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Brazil: Growing Pains of an Emerging Power

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Much has been written about Brazil's successful trajectory from emerging economy to emerging giant. Much less attention, however, has been given to the remaining challenges which need to be addressed before fully taking on additional global responsibilities. The country's recent transition from emerging economy to major economic power is both the result of deliberate policies on the part of the Lula administration (2002 – 2010) to "re-insert" the country into the most important decision-making institutions as well as an ambitious drive on the part of several powerful private sector economic actors with global reach and growing involvement in Brazilian foreign relations. Multilateral reinsertion has been facilitated by the emergence of Brazilian multinational companies (BMNCs) and the leadership of a growing core of sophisticated global corporate managers.

The foreign policy implications of Brazil's continued integration with the world economy include:

1) a reduction of the overall monopoly of Brazil's Foreign Ministry (Itamaraty) over foreign policy information and influence in favor of other ministries and several major private sector actors;

2) Brazilian multinationals have become both "clients" of Itamaraty and " alternative sources" of information and competency in international issues;

3) Brazil's foreign policy agenda and diplomatic network continue to expand in line with the demands of many of the new economic actors who increasingly interact and challenge Itamaraty;

4) domestic policies (i.e. industrial policy, innovation policy, etc.) have growing international repercussions and will require greater cohesiveness in order to maximize their effectiveness.

Brazil seeks to increase multi-polarity in the major global institutions by carefully building coalitions with other partners of the global South and through the active participation in the international agenda-setting process as a leading member of the international community (i.e. World Trade Organization Doha Round of negotiations, the India, Brazil, South Africa bloc – IBSA, the group of emerging economies – BRICS (Brazil, Russia, India, China and South Africa), UNASUL (Union of South American Nations), the G20 (the leading economies of the world),etc. The country's increased visibility in the international community has also been enhanced by the dramatic increase in the number of new diplomatic missions around the world.

Re-insertion in the international trade regime benefits from the emergence of large locally based international firms, privatization of state owned companies and increased global merger and acquisition activity. The internationalization of Brazilian firms is also greatly supported by the increase in value of the local currency (BRL – Brazilian Real) and the critical role of the national development bank (BNDES) in underwriting the initial operations of many of Brazil's national champions (aircraft manufacturer Embraer, mining conglomerate VALE, animal protein producer JBS, etc.) mainly in South America).

There is a growing list of cases involving Brazilian multinationals in international disputes or possible disagreements between Brazil and several of its economic partners. With increased internationalization, the country's internal dynamics increase the probability that large economic actors will ultimately affect the country's external policies.

Over time, the growing number of BMNCs will increase the probability that they will likely be involved in foreign policy issues and challenge traditional preconceptions of Itamaraty. These big Brazilian firms possess the technology, capital, access and contacts with major markets which allow them to counterbalance Itamaraty's traditional monopoly over all decisions involving foreign policy.

Brazil's discourse and practice has always been emerging country friendly – though frequently contested by its neighbors. Though the Brazilian government has financed over 40 infrastructure projects in neighboring countries over the last few years, several BMNCs have recently encountered difficulties with some economic partners:

Bolivia nationalized several foreign companies, including the local subsidiary of Petrobras. Construction company Queiroz Galvão also suffered pressure from the Bolivian government regarding terms of an earlier contract. Recently there have been additional protests against several Brazilian companies (OAS, Furnas, Odebrecht, Eletrobras, Camargo Correa, etc.) involved in the construction of a major road through the Tipnis national park in Bolivia and the construction of the Inambari hydro-electric plant in Peru.

Ecuador expelled construction company Odebrecht following a dispute involving the company's role in the construction of a large hydroelectric project. It also delayed payments on a loan in the amount of $280 million from BNDES.

Iran: Several Brazilian firms are actively seeking contracts to supply Iran with food (beef, poultry, sugar and soybeans) and ethanol. This may conflict with existing and pending international sanctions against Iran on the part of the international community. Any infringement poses the additional risk of the U.S. applying pressure on Brazilian companies with a major presence in the U.S. and lead to a dispute between Brazil and the U.S.). Over 400 Brazilian companies had exports worth approximately $2 billion to Iran in 2009, despite relatively high tariffs and the lack of bank guarantees which suggests companies run substantial risks which may end up as legal disputes between the two countries.

Iraq: Brazilian companies are very interested in participating in contracts for large infra-structure projects in Iraq. Accordingly, they have tried to forge parallel contacts with the Iraqi and U.S. authorities often independently from the Brazilian government and, at times, in spite of the government's objection to the American role in the region.

