secretary of State for Western Hemisphere Affairs, The Special Assistant to the President and Senior Director for Inter-American Affairs, The Chairman and Ranking Democratic Member of the Senate Foreign Relations Committee, The Chairman and Ranking Democratic Member of the House International Relations Committee, The Chairman and Ranking Democratic Member of the House Subcommittee on the Western Hemisphere

From:

Independent Task Force on Brazil

Subject:

U.S. Policy Toward Brazil

We are an Independent Task Force sponsored by the Council on Foreign Relations working on future U.S. policy toward Brazil. We believe that Brazil is central to a successful U.S. policy in the Western Hemisphere. Brazil can be a serious partner, and

we urge that a sustained dialogue be initiated to examine where the United States and Brazil can work more effectively together for mutual benefit.

We are approaching a seminal moment when Brazil and the United States share many key objectives in the hemisphere. But this moment may not last, and it should not be allowed to slip away because of lack of attention on the part of the U.S. government. Brazil is too important to everything that is going to happen in South America for a policy of benign neglect.

Brazil can and should be a crucial player with the United States in sustaining economic reform and democracy, in promoting free trade and open markets, and in combating narcotics, terrorism, and transregional crime. If we want to expand the Free Trade Area from North America into South America, Brazil is going to be the critical nation. If we want to tackle drug problems on a hemisphere-wide basis, Brazil is key to getting that organized. If we want to sustain democracy, it won't happen if democracy fails in Brazil. None of these fundamental U.S. policies will work in the end without Brazil. Brazil is the fulcrum.

We believe this is an opportune moment for action. Brazil-U.S. relations are good. Brazil has successfully emerged from an authoritarian past and is a vibrant democracy, the world's third largest. Brazil's economy is improving. With a new administration in place in the United States, and with Brazil approaching its own presidential election in 2002, Washington needs to think ahead. And it needs to do so with urgency.

The United States faces a tight upcoming agenda on trade negotiations. Around Brazil much is coming unglued. Whether or not the United States agrees with Brazil, it is the major player in South America because it borders many of the countries that are in increasingly bad shape—from Colombia to Peru, from Paraguay to Argentina. For all these reasons, we should begin to listen to Brazilian perspectives and consider Brazil as a major strategic partner, treating it accordingly. It is vital that the United States develop a specific policy for Brazil and work hard with Brazil toward developing areas of common interests. A strategic relationship with Brazil becomes a strategic relationship with South America.

We therefore urge you to move quickly:

1. to have a thoroughgoing review of our policy toward Brazil and to examine where Brazil and the United States can work together on vital matters such as trade, drugs, and regional security; and
2. to move swiftly thereafter to engage in a high-level sustained and cooperative strategic dialogue with Brazilian leaders.

I. WHY BRAZIL?

Brazil is the world's third-largest democracy. After decades of military rule, Brazil now sustains a vibrant open society, with a lively media and a large participatory civil society

and middle class. Elections have been hard fought but clean. In the year 2000, the votes of 110 million Brazilians for 367,371 candidates were counted flawlessly in 5,559 municipalities across Brazil by electronic voting machines. Political reforms are still incomplete, but much has been achieved for which Brazilians can be justifiably proud, including the removal by impeachment of a president for corruption. And on the economic front, since 1994 Brazil has tamed inflation, a truly historic breakthrough. We flag four reasons why Brazil is important to the United States: its economic power; its central location within South America; its status as a trading partner and as a recipient of U.S. investment; and its diplomatic role both within South America and international agencies.

