POLITICS
The summer of our discontent

PUBLIC POLICY
Does Brazil need 37 ministries?

INTERVIEW
Paulo Bernardo
The future of telecommunications in Brazil

BRAZIL’S TRADE WOES
For the production of price indices and economic indicators, the Brazilian Institute of Economics (IBRE) has a unique structure of research in Brazil in size and quality: eight offices located in major capitals of the country, researching prices for all units of the Federation, both retail and wholesale. IBRE collects monthly prices of around 200,000 products and services with the help of 15,000 companies and informants. Apart from general indices, IBRE develops indicators specifically directed to a sector, activity or company.

**Explore the world of IBRE indicators in our site:**
General Price Index, Sector Price Indices, Household Qualitative Research, Consumer Confidence Surveys, Industry Surveys, and Database.

www.fgv.br/dgd Phone (55–21) 3788–6799
POLITICS
6 The summer of our discontent
As the new administration seeks to curb inflation expectations despite widespread skepticism, it also faces unrest in its majority coalition in Congress and discontent among unions and businesspeople.

COVER STORY
9 Brazil’s trade woes
The competitiveness of Brazil’s exports has long been jeopardized by serious inefficiencies. Today the situation is exacerbated by such problems as an appreciating Brazilian real and an unbalanced relationship with our main trading partner, China. As Brazilian manufactured goods have become less attractive to the rest of the world, the trade balance of the industrial sector has surged alarmingly, in part because Brazil has been prioritizing South-South dialogue in recent years and neglecting the relationship with the U.S. Solange Monteiro calls on a variety of experts for their opinions.

19 Brazil: On the right track to trade agreements?
Kalinka Iaquinto and Solange Monteiro explore why Brazil has emphasized multilateral rather than bilateral trade agreements. Some experts argue, for instance, that with its diversified trade, it is only logical that Brazil should also diversify its agreements. And as growth in developed countries lags, groups like the EU have become more interested in negotiating further with developing countries like Brazil.

22 Trade protection: Antidumping investigations and China
Lia Valls Pereira explores how Brazil, like other countries around the world, has used antidumping investigations to protect its manufacturers, and the methods foreign companies use to work around them. She also calls for building up the technical capabilities of the Defense Department of the Foreign Trade Secretariat.

26 The future of telecommunications in Brazil
After having managed the public budget for the entire administration of President Lula da Silva, in the Rousseff administration as Minister of Communications Paulo Bernardo is now in charge of moving the telecommunications sector forward. “We cannot be the fifth economy in the world with the current telecommunications infrastructure,” he says, as he tells Liliana Lavoratti what he hopes to accomplish in his new job.

BOOK REVIEW
30 Kissinger and Brazil
Mathias Spektor’s new book tells how Henry Kissinger became a focal point for Brazilian diplomacy in its quest for great power status, with the able assistance of Antonio Francisco Azeredo da Silveira, the Brazilian foreign minister under President Ernesto Geisel. Professor Thiago Galvão Géheh brings his expertise to bear in this review.

PUBLIC POLICY
33 Does Brazil need 37 ministries?
Fernando de Holanda Barbosa argues that the Brazilian government has been organized more to accommodate the demands of political parties for ministerial positions than for efficient public administration.
The Getulio Vargas Foundation is a private, nonpartisan, nonprofit institution established in 1944, and is devoted to research and teaching of social sciences as well as to environmental protection and sustainable development.

Executive Board
President: Carlos Ivan Simonsen Leal
Vice-Presidents: Francisco Oswaldo Neves Dornelles, Marcos Cintra Cavalcanti de Albuquerque e Sergio Franklin Quintella.

IBRE – Brazilian Institute of Economics
The institute was established in 1951 and works as the “Think Tank” of the Getulio Vargas Foundation. It is responsible for calculation of the most used price indices and business and consumer surveys of the Brazilian economy.

Director: Luiz Guilherme Schymura de Oliveira
Vice-Director: Vagner Laerte Ardeo

APPLIED ECONOMIC RESEARCH
Center for Economic Growth: Regis Bonelli, Samuel de Abreu Pessoa, Fernando de Holanda Barbosa Filho
Center of Economy and Oil: Maurício Pinheiro Canedo
Center for International Economics: Lia Valls Pereira
Center of Agricultural Economics: Mauro Rezende Lopes, Ignez Guatimosim Vidigal Lopes, Daniela de Paula Rocha

CONSULTING AND STATISTICS PRODUCTION
Superintendent of Prices: Vagner Laerte Ardeo (Superintendent) and Salomão Lipcovitch Quadros da Silva (Deputy Superintendent)
Superintendent of Economic Cycles: Vagner Laerte Ardeo (Superintendent) and Aloísio Campelo Júnior (Deputy Superintendent)
Superintendent of Institutional Clients: Rodrigo Moura (Superintendent) and Rebecca Wellington dos Santos Barros (Deputy Superintendent)
Superintendent of Operations: Rodrigo Moura (Superintendent) and Marcelo Guimarães Conte (Deputy Superintendent)
Superintendent of Economic Studies: Marcio Lago Couto

Address
Rua Barão de Itambi, 60 – 5º andar
Botafogo – CEP 22231-000
Rio de Janeiro – RJ – Brazil
Tel.: 55 (21) 3799-6799
Email: ibre@fgv.br
Web site: http://portalibre.fgv.br/
Brazil and world markets

Last month The Brazilian Economy explored Brazil’s new political visibility on the world stage. Politics is the context in which the economy operates, but this month we zero in on the economy itself (which is, after all, our main concern) and how our economic relationships with other countries are playing out.

Brazil’s declining external trade balance surplus portends a gloomy outlook unless the new administration confronts the issues that are causing trade problems head-on. A commitment to social concerns is commendable — indeed necessary — but those problems cannot be dealt with unless the country is earning enough money to pay for their solutions.