Sudan: Brazilian companies announced up to $500 million of deals mainly in sugar (Dedini) and infrastructure last year.

Pakistan: A Brazilian manufacturer of defense and aerospace products is currently discussing a joint venture to build the MAR-1 missile with Pakistan.

Additional examples of where priorities or interests between the government and private firms may diverge include Libya, Venezuela, Oman and Saudi Arabia.

With a wider global corporate footprint the commercial interests of private firms may clash with sensitive geo-strategic priorities. On the other hand, greater interaction between private managers and government policy managers may lead BMNCs to serve as occasional instruments or agents of Brazilian foreign policy. In the absence of a significant role on the part of the business community in the foreign policy-making process, private companies will continue to seek opportunities abroad and follow their commercial logic rather than forging a political convergence with the diplomatic aims of the government. Foreign policy practitioners and corporate managers need to make a serious effort to bridge the gap in their separate worldviews and strive towards greater cooperation and national policy cohesion.

Going forward, Itamaraty must adapt to the new international economic reality and harness its resources to better manage several emerging priorities: 1) Brazil's economic success, the speed of globalization and the ever changing international political agenda are constantly adding new issues to the country's foreign policy agenda. Itamaraty will have the opportunity to treat corporate actors as an important new constituency. Greater demand for 'international

public service' on the part of corporate citizens will allow Itamaraty to embark on needed reforms to justify its strategic role as the principal gatekeeper regarding foreign affairs; 2) Brazil's drive towards greater visibility and clout in the international arena will require a significant change to the policy planning function (coordination of overall interagency strategic and global policy framework). Itamaraty must strengthen policy planning capacity in order to better develop long range policies and to act more as a policy think tank and strategic rapid response team rather than focus on its traditional role in preserving institutional memory and speechwriting.

The steady pace of internationalization will undoubtedly create additional foreign policy priorities linked to the growing exposure of Brazilian companies and investors in the global markets. As these companies expand their activity internationally, Brazil will need to negotiate additional bilateral tax and bilateral investment treaties to avoid Brazilian companies from being penalized for their growing international activities.

Credit lending by the national development bank will continue to have a significant role throughout South America and further. Brazilian banks have been laggards in the internationalization process but they are now becoming more active laying the groundwork to form an international network to support Brazilian multinationals.

Credit and technical cooperation will drive greater use of government agencies as instruments of regional integration and foreign policy (i.e. BNDES, the recently created sovereign wealth fund, EximBank Brasil (the newly created export-import bank), and the governmental agricultural research corporation Embrapa, etc.).

Brazil's growing international presence will likely produce a new generation of the Brazilian diaspora including many more white collar managers who will join the growing number of Brazilian nationals living and working around the world. This white collar population will join the ranks of an already sizeable number of Brazilians living abroad requiring greater consular services and administrative assistance on the part of Brazil's diplomatic network putting additional pressure on and force changes to the way Brazil has traditionally dealt with its citizens abroad.

Additional areas for improvement include public diplomacy, trade negotiations, trade promotion, scientific and technological exchange, security and health arrangements, regulation, antitrust, intellectual property, human rights, and the environment.

The public sector retains an important responsibility regarding the long-term competitive advantage of its firms. To become more competitive the country must align its domestic industrial policies with its ambitious foreign policy. While the emergence of Brazilian multinationals is an established fact, Brazil's quest for a greater role in international affairs and greater visibility will undoubtedly require greater involvement of its citizenry in redefining the diplomatic-industrial relationship. Given the fact that Brazilian corporate footprint is outgrowing its diplomatic presence there is the need for a "corporate diplomacy" culture on the part of the business sector in order to better promote and defend Brazilian corporate priorities and play a more strategic role regarding the definition of the country's "national interests" Corporate managers must become more active in promoting a better understanding on the part of the population of the role of major domestic firms and their contribution to society. The country's leading companies can promote the discussion of foreign policy issues and request greater interagency coordination regarding international issues.

Significant change has begun to occur within the government's bureaucratic structure dealing with international issues. Driving these changes is globalization, regionalization and the emergence of large private sector economic groups with increasingly wider international interests. These new economic actors demand transparency and greater inclusion in the foreign policy-making process. Responsibility for the conduct of diplomacy will certainly spread among a wider group of political actors. The effective management of this business-diplomatic interaction will be the next real challenge to Brazil's claim to a seat at the international high table.

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