- Brazil is a major economic power and is a leader among advanced emerging markets. Brazil's economy is more than twice as large as Russia's, almost as large as China's, and twice India's. Brazil is the main player in South America, with over half of the region's GDP and population. Brazil is the second-largest market in the world for executive jets and helicopters; the second for cellular telephones and fax machines; the fourth for refrigerators; the fifth for compact discs; and the third for soft drinks. With purchasing power parity of over U.S. \$1 trillion, in 2001 Brazil will rank fifth in the world, after the United States, China, Japan, and Germany. Brazil is the leader of Mercosul-the Common Market of the South, which incorporates Brazil, Argentina, Uruguay, and Paraguay and has special relations with Chile and Bolivia-and sees Mercosul as being of great importance for its future geopolitical as well as economic role in South America. Mercosul is a critical building block in any future hemisphere-wide free trade agreement. Brazil is a regional leader in the "new economy." More than 40 percent of Latin America's Internet users are Brazilians, twice as many as in Mexico.
- Brazil shares borders with nine of the eleven other South American nations. Along its porous Amazon frontier, the internal war in Colombia is increasingly threatening to spill out into neighboring countries. The scale of U.S. assistance to Colombia-third only to Israel and Egypt-has made the fate of this troubled country a central concern of U.S. foreign policy. Yet many in Brazil, as well as in Peru and Ecuador, fear Plan Colombia will aggravate their problems, as refugees seek havens within their territory and guerrilla and paramilitary groups expand their warfare across Colombia's frontiers. In Brazil, as well as in its South American neighbors, the corrupting impact of narco money is already a threat to local and state governments. Brazil will be a central player in any international effort to tackle the problem of narco trafficking. Brazil has moved into a leadership role in South America. It was the core country in reaching the Ecuador-Peru border agreement. It has three times in recent years helped stop a coup in Paraguay. Concern about contagion from the Colombia conflict has already led Brazil to reformulate its national security program and augment its military assets on the border. If current policy toward Colombia fails, the United States may find Brazil a useful partner in developing and implementing alternative approaches.
- The United States is Brazil's main trading partner. U.S. exports to Brazil have more than doubled since 1991 and totaled more than U.S. \$13 billion in 1999. Trade with Brazil is particularly important for states such as Florida, where Brazil

replaced Japan in 1995 as the number one trade partner. About a quarter of all U.S. trade with Brazil passes through Florida. Exports to Brazil from California, Texas, New York, Illinois, Georgia, and Ohio have also expanded exponentially. Brazil is a major recipient of direct U.S. investment, attracting a continuing high level over the past three years. U.S. investment in Brazil is five times greater than that going into China, and for many of the major U.S. companies Brazil represents one of their largest overseas engagements. Among the top U.S. companies in Brazil are General Motors, Ford, Texaco, Exxon, General Electric, Citibank, McDonald's, Cargill, Alcoa, Philip Morris, and Goodyear, as well as virtually the entire pharmaceutical industry.

- Brazil has long played a prominent part in numerous U.N. agencies, providing many skilled chairmen. Brazil will continue to work with the World Trade Organization (WTO) and within the U.N. system, which is central to its ambition to eventually hold a permanent seat on a reconfigured U.N. Security Council. It is important for the United States, especially on upcoming trade negotiations and other global multilateral questions, to examine with Brazil how the two nations can work together in anticipating points of cooperation and to conciliate potential conflicts.

II. WHY NOW?

Both the United States and Brazil face an escalating crisis in Colombia, instability in the Andean region, and an increasingly complicated relationship with Venezuela. Domestically Brazil still faces obstacles to its economic and political reform agenda. The United States and Brazil both face an important agenda of trade negotiations. We flag three areas of urgency: sustaining economic growth and reform; the trade agenda for the hemisphere where Brazil and the United States are central players; and the growing challenges to democracy and economic reform in South America.

- The engine for growth in Brazil, as in the United States, is its domestic economy. Yet the domestic economy cannot grow without the momentum of continuing inflows of foreign capital. In the past decade, Brazil has turned to outward-looking economic strategies. Previously nationalized sectors of the economy have been privatized. Major progress has been made in taming inflation, containing fiscal deficits, and providing a more stable environment for longer-term and sustainable growth. But this openness is a relatively new phenomenon; it is important to recognize that this is only a ten-year-old experience and that Brazil still remains vulnerable to external shocks. The United States has played a central role in supporting Brazil's progress and has a high stake in its continuing success. In 1998 the threat that contagion from the Russian and Asian crisis would undermine the Brazilian momentum toward freer trade, fiscal reform, and a market economy led the International Monetary Fund (IMF), the World Bank, and the Inter-American Development Bank-in close consultation with the U.S. Treasury-to assemble a U.S. \$41.5 billion financial package to help Brazil overcome the crisis. The United States contributed U.S. \$5 billion from the Economic Stabilization Fund. This U.S.-led international financial package, now

virtually fully repaid, enabled Brazil to cushion the impact of the devaluation of its national currency, the real, in early 1999. Brazil quickly regained access to international capital markets and was able to embark on a path of renewed growth. In 2000, the economy registered GDP growth of 4 percent, with inflation falling to 6 percent. For 2001 expectations are for 4.5 percent growth and 4 percent inflation. Sound fiscal and monetary policies have been maintained, and Brazil's public sector fiscal deficit fell from over 10 percent of GDP in 1999 to 4 percent in 2000. It is very much in U.S. interest to help Brazil keep its reform agenda on track. Important questions over tax reform and copyright and intellectual property protection, however, remain unresolved, all of which have impacts on U.S. investors.