It’s not as though the problems affecting trade are new: The “Brazil cost,” the sum of deeply inadequate infrastructure, high taxes, and vast quantities of red tape, has historically undermined the competitiveness of the country’s exports. What is making matters worse now is the influence of, among other things, high inflation, an appreciating Brazilian real (thanks in part to high interest rates on government debt attracting an influx of foreign capital), and considerable confusion about, again among other things, how we relate to the fact that one of our best customers, China, is also our biggest competitor.

Brazil is good about adopting plans for specific areas. In every issue we talk about one plan or another, and often several. In this issue alone, in the interview Paulo Bernardo, minister of communications, talks about the National Broadband Plan, and in the cover story Alessandro Teixeira, executive secretary of the Ministry of Development, Industry and Foreign Trade, talks about where that ministry is on its proposed Productive Development Plan 2. Meanwhile South Korea is years ahead of Brazil in building broadband infrastructure, and there are ports in Europe that are already prepared for the trade they expect in 10 or 20 years. And Charles Tang, president of the Brazil-China Chamber of Commerce and Industry, points out that China has been totally dedicated to prosperity while “Brazil has an economic model of poverty: the highest interest rates in the world, exorbitant costs, an unfavorable exchange rate.”

As the articles in this issue make clear, what Brazil really needs is a comprehensive long-term economic strategy that identifies what needs to be done to situate our economy effectively and productively within the world economy. Our export success should be less dependent on price competitiveness and more on the quality of our products, advanced technologies, and good service. At heart, export success is about investment in human and physical capital.

Brazil needs greater trade liberalization and a more growth-oriented export policy. Getting there will depend on whether there is the political will to recognize what has to be done and to set priorities for reaching our goals. President Rousseff seems to recognize some of the major obstacles to progress, such as the proliferation of ministries and the necessity of all working together to achieve progress toward a common cause. Whether the country can become economically as visible on the world stage as it is politically is not so clear.
The summer of our discontent

The hot summer in Brazil has seen inflation rise. As the new administration seeks to curb inflation expectations despite widespread skepticism, it faces unrest in its majority coalition in Congress and discontent among unions and businesspeople.

In her message to the new Congress in early February, President Rousseff urged lawmakers to sign on to a partnership with the executive branch in favor of the expansion of democracy, eradication of poverty, and sustainable economic development.

The president said that keeping a sound economic policy and a fiscal balance, being rigorous about how taxpayer money is spent, and controlling inflation are “absolute values” for her administration. “We will not allow a return of inflation that erodes the economy and punishes the poor,” she said. She advocated upgrading the minimum wage to ensure that it stays above inflation — but without compromising the public accounts.

With inflation on the rise, a deteriorating external balance, businesspeople complaining about high exchange rates, and unrest in the governing coalition, the government will likely avoid major structural reforms. For now at least it is likely to concentrate on a few short-term
economic issues such as controlling inflation and containing demands to increase the minimum wage, which has great impact on retirement accounts and governing.

The president has started to show her management style: An administration with less drama that is more business-oriented than its predecessor. Working behind the scenes, for example, President Rousseff managed her first crisis relatively well — distribution among allied parties of appointments in the administration. Without speaking to the press, the president called the discontented to her office and pressed her vice president Michel Temer (PMDB) hard; he sweated to convince the most exalted party colleagues to hold the line.

Inflation requires immediate attention, and the government seems to be conscious of the political and economic risks it entails. But it remains to be seen how well the more orthodox policies put forward by Chief of Staff Antonio Palocci and Central Bank Governor Alexandre Tombini might prevail. . . . Markets are skeptical.

Inflation discontent
Inflation requires immediate attention, and the government seems to be conscious of the political and economic risks it entails. But it remains to be seen how well the more orthodox policies put forward by Chief of Staff Antonio Palocci and Central Bank Governor Alexandre Tombini might prevail over the national development view represented by Finance Minister Guido Mantega and Luciano Coutinho, president of the National Bank for Economic and Social Development (BNDES),
The Increase in the minimum wage has been a particularly sticky point that has raised heated emotions among politicians and unions. After three hours of discussion on February 4 in a meeting between government ministers and leader of six unions, Finance Minister Mantega announced that the government would not change the proposed increase to R$545. The union leaders said they would not accept this value, pledged protests, and expressed their frustration that the administration had not accepted their proposal of R$580. “If the government had plenty of resources we could consider that, but we are making a fiscal adjustment and this impacts on the government at a time of fiscal effort,” said Mantega, who was adamant that the minimum wage proposal will not change.

In the first test of the government’s majority, Congress on February 16 approved the government’s bill fixing the minimum wage at R$545 and setting out the policy for adjustments until 2015, despite fierce resistance from some members of the ruling coalition. The majority that supports the government is large but many conflicting interests mean that it can be also fragile. Nevertheless, President Rousseff demonstrated that she was able to control the ruling coalition and isolate the unions, especially the president of Força Sindical, Paulo Pereira da Silva MP (PDT-SP), who gambled all on an amendment to the proposed bill that would have fixed the minimum wage at R$560.
Lula’s government ended with a noticeable contrast: a successful international image for Brazil, but a poor trade balance. Although President Rousseff may lack Lula’s charisma in international forums, export businesses hope her administration can reverse the deterioration in the trade balance, although the outlook for 2011 is gloomy.

BRAZIL’S TRADE WOES

Solange Monteiro, Rio de Janeiro
That old enemy, the “Brazil cost” (deficient infrastructure, vast bureaucracy, and high taxes), has historically undermined the competitiveness of the country’s exports. Now it is exacerbated by other obstacles, such as an appreciating Brazilian real and an unbalanced relationship with our main trading partner, China, which has heavy demand for Brazilian commodities but whose manufactures threaten our own, both domestically and abroad.

“Today, we are passive passengers in the international market,” said José Augusto de Castro, vice president of the Association of Foreign Trade of Brazil (AEB). Vera Thorstensen, trade specialist at the Getulio Vargas Foundation of São Paulo and former consultant to the World Trade Organization, agrees, commenting that “Brazil’s surplus depends considerably on international commodity prices, not on Brazil.”

As Brazilian manufactured goods have become less attractive to the rest of the world, the trade deficit of the industrial sector has surged alarmingly to US$37 billion in 2010, a 125% increase over 2009, according to the Ministry of Development, Industry and Trade (MDIC). “We don’t see recovery to 2008 pre-crisis levels,” says Lia Valls, coordinator of the Center for the Study of Foreign Trade of the Brazilian Institute of Economics. Can this situation be reversed in the short term?

Alessandro Teixeira, executive secretary, pledged that MDIC is preparing to act on behalf of entrepreneurs. “We are discussing the Productive Development Plan 2 (PDP2), which addresses cost reduction, modernization, and competitiveness,” he said. “We will also address the most sensitive and labor-intensive sectors: textiles and garments, leather and footwear, and machinery and equipment.” The details of PDP2 are not yet public, but industry expectations are great. “Minister Fernando Pimentel is aware that we are in a crisis; I hope that actions will speed up,” says Humberto Barbato, president of the Brazilian Association of Electric Electronic (Abinee). AEB’s de Castro thinks time to maneuver in the short term is getting tighter. “Up to now, export stimulus packages were little bundles, with measures announced but unfulfilled. We can no longer place ineffective bets.”

---

**Brazil’s External Accounts Have Deteriorated.**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current account</strong></td>
<td>-48</td>
<td>-64</td>
</tr>
<tr>
<td><strong>Trade balance</strong></td>
<td>20</td>
<td>11</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>202</td>
<td>235</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>182</td>
<td>224</td>
</tr>
<tr>
<td><strong>Foreign direct investment</strong></td>
<td>48</td>
<td>45</td>
</tr>
<tr>
<td><strong>Brazilian investment abroad</strong></td>
<td>12</td>
<td>16</td>
</tr>
</tbody>
</table>

*Source: Central Bank of Brazil. Projections*
DEINDUSTRIALIZATION

At the end of last year, concerned about the worsening trade deficit, the MDIC began to warn that the Brazilian economy might be “deindustrializing.” In a recent study, however, staff of the Brazilian Agency for Export and Investment Promotion (APEX), found no evidence of deindustrialization but rather “an accommodation of national industry in an environment of growing domestic demand, insecurity in the international economy, and loss of export profitability,” which explains the growth of imports.

Manufacturers see a less rosy reality. The Survey of the Brazilian Association of Machinery and Equipment (Abimaq) found that between 2004 and 2010, consumption of medium- and high-technology goods — automobiles, electronics, and machinery and equipment — increased by 76%, but domestic production rose by only 40%; imports grew by 177%. Similarly, the Abinee says, exports accounted for only 11% of total revenues in the electronics sector in 2010 compared with 20% in 2005, and imports now represent 22% of electronics sales, compared to 16% in 2005.

“In the late 1980s, manufacturing accounted for 27% of GDP. Today its share is only 16%,” says Cesar Rogerio Souza, chief economist at the Institute for Industrial Development Studies (IEDI). In mature economies, he says, industry’s share in GDP declines to make room for the service sector; but in Brazil, where per capita income is three to four times lower,
there is no reason for the service sector share to expand so much.

Currently, South America accounts for 39% of Brazil’s total manufacturing exports, more than the percentage for the United States and the European Union together, but the Economic Commission for Latin America (ECLA) estimates that growth in the region will be smaller this year, says Valls.

While the share of exports to the EU has held steady in recent years, the share of exports to the U.S. has declined: total Brazilian exports fell from 25% in 2002 to 9.5% in 2010 and manufactured goods from 35% to 13%. The reasons for the drop are not clear. Valls points to currency appreciation and, more recently, a sluggish U.S. economy, but she also notes the increased activity of U.S. corporations in Asia, diverting some intra-firm trade from Brazilian exports.

In part, this was the price Brazil paid for prioritizing South-South dialogue in recent years and in the process neglecting the relationship with the U.S.

**EXCHANGE RATE**

Today, the major concern of exporters is the exchange rate: Appreciation of the Brazilian real — more than 100% during Lula’s administration — and the concurrent devaluation of the Chinese yuan has wreaked devastation on Brazil’s foreign sales.

Thorstensen of the FGV argues that Chinese exchange rate policy is undermining the World Trade Organization (WTO) system and encouraging deindustrialization in emerging countries: “China’s exchange rate has been the same for two and a half years. Nevertheless, the fact that China continues to run enormous trade surpluses suggests that its currency is undervalued, which affects all other currencies and trade flows.”

Charles Tang, president of the Brazil-China Chamber of Commerce and Industry (CCIBC) emphatically disagrees: “Brazil has an economic model of poverty: the highest interest rates in the world, exorbitant costs, an unfavorable exchange rate, and we blame all this on China.” Tang has followed the Brazilian
economy since he arrived here in the late 1970s to set up a leasing operation for Bank of Boston. He raises a basic question: “The U.S. needs to manipulate its currency to pay down its giant debt obligations, generate employment, and export more. China has pegged its currency to the dollar. U.S. GDP is 25% of world GDP, and China’s is just 8%. Why should China pay for the American outrage?” Its exchange rate is competitive because China has low levels of consumption and high domestic savings at about 22.5% of GDP.