- The United States is facing a series of very tight deadlines for the trade agenda. The next Summit of the Americas will take place in Québec City, Canada, on April 20-22, 2001. Brazil and the United States will be co-chairs of a Free Trade Area of the Americas (FTAA) round beginning in November 2002. Under current agreements, FTAA negotiations must be completed by 2005. Mercosul has opened free trade negotiations with the European Union (EU), to be completed by 2004-2005. There is an urgency built into the current negotiating agenda. A rapid return of "fast-track" negotiating authority to the president would greatly strengthen the U.S. position both at the Summit of the Americas and in the FTAA round.

There are risks to the United States from inaction. Brazil convened the first Summit of South American Nations in August 2000. Strengthening its ties to its South American neighbors is a major objective of Brazilian foreign policy. Brazil has also strengthened its relationship with the EU. Both are seen as means to increase Brazil's, and by extension Mercosul's and South America's, bargaining power with North America and reflect Brazil's attempt to balance its international relations rather than commit to exclusivity. In fact, European investment in Brazil (especially in telecommunications, financial services, and utilities) has increased massively in the last few years, and EU-Mercosul total trade has increased by over 120 percent since 1990. In 2000, Spain surpassed the United States as Brazil's top foreign investor. In terms of exports, the Europeans clearly outstrip U.S. exports both in numbers and growth. Without a proactive agenda from Washington, this process could pose a potential threat to future U.S. economic prospects in the Brazilian market, with an impact in the United States as well in terms of lost jobs and financial and business opportunities. It should not be forgotten that if France gives in on agricultural issues, a major EU-Brazil deal could be cut that would leave the United States out. The United States thus risks finding the space already occupied once the Europeans have established strategic relationships. In terms of the "new economy" investments, for example, the United States recently missed a major opportunity when the Brazilian telecommunications regulatory agency officially announced the selection of the European over the U.S. standard for Brazil's latest generation cellular service. The adoption of the European standard not only eliminates U.S. hardware companies,

such as Qualcomm, from this high-growth sector but also puts U.S. software and content companies at a disadvantage. This need not have occurred.

There is also a downside for Brazil if it fails to move aggressively on a hemispheric trade pact. Brazil needs to trade more, not less. The U.S. market is the greatest prize. The failure of Brazil to expand its trade is one of the central problems in current policy. If a deal with Brazil and Mercosul fails, the United States will most likely move toward more bilateral free trade pacts, such as the one under negotiation with Chile; and as the region also moves toward greater dollarization, Brazil risks finding itself isolated. In our view both the United States and Brazil have an interest in expanding and sustaining growth in international trade. This is not a zero-sum game; nor do free trade pacts exclude others. Chile, for example, is also negotiating a free trade pact with Europe. Mexico, in addition to the NAFTA pact with the United States and Canada, also has a free trade agreement with Europe. Both the United States and Brazil, moreover, have an interest in a less volatile international financial environment. There are common interests the United States and Mercosul share in negotiating with Europe. Both are major agricultural exporters, for example, and both are interested in seeing subsidies and agricultural tariffs lowered in the EU. For all these reasons, the United States quickly needs to define a positive agenda toward Mercosul.

- Despite the substantial progress toward political and economic goals in Brazil, and countries such as Chile and Mexico, in many parts of the Western Hemisphere the outlook has become clouded. The Andean countries are all facing major problems, some of which would be much worse (Ecuador, Venezuela) if it were not for the high price of oil. Argentina's economic difficulties, unless resolved, will have a major negative impact on Brazil and Mercosul. Within Mercosul, Brazil has acted strongly to sustain democracy in Paraguay, working closely with the United States. Brazil has played a discrete role in the succession crisis in Peru. It also enjoys a warm relationship with Chile. In Colombia, Brazil could become an important player in any future peace negotiations. With uncertain times ahead, Brazil and the United States have a common interest in sustaining economic reform and democratic legitimacy in the region. The U.S.-Venezuelan relationship in particular will become increasingly strained in the near future. Brazil has worked hard to retain good relationships with Venezuela, a major oil supplier to the United States as well as to Brazil. Yet Venezuela under Hugo Chávez has set out to provide a major alternative model for South American development, which challenges the path Brazil, as well as other South American countries, has pursued over the past decade. Venezuela under Chávez is seeking an alliance with Cuba to establish an alternative to what he sees as U.S. hegemony within the hemisphere. Chávez's vision of an Andean-based alternative form of South American integration is a challenge to Brazil as much as it is to the United States, but it is likely to find resonance among disaffected sectors of the population in many of Brazil's neighbors if social and economic conditions do not

improve. Both Brazil and the United States have a strong stake in developments in Venezuela.