Appreciation of Brazil’s currency also reflects internal imbalances. “For a long time the country has had to finance its public deficit by issuing government bonds that, to be attractive, have to pay high interest.” says Ambassador José Botafogo Gonçalves. He explains that these rates attract foreign capital flows, causing the real to appreciate. IEDI’s Souza says the first step in addressing the overvaluation is to discourage the entry of speculative foreign capital. One implication is that the government will have to cut public spending to allow interest rates on public debt to fall.

INEFFICIENCY
Exporters agreed that the “Brazil cost” — led by inefficient and costly infrastructure, sluggish bureaucracy, and high taxes — also must be addressed. De Castro says, “Changing the exchange rate may be the only solution in the short term, but if the rest was in order, no one would complain about it.”

Humberto Barbato of ABINEE says that industry — for which imports may reach 80% of total inputs — is seeking alternative ways to react. Barbato has proposed to the MDIC measures to offset exchange rate effects: “First, remove the taxes on labor for export products. Second, increase the current average tariff on imports from 12% to 35%, the level permitted by the WTO.” He feels that without changes in the short term, industry will also miss important domestic opportunities. “Even Petrobras [the Brazilian state oil company] is trying to reduce the required minimum percentage of domestic products in exploration platforms (60%), because it knows it can buy abroad cheaper.”

Another example is orange juice, where 98% of Brazilian production goes abroad, representing 85% of world exports. Although it is enviably productive, the industry suffers because of competition from other beverages. “Production volume has not grown for 10 years,” says Christian Lohbauer, president of the National Association of Exporters of Citrus Juices (CitrusBR). He thinks the immediate priority should be tax relief. Today, the citrus industry has R$400 million of accumulated tax credits.

Heitor Klein, executive director of the Brazilian Association of Footwear Industries (Abicalçados), seconds Lohbauer’s motion:

IN 2010, WHILE IMPORTS OF SHOES FROM CHINA FELL 58%, THOSE FROM MALAYSIA INCREASED 1,355%, TAIWAN 514%, AND INDONESIA 100%.
“The process that allows rebates of tax credits is very complex, slow, and difficult.” His industry competes directly with Chinese products in the domestic market. In January Abicalçados requested an investigation to extend antidumping action, in force against China since March 2010, to countries like Vietnam, Indonesia, Taiwan, and Malaysia, which allegedly are re-exporting Chinese products to Brazil to avoid the antidumping tariff of US$14 per pair. The association estimates that in 2010, while imports of shoes from China fell 58%, those from Malaysia increased 1,355%, Taiwan 514%, and Indonesia 100%.

CHALLENGING PARTNERSHIP

The shoe industry illustrates another challenge for Brazilian foreign trade: How to rebalance the relationship. “China has invested US$300 billion in innovation and universities and has qualified and disciplined manpower; their competitiveness has no equal,” says Fornazieri (Fespdp).

For Mauricio Mesquita Moreira, coordinator of integration and trade research of the Inter-American Development Bank (IDB), the initial enthusiasm for China, the new principal Brazilian customer and major partner in international forums, masked what this relationship represents.
THE INFRASTRUCTURE BOTTLENECK

More bad news for Brazilian exports: it appears that despite the Plan for Growth Acceleration (PAC), there has been no concrete progress on modernizing infrastructure to reduce transportation costs. Paulo Fleury, CEO of the Institute of Logistics and Supply Chain (Ilos), pointed out that President Lula three times started such works but “The only one ready is Tucuruí dam — which was started 30 years ago.”

Peter Wanke, professor of logistics and supply chain management, Institute for Research and Graduate Studies in Business Administration, Federal University of Rio de Janeiro, says that Brazil is experiencing a blackout. “In logistics, blackout means the inability to predict supply,” he says. “That is already occurring.” This implies a higher cost particularly for products with low added value, such as commodities. “Today, commodities record exorbitant prices, and high margins cover the extra [logistics] cost. But if demand stabilizes and competition returns, we will not be able to sweep the problem under the rug,” Wanke says. Fleury points out that the breakdown of India’s sugar crop last year pushed up demand for Brazilian products. “There were dozens of ships queueing at the port of Santos [where 70% of sugar exports are loaded], waiting on average 35 days to load. Every day a ship is waiting costs about US$50,000.”

Wanke explains that projects, permits, and bids usually take about five years, and building another five. Large companies like Vale and EBX have themselves invested in railroads and ports, “but that’s not for everyone. A dock alone involves an investment of US$300 million; every mile of railroad costs US$1 million to US$2 million.”

Fleury warns, too, that “you must think about a system, not a project in isolation.” To avoid surprises, the ideal would be that the infrastructure is always ready ahead of time. “Ports in cities like Rotterdam and Hamburg already have ‘cradles’ waiting to accommodate future growth for the next 20 years,” Wanke explains.
in the medium and long term for the Brazilian economy. Brazil’s exports to China grew by 30% in 2009 while its total exports fell by 22%, he recalls, so if it were not for China, the shock to the Brazilian trade balance would have been much more substantial. However, he calls for Brazil to take “a more aggressive stance to secure a relationship beneficial to both countries.” He says there is no magic formula: “You have to put on the table constraints and risks and seek cooperation and investment to balance the relationship, which now rests only on trade, so that discontent does not worsen.”

Moreira stresses that Brazil must also fight for elimination of barriers like Chinese tariffs on agricultural products, which are between 16% and 18%: “The agricultural sector also lives with serious non-tariff barriers, such as quotas imposed on products like sugar, maize, and cotton.” Moreira also highlights less obvious rules imposed on manufacturers, citing the case of the Brazilian Airplane Corporation, Embraer. Despite WTO doctrine to the contrary, “Embraer was notified that if it wanted to sell to China, it would have to produce there,” he says, and changes in the models produced have to be approved by the government.

The diversification necessary to balance the relationship between China and Brazil must also take into account investments. Moreira says,
“Letting China focus its investments in commodities, transport, and energy does not improve the relationship.” He cites Rio Tinto: “The Australian mining company has been hugely resistant to Chinese investment, because if a major customer becomes your partner it can force a transfer-production relationship below the ideal and the client reaps the profit.”

Charles Tang says that in 2010, besides US$10 billion that China lent to Petrobras, to be repaid in oil, China invested over US$20 billion in Brazil. “China had to invest in Brazil because it has to have some influence on the sources of strategic resources for its sustainable growth and for feeding its people,” he says.

A survey of 1,529 companies carried out late last year by the National Confederation of Industries (CNI) shows that 52% of exporters reported suffering competition from China. Domestically, 45% reported they had lost market to the Chinese; abroad, 67% said customers had started buying from China; and 4% have stopped exporting altogether.

THE URGENT NEED
Clearly, Brazil must immediately formulate a long-term strategy that clearly situates the nation in a global context, with greater trade liberalization and a more growth-oriented export policy.
“China grew for a very simple reason,” Tang says. “It made prosperity an absolute priority, even at the cost of environmental and social injustices, which would never have been accepted by Marxism, Communism, or Maoism.” Brazil’s top priority, he says, “has never been prosperity, but monetary stability at any cost. With plan after monetarist plan, Brazil ended up with a smaller economy.”

Eduardo Lozardo, professor of the Management School of São Paulo, pointed out that while Chinese production is projected to move from 8% of global GDP to 22% over the next 40 years, for Brazil the projection is moving from producing 2.5% of world GDP to 4%. “To grow with more equitable income distribution, an emerging country has to rely on strategies of economic opening combined with a competitive industrial policy,” he says.

FGV’s Thorstensen adds that the U.S. and the EU clearly are giving priority to export policy. “China has created a growth model based on exports for 20 years. But in Brazil, this subject is completely off the agenda,” as is demonstrated by the projected US$60 billion current account deficit for 2011. Fornazieri adds that to consolidate its role in international markets Brazil cannot rely on diplomacy alone and dispense with trade: “What defines a nation as a great power is its ability to export surpluses. The predominant form of economic growth in the last 20 years has been trade oriented.”
In the 1990s and early 2000s there was debate about such major economic blocs as the Free Trade Area of the Americas (FTAA), the Southern Common Market (Mercosur), the Andean Community, and the European Union (EU). Yet for the past 15 years, Brazil has made little progress in signing trade agreements. Did Brazil take the best path?

Chile has signed 20 agreements involving 57 countries. But Chile’s economic activity is concentrated in only a few products — copper is responsible for about 15% of GDP and over 50% of exports — which makes negotiating agreements much easier. Brazil’s economic diversity and the power of its agriculture make it harder to negotiate bilateral agreements, especially with the United States and EU countries, which seek to protect their industries. That is why Brazil bet on multilateralism.

“Brazil moves with the trend of the moment. It is trying to facilitate negotiation of the Doha Round while making more modest, bilateral deals within Mercosur,” says Alcides Vaz, professor of international relations at the University of Brasília.
As for Brazil’s latest agreements — with Israel, Egypt, and Jordan, “Trade with these countries is minimal,” says Mario Marconini, president of the Council on Foreign Relations of the Federation of Trade in Goods, Services and Tourism. “There is potential, but there is no doubt that the political considerations were as important as the economic, if not more so.”

According to the report for 2010 released by the Ministry for Development, Industry and Foreign Trade, Brazil’s exports to Egypt were 0.8% of the total and to Israel 0.24%. Imports from Egypt accounted for 0.04% and from Israel 0.71% of the total.

Despite the minuscule economic impact, it is necessary to broaden the range of countries with which Brazil has trade agreements; an underdeveloped country may offer great opportunities. “Some countries export only a few products, but Brazil has a diversity of industries, so it cannot afford to choose to negotiate with one country to the detriment of another country,” says Soraya Rosar, executive manager of international negotiations of the National Confederation of Industries.

THINKING BIG
That does not mean, however, that developed economies should be off Brazil’s radar. Vera Thorstensen of the Getulio Vargas Foundation (FGV) says that negotiating with developed countries also involves defending businesses. “With the impasse in the Doha Round, many bilateral agreements are being created by expanding the issues regulated by the WTO,” she says, citing as examples intellectual property, investment, and environmental and labor standards. “If the U.S. signs agreements with 50 countries, what room will Brazil have to negotiate its interests?”

Critics believe that the Brazilian government has favored a South-South agenda to the detriment of North-South negotiations. Lia Valls, coordinator of the Center for the Study of the External Sector of the Brazilian Institute of Economics (IBRE) of FGV, notes that the recent economic crisis and the tough position the U.S. Congress has taken on trade agreements are complicating factors: “There is much talk that Brazil has not negotiated with the United States, but I believe that the Americans also did not want to do business.”

“South-South and North-South negotiations are complementary,” says Ambassador Evandro de Sampaio Didonet, director of the Department of International Negotiations of the Foreign Ministry. “It is true that we have given great importance to negotiations with southern markets, but this course of action is increasingly justified.”

Alcides Vaz argues that “Although we define ourselves
as a global trader, the American continents purchase more than 50% of our exports. It is not easy to stray from the attractive force of the United States and Latin America.”

With its diversified trade, some consider it logical that Brazil should also diversify its agreements. Marconini says, “One concern is that we are still responding to demand — other countries want agreements and then we react. This has to change. We have to define what trade agreements we want and go after them.”

“WE ARE STILL RESPONDING TO DEMAND — OTHER COUNTRIES WANT AGREEMENTS AND THEN WE REACT. THIS HAS TO CHANGE. WE HAVE TO DEFINE WHAT TRADE AGREEMENTS WE WANT AND GO AFTER THEM.”