III. OBSTACLES

Any new relationship with Brazil must be based on common interests. U.S. approaches will fail if they are seen to be unilateral, exclusive, or aim to co-opt Brazil. Not only will such an approach be unacceptable in Brazilian politics, but it will also be unacceptable to Brazil's South American neighbors. It is vital to be sensitive to the obstacles to a redefinition of U.S. policy toward Brazil. The opponents to free trade and open markets are not confined to Brazil. Many in the United States will need to be persuaded that the process is also beneficial to them. We do not believe any of these obstacles to be insurmountable, but they do need to be acknowledged if both nations aim to work together toward common goals. It is important for policymakers, therefore, to anticipate areas of potential misunderstanding and disagreement. We flag five of them: the legacy and ambiguity of past U.S. policy toward Brazil; the fear in Brazil (and for some within the United States) that free trade in the hemisphere will harm them; the perception in Brazil that the United States seeks to diminish Brazilian sovereignty in the Amazon region; wariness both domestically and among Brazil's neighbors of too close a relationship between Brazil and the United States; and the elements of competition as well as cooperation that exist between the United States and Brazil.

- It takes two in order to build a sustained and positive relationship. Is Brazil ready? Given past history, we anticipate that Brazil will be skeptical about a new U.S. initiative. The perception in Brazil is that the United States has in the past been inconsistent in its approaches and has not always delivered on promises of greater engagement and consultation. There have been moments of close historical rapprochement between the United States and Brazil to be sure, as well as moments of estrangement. This history will influence the way Brazilians react to U.S. initiatives, and it is important to bear this in mind. The Barão do Rio Branco, the founder of Brazilian diplomacy, promoted the idea of a special relationship with the United States. Thomas Jefferson also anticipated a special role for Brazil and the United States within an "American system" predating the Monroe Doctrine. This positive tradition brought major benefits for the United States. During the Spanish American War in 1898, the Brazilian Admiralty turned over a number of European ship-building contracts to the United States in order to increase American naval strength; from 1917 to 1918 during World War I the Brazilian Navy patrolled the Atlantic; from 1944 to 1945 more than 25,000 combat troops of the Brazilian Expeditionary Force (FEB) joined Allied efforts in Italy, taking enormous casualties at the battlefields of Monte Castello; also during World War II, Brazil provided the United States with key bases in the northeast for Atlantic operations; and in 1965 Brazilian troops were dispatched to the Dominican Republic. Most officers of the Brazilian General Staff until the mid-1980s were veterans of the FEB and proud of their association with the U.S. Army during World War II. Under the auspices of Nelson Rockefeller, during the

1940s Brazilian-American cultural relations reached a high point of interaction, cross-fertilization, and mutual discovery.

Yet the contradictory role of the United States in supporting the military regime in the 1960s and then castigating its human rights abuses estranged former colleagues at both ends of the political spectrum. More recently, antidumping measures against Brazilian shoes, orange juice, steel, and other products have continued to perturb the relationship. The Brazilian Foreign Ministry in particular came to regard the U.S.-Brazil relationship as a one-way street, with Brazil taking unnecessary criticism with no corresponding benefits from the United States. This eventually led to the Brazilian denunciation in 1977 of the oldest military treaty in the hemisphere. Under any new agreement, Brazilians are likely to test the relationship by asking for something that they know will be difficult to obtain.

- There is a widely held view in Brazil, prevalent in some sectors of industry, the political and administrative elite, and public opinion, that the FTAA will work only to the advantage of the United States; that the United States seeks open markets for its products in Brazil without reciprocity for Brazilian exports in the United States; and that the United States uses antidumping legislation and labor and environmental standards attached to trade agreements for protectionist purposes. These questions are likely to emerge in the public arena as the run up to the 2002 presidential succession gathers steam in Brazil. Part of this perception arises from the trade imbalance with the United States. Yet despite obstacles to Brazilian exports to the United States, there has also been a disconnect between Brazil's export portfolio and the strongest areas of U.S. demand, where Brazil needs to compete more effectively.
- There is also a strongly held perception in Brazil, both in public opinion and among the military, that the United States seeks to diminish Brazilian sovereignty over its Amazonian territory, either through the internationalization of this region, using as a cover the protection of the tropical rain forest, or by active military involvement under the guise of fighting the war against drugs. Although Brazil has moved cautiously to recognize the seriousness of both the destruction of its rain forests and the impact of drugs on its own well-being-including hosting the 1992 World Environment Conference and more recently the fourth meeting of Defense Ministers of the Americas in Manaus in October 2000-these issues remain highly sensitive and influence Brazilian reactions to antinarcotics cooperation as well as to the Kyoto Protocol.
- A sustained and cooperative strategic dialogue with Brazil will be viewed with suspicion by some of Brazil's smaller neighbors who see Brazil as a hegemonic power in the region, much as some Brazilians fear U.S. hegemony in the hemisphere. Both Brazil and the United States will need to be sensitive to adverse reactions to any new U.S.-Brazil relationship from other South American nations. Differentiated relations with Brazil will also challenge preconceptions within the U.S. bureaucracy and the Inter-American system, both of which have traditionally been committed to the idea of an undifferentiated U.S. policy toward Latin America as a whole. But the hemisphere has changed-it is now a highly

differentiated region, above all as a result of NAFTA's success and the fast pace of North American trade and economic integration. Recognition of this new fact of life is a major motivational factor in Brazil's redefinition of its foreign policy objectives.

- There are elements of competition within the relationship, and these will remain. Both the United States and Brazil are continental-sized nations. Each has a strong and vibrant national culture; the society of each is made up of the descendants of large immigrant populations; both countries must deal with the deep-rooted heritages and lingering injustices of centuries of African slavery; and both have frontier cultures where settlers have often clashed with the indigenous population. Each traditionally relied on a vast internal market, with relatively small export shares: around 8 percent for Brazil, which has changed little over the past three decades, whereas the U.S. export share has grown substantially as the United States has become a globalized economy. Each has had an ambiguous relationship with the outside world, at times heavily involved, at times retreating into near isolationism. Both have domestic politics in which local and often parochial interests prevail; both have been seen by their neighbors as expansionist powers. Despite the asymmetry of their power, both have aspired to regional leadership roles. Neither has motivated individuals or strong lobbyists within its national congress committed to the interests of the other. Yet in each country foreign policy is no longer the exclusive domain of the traditional foreign policy bureaucracies. And there exists a wide range of nongovernmental contact between Brazil and the United States in the private sector, within the universities, between religious and environmental organizations, in sports and among musicians and artists, and between Brazilians who have been trained and worked in the United States and Americans who have studied, written about, and worked and invested in Brazil; all of which bodes well for the future and deserves encouragement from each nation as it seeks a closer and more sustained engagement with the other.

IV. WHAT ARE THE CRITICAL ISSUES?

We believe that neglect of Brazil by the United States, punctuated by sporadic attention prompted by crises, has reduced U.S. influence and brings with it costs. An impasse in the free trade agenda can mean the loss of Brazilian markets-the largest in the hemisphere outside the United States-and it means that the United States will not have a reliable partner in the future on issues such as drugs and fighting corruption. We flag four areas-economic reform, sustaining democratic reform, free trade, drugs and regional security-that need attention urgently by the new administration:

- **ECONOMIC REFORM**

We urge the United States to build on the leadership role it took in sustaining economic reform in Brazil during the critical last five years. Economic reform requires long-term and consistent attention, and it will be a major point of concern as the 2002 Brazilian presidential succession approaches. Brazil's success here is the bedrock. It is important to recognize that challenges remain in managing

domestic and international debt, completing structural reform, and continuing fiscal and monetary discipline in the face of a new electoral cycle. It is vital to stay alert to the potential for renewed crisis and to remain committed to reforming the overall global financial architecture.

We urge special attention to the potential for collaboration and a strategic partnership within the "new economy." This sector can have dramatic effects on Brazil's young population. We believe there are great opportunities to use new technologies and the Internet in education to help diminish the so-called digital divide those same technologies have often created. Coordination of governments, nongovernmental organizations (NGOs), and the private sector is needed. U.S. companies already spend millions for entertainment. We recommend using these connectors for education and developing infrastructure for this purpose. Education is the central part of "second-generation reform," and Brazil is already seeking to upgrade primary and secondary schooling. Here the United States can help with a combination of NGOs, the private sector, and government agencies to leapfrog technological and educational legacies.