Mario Marconini

Mercosur and the European Union

Mercosur and the European Union (EU) are back at the negotiating table trying to create the largest free trade area in the world. “The European Union is not naive. The developed countries are growing slowly, so now there is active interest in making deals with those who are developing, and Brazil fits in,” says Lia Valls (IBRE-FGV).

The exchange of offers has already begun. The two trading blocs intend to attain more than what was agreed seven years ago. The EU is demanding that Mercosur countries accept a wider industrial opening (above 90%), as for example in the agreements EU signed with South Korea, Peru, and Colombia. On the other hand, it is now willing to include agriculture — the most sensitive item — in the negotiations.

At least that’s what Brazilian businessmen and government expect. “Substantial gains in opening EU agricultural markets are essential for Brazil. Without that, we cannot conclude the agreement,” says Ambassador Evandro de Sampaio Didonet, director of the Department of International Negotiations of the Ministry of Foreign Affairs.

For industry, expectations are low: “In terms of industry, there are no significant gains to be made because tariff rates are already low. The gains are for agribusiness and the agricultural sector,” says Soraya Rosar, executive manager of international negotiations of the National Confederation of Industries.
The 2008 crisis raised fears that countries would impose protectionist trade measures to ease the effects of global recession on their economies. But barring imports to benefit domestic products only works if not all countries follow the same policy. In 1929, the rise in import tariffs in the United States (Smoot Hawley Act of 1930) triggered a wave of protectionist measures that led to the stagnation of world trade and worsened the global recession.

The lesson has been remembered. There have been few tariff increases or quotas imposed on imported goods. This time the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD) and UNCTAD (United Nations Conference on Trade and Development) have been monitoring such measures. Past experience and the discipline of the WTO have been effective. However, another issue has caused concern: the overuse of dumping investigations.

Dumping occurs in international trade when a company’s exports are priced lower than the price it normally charges at home. WTO member countries must
follow certain procedures when they do dumping investigations but there is no detailed rule on how to calculate the dumping price. Thus there are a large number of disputes.

The average number of open dumping investigations in 2008–2010 is about the same as in 2005–2007 (WTO data). The largest number of investigations, 371, was recorded in 2001. In 2007 165 were initiated. There was a rise in 2008 to 213 and then a drop to 209 in 2009. According to the WTO, the trend has been for the number to fall, except in Brazil and India. Between January and October Brazil initiated 7 investigations in 2009 and 24 in 2010. In India, the number increased from 23 to 32.

India led in the number of investigations opened before as well as after the 2008 crisis. The country accounts for 21% of investigations, Brazil for 7.5%. The country that is most often investigated is China: 21% of the total from 1995 to June 2010. Asian countries in general lead the list of those investigated.

The WTO report concludes that during the crisis investigations of dumping ceased to be a key measure of protection. The focus shifted to measures related to funding and other support to investment-specific sectors.

How to explain the case of Brazil? The country was on the list of champions in opening investigations before the crisis, which shows that it has used the instrument when necessary. The current escalation is associated with China and foreign exchange.

When the Brazilian currency appreciates, there is an increase in investigations, as happened between 1996 and 1999, when 63 cases were initiated. From 2002 to 2005 investigations plunged to 8 but increased to 36 between 2006 and 2008. In 2009 the crisis might help explain the drop to 9 investigations. Of the 70 antidumping measures in force in Brazil in December 2010,

**BUSINESSES AND THE GOVERNMENT ARE CONCERNED ABOUT THE CHINA EFFECT AND EXCHANGE RATE APPRECIATION.**
Antidumping measures are not aimed at correcting imbalances in exchange rates, though not only in Brazil but in other countries investigations increased when the currency appreciated. (How to deal with currency appreciation is a recurring theme in the issue of trade protection.)

There is another issue: China’s management of its exchange rate would make any traditional measures of trade protection ineffective. Should this issue be considered by the WTO? This is a subject that is not restricted to trade. Discussions about trade agreements and new exchange arrangements, and definitions of currency mismatch, should be addressed first in international monetary and financial forums.

The use of trade defense instruments is important to trade liberalization and protection for domestic industries that suffer from unfair competition. That is why building up the technical capabilities of the Defense Department of the Foreign Trade Secretariat should continue to be a priority for the Ministry of Development. But commercial defense cannot be expected to handle the larger issue of Chinese competition in a period when the Brazilian real is appreciating.
Conjuntura Econômica
Valuable information

For subscriptions call:
(55-21) 3799-6844 or
Fax: (55-21) 3799-6855
The future of telecommunications in Brazil

Paulo Bernardo
Minister of Communications

Liliana Lavoratti, São Paulo

After having managed the public budget for the entire administration of President Lula da Silva, in the Rousseff administration as minister of communications Paulo Bernardo is in charge of moving the telecommunications sector forward. “We cannot be the fifth economy in the world with the current telecommunications infrastructure,” he says. He argues for updating regulation and is an avid consumer of new technologies (recently, he began reading the daily news on an electronic tablet). He believes that legislation needs to be changed to make the triple play package (broadband, telephone, and pay TV) “a reality in the marketplace.”

The Brazilian Economy — What are the administration’s priorities for the Ministry of Communications?
Minister Paulo Bernardo — We cannot do without the Internet for cultural and educational purposes, and we need it to boost trade and help generate employment and health services, among other purposes. We are lagging behind. We need not only to catch up quickly but also to think about where communications in Brazil will be in 10 years. South Korea will have ultra-fast broadband, up to two gigabytes, by 2012, and the United States is investing heavily to bring high-speed connections to the entire country.

How can Brazil take such big steps?
We have to take advantage of the existing infrastructure to increase people’s access
to telecommunications and at the same time strengthen it to support an economy that will be based more on information. The new middle class, who rose during the government of President Lula da Silva, will increasingly demand new technologies. People want their own computer and an Ipad; they are eager for more information. Industry, service providers, and trade all need an even faster Internet.