Brazil and the United States should work together to encourage greater exchanges with educational, social, and cultural programs. This includes looking at recent progress of the U.S.-Brazil Education Partnership; improving dispute resolution mechanisms; and looking into models for the private sector in education such as the School and Libraries Corporation, a nonprofit created by Congress and the Federal Communications Commission that provides discounts of up to U.S. \$2.25 billion annually to elementary and secondary schools and public libraries for the purchase of telecommunications and networking services. We urge an examination of the problem of the lack of study of Portuguese in the United States—only about 6,000 undergraduate and graduate students were enrolled in Portuguese classes in the 1990s.

- **SUSTAINING DEMOCRATIC REFORM**

The continuing success of Brazilian democracy is a central interest of the United States, not only because of Brazil's importance in South America but also because of the increasing challenges to democracy within the region, particularly among several important neighbors of Brazil such as Peru, Venezuela, and Colombia, as well as Ecuador and Paraguay. Promotion of democracy has been a central plank of U.S. policy over the past decade through both Republican and Democratic administrations, and Brazil has acted aggressively in recent years in protecting democratic processes in its neighbors, such as Paraguay.

We urge a fresh look at what role the U.S. private and the independent sector (U.S. private foundations, NGOs, and quasi-governmental organizations such as the National Endowment for Democracy, as well as universities and think tanks) can play in strengthening democratic institutions and civil society, and where

common approaches might be helpful and enhance private public partnerships and cooperation between U.S. and Brazilian NGOs.

Brazil, like both South Africa and the United States, is committed to transforming itself into a true racial democracy, something it has long aspired to. As democratic multiracial societies, Brazil and the United States can share areas for important mutual learning and collaboration as they seek to provide greater equity and participation for all citizens. The goal is to increase the participation of Latin Americans of African descent in the national development processes of their countries. We urge new development strategies building on initiatives already pioneered by the World Bank and the Inter-American Development Bank to better integrate indigenous and Afro-Latin populations into national economies. We believe this is crucial to democratic sustainability and that here the United States and Brazil have much they can learn from one another.

- **FREE TRADE**

The United States remains committed in principle to a hemisphere-wide free trade agenda. But this agenda has not moved forward, and there are tight upcoming deadlines on the trade agenda for immediate attention. We urge that the new administration quickly define its priorities with respect to the FTAA and Mercosul, and decide how to proceed. The window of opportunity here will not be open for long. In the absence of a clear medium-term agenda, the U.S.-Brazil relationship has been shaped by interest group concerns in the United States (orange juice, steel, etc.), which poisons the larger relationship. Brazilians, given these circumstances, not unreasonably conclude that special business interests dominate the U.S. trade agenda. Hard issues here will need to be negotiated. The United States should not wait for Brazil and the EU to conclude an agreement; there is urgency to a proactive U.S. policy.

- **DRUGS AND REGIONAL SECURITY**

Brazil must be engaged as a leading player in combating the threat of narco terrorism and its corrupting influence on governments, public sectors, and public safety throughout the hemisphere. It behooves the United States to work with Brazil as a strategic partner. We recommend strengthening the ongoing defense ministerials and reviving military-to-military cooperation within the context of civilian leadership. Fernando Henrique Cardoso was the first president to appoint a civilian minister of defense. The United States can help in establishing a broader range of contacts aimed at strengthening civilian control and congressional oversight, as well as in improving cooperation in the struggle against corruption, in judicial reform, and in international transparency. Narco corruption is global in reach. Unilateral approaches will not work. The problem is not only to stop the drug flow through Brazil but also to help diminish its corroding impact within Brazil. There is a new urgency and common interest in combating the drug scourge.

V. TOWARD A NEW PARTNERSHIP

In sum, Brazil is the essential partner for the United States in South America. It is in the interest of both our great nations to work together, to explore points of common interest, and to resolve outstanding differences in a frank and forward-looking manner. We have much to learn from each other and we share fundamental values. South America cannot be reshaped from Washington. In an increasingly diverse and differentiated region, the United States cannot act on all fronts simultaneously if it wishes to successfully promote and sustain strong democracies, freer trade, economic reforms, and growth, and to tackle the drug problem.

We believe that the time is ripe to initiate a high-level dialogue between the United States and Brazil. We believe it is worthwhile for the new administration to spend time up front to put this relationship into a coherent context. It is time to rethink and re-energize U.S.-Brazilian relations-both nations have much to gain from an enhanced relationship. Now is the time to act.

INDEPENDENT TASK FORCE ON BRAZIL

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For further information about the Council or this Task Force, please write the Council on Foreign Relations, 58 East 68th Street, New York, NY 10021, or call the Director of Communications at (212) 434-9400. Visit our website at www.cfr.org.

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