**How will the National Broadband Plan help achieve these goals?**

We are talking to the economic agents engaged in broadband to join forces and help us make the National Broadband Plan (PNBL) a reality. This can be done in the short term without huge investments, but to build the Internet that we will need in 2020, we must have a strategy, and know how to finance it.

It’s estimated that the PNBL will cost US$18 billion. How will that be financed? Will private capital participate?

We have not defined anything yet, but we could work with a concept similar to what we do in electricity: The government auctions to private companies authorization to build transmission lines, and there are also auctions to purchase energy transmission. Companies are now buying energy for 2016. The idea is that the market, the Brazilian government, states, and private enterprises would buy futures for the right to transmit data.

**What will be the role of the state telecom company, Telebras?**

Anatel, like other regulators, is autonomous, but the executive branch formulates policies for the sector.

Telebras was reactivated because the government was convinced that the private telecom companies were not doing the job. They did not have strategies to provide broadband to meet the demand of households and businesses everywhere, from north to south. The predominant practice of operators today is to provide fewer services for higher prices rather than building volume. We will work to reverse that. Telebras is laying down an optical fiber network and works in partnership with the private sector. If necessary, it will provide Internet services, but that is not the main goal.

**How will the National Telecommunications Agency (Anatel) participate in this model?**

The government will formulate policies, and Anatel will supervise and regulate. If the regulatory model needs to be changed, that will be done by Congress and Anatel will carry out its mandate. At the beginning of the Lula administration there was a debate about whether the government wanted to limit the autonomy of regulatory agencies — similar to the debate about how much autonomy the Central Bank should have. Anatel, like other regulators, is autonomous, but the executive branch formulates policies for the sector.
Innovations in telecommunications mean that the rules set 13 years ago when the sector was privatized must be constantly updated. How do you intend to work on that?

Among the proposals Congress is considering is draft law No. 116, which addresses whether a telephony provider can also provide broadband and cable TV. The triple play package (broadband Internet, pay TV, and landline phone) is popular, and we are running behind on regulating it. This raises both regulatory and economic technical difficulties. We have only two alternatives: review the regulatory framework, addressing the issues separately, or change everything to allow companies a single license. Companies whose bids win would provide all services, which would facilitate monitoring. Today, because the situation is not regulated, Anatel cannot require carriers to correct any flaws. Anatel has been discussing the issue of a single license, and the ministry thinks it might be a good option.

In reviewing regulations, would you consider a reduction in phone rates?

This continuing debate in the ministry will intensify, especially on how to reduce the rate for low-income users of prepaid cell phones, whose prices are too high. We know that the interconnection rate [between different companies] severely penalizes consumers with less purchasing power.

Will reducing those rates help the government fulfill its promise of bringing low-cost Internet to the entire country?

I had not been aware of how much impact the Internet is having on society. People are so avid for a better computer and a faster and cheaper Internet that this is becoming as important as having electricity. I find the social impact fascinating.

Brazil has a huge number of cell phones but they are not used much. Why?

We are champions in the number of cell phones, with 202 million, just over one per inhabitant. But recent research by Merrill Lynch shows that while Brazilian users speak on the phone on average 113 minutes a month, the average is 185 minutes in Mexico and 164 in Chile. One of the main reasons for this discrepancy is that the price here is higher than in the rest of the world.
What other reasons?
In a recent meeting with consumer protection agencies, it was clear the major complaint was phone credits. A consumer buying a credit for a prepaid phone does not know exactly what he is acquiring. He will use it until the credit runs out, and the operator releases the bonus only if he acquires a new credit. There are many obstacles that will take time to mend, because there are contracts. We have to manage the current situation while we build a system that we will use in 2020. There is no way to be the fifth economy in the world with the current telecommunications infrastructure.

The operators argue that one obstacle to improving the quality of cellular services is that the frequency spectrum is saturated. What can be done?
This is really a problem, because the spectrum has a limit. We are well advanced in negotiations with the Ministry of Justice to release the 450 MHz frequencies used by the Federal Police. In most countries, police transmissions use lower frequencies, between 380 and 400 MHz. The Federal Police have agreed to migrate, and we have already secured US$41 million for equipment to facilitate the migration. This will free the 450 MHz frequency to be used for rural telephony. We are working to bid this service out later this year.

What changes do you intend to accomplish in broadcasting?
This is a very sensitive sector that needs special attention. We are completing a study of all broadcasting operating conditions — licensing, inspection, and activities. We will define some changes that are needed but expect that the law we have today will not change.

Do these changes include restricting ownership of radio and TV by foreigners and politicians?
We have scrutinized all legislation passed since the Constitution and found no clear statement about whether politicians may own radio and TV stations, though they cannot be a director or managing partner. I think we should ban it, but obviously you need legislation for this. The ministry cannot make such a decision itself. The political party system should not have access to ownership of broadcasting, because it upsets the whole system. And there is a serious conflict of interest: decisions to grant radio and TV concessions are made by the National Congress.

The political party system should not have access to ownership of broadcasting, because it upsets the whole system.
Kissinger and Brazil

Thiago Galvão Gehre

In Kissinger and Brazil Matias Spektor addresses an important episode in Brazil and the United States’ relations. He tells how Henry Kissinger became a focal point for Brazilian diplomacy in its quest for great power status.

Spektor, one of the new generation of Brazilian historians of international relations, heads the Center for the Study of International Relations of the Getulio Vargas Foundation and is an expert on archival research. The book’s main thesis is that Brazil has worked its way into the international system, seeking recognition from other countries for its own national goals. With the U.S., Brazil sought to avoid either submission or rivalry, establish itself as one of the building blocks of global order, and not follow without serious thought the precepts of the Northern giant.

The book describes the evolution of the rapprochement during the 1970s between U.S. and Brazil under the skillful diplomatic command of Henry Kissinger and Antonio Francisco Azeredo da Silveira, the Brazilian foreign minister. Spektor covers Kissinger’s experiment in bringing Brazil to the center of U.S. foreign policy; the efforts of

Thiago Galvão Gehre is professor of the history of international relations in the Department of International Relations at the Federal University of Roraima – UFRR. He holds a Ph.D. in international relations from the University of Brasilia – UnB. thiago.gehre@gmail.com.
Kissinger and da Silveira to build up a partnership; the estrangement with President Jimmy Carter; and the dismantling of the partnership by Ronald Reagan in the 1980s.

Kissinger’s experiment was an effort to modify the static landscape of Brazil-US relations. A controlling concept was “delegation” — the transfer of responsibilities to major regional players. Spektor explains that, in seeking to make U.S. foreign policy conceptually and philosophically more consistent, Kissinger opened the way for countries like Brazil, China, Indonesia, and South Africa to carry more weight in their relations with the U.S. The aim was to rid the U.S. of the stigma of imperialism and create a sense of partnership to legitimize U.S. actions around the globe.

The partnership started with the visit of Brazilian President Ernesto Geisel to the U.S. capital on December 7, 1971. Preparation for the trip was turbulent. There was unresolved tension between activism and withdrawal in Brazil’s foreign policy because of a rift between the president and the Foreign Ministry. There was also a divergence between how Brazil and the U.S. conceived of the partnership. Spektor points out that “from the American point of view, approaching Brazil would be consciously elusive” (p. 50). In any event, after the first step, both countries benefitted from improved relations based more on the personal relations of policy makers than on any formal institutional framework.

President Geisel and da Silveira developed a new strategic model that advocated searching for new partnerships and revising relations with Argentina and the U.S. Da Silveira’s foreign affairs management is regarded as highly activist; during his term “the international ambitions of Brazil grew more than [in] any previous period” (p. 63).

Da Silveira searched for “small spaces of ‘autonomy’ on the margins of the liberal west” to support Brazil’s national development project. He tried to conceptually advance foreign policy to address Brazil’s economic growth and growing international influence. Spektor points out that the problem was not in the international system: “at home Brazil’s strategic concepts had become archaic” (p. 75).

The book celebrates the compatibility between da Silveira and Kissinger and their efforts to build a more constructive engagement between their countries, a “special non-aligned relationship.” The world in 1970 was witnessing the rise of peripheral powers and the crisis of traditional powers that according to Spektor would move “the tectonic plates of international politics” (p. 90). The bilateral agenda covered trade issues, the global energy crisis, nuclear proliferation, activity in post-independence Africa, and the Cuban presence in South America. Brazil struggled against distrust, anxiety, and a lack of willingness in the U.S. to recognize it as a great power. But the U.S. kept the dialogue open even as it contained Brazil’s ambitions.

The intensity of the Brazil-US partnership contrasts with the brevity of the dialogue between Kissinger and da Silveira. The partnership moved ahead amid the 1970s energy crisis, President Geisel’s decision to support the Arabs against Israel, and the involvement of Brazil in Angola’s independence movement. These three events tested the resilience of the American relationship with Brazil at a point where the partnership could well be formalized. Consequently, Brazil did not choose sides in the oil issue, assuming a pragmatic detachment; with regard to Israel, Brazil first chose...
Kissinger opened the way for countries like Brazil, China, Indonesia, and South Africa to carry more weight in their relations with the U.S. to abstain and then condemned the vote on the UN resolution that declared Zionism to be a form of racism. And it flinched when the cultural ties that justified a Brazilian presence in Angola clashed with the U.S. grand strategy to combat communism.

Da Silveira took advantage of small crises to catalyze a more consistent foreign policy. Spektor tells of Kissinger’s second trip to Brazil and its implications for Brazil-U.S. relations. The Brazilian challenge was to bring about a flexible partnership that would promote understanding between the two countries but that would not tie Brazil to joint commitments and would guarantee President Geisel control over the process of political opening in Brazil. The Memorandum of Understanding between the two countries was ingeniously “simple and vague,” allowing “maximum freedom of maneuver for each side” (p. 140). The resilience of the partnership would later be tested by a diplomatic imbroglio over the independence of East Timor, an alleged Brazilian plan to invade Guyana, and the tense relationship between the U.S. and Chile. In all these situations, the Memorandum guaranteed open channels to treat them in the light of common interests.

Progress was stymied by Brazilian fears of generating and later frustrating U.S. expectations, according to Spektor (p. 148); and the election of Jimmy Carter brought about an upheaval in U.S. and Brazil relations. The discomfort caused by systematic human rights abuses and the fear generated by the nuclear agreement between Brazil and Germany stirred up discussion. The Memorandum was the only defense available, a shield against Carter administration revisionism.

When Ronald Reagan came to power, Kissinger left the scene and da Silveira moved to the Brazilian Embassy in Washington. The Brazilian strategy then became a conscious distancing from Washington in view of the impossibility of dialogue and the neoliberal advance. Even so, Spektor concludes, Brazil catapulted its position in the international hierarchy from an anti-communist agent to an international power, ensuring the country’s autonomy in the context of overwhelming asymmetry with Washington.

Matias Spektor writes in a clear and objective way that makes reading enjoyable even for those who are not specialists in international relations. He uses international relations theory parsimoniously — almost imperceptibly for the general reader. He has uncovered striking events deep within the records and has had access to unpublished national and foreign sources, contributing notably to research on the history of Brazil’s international relations.

However, Spektor seems to give too much value to statesmen’s capacity to promote change in the world. He is of the view that “international politics is not predestined. With ideas and leaders willing to take risks, existing views may be adjusted or replaced with better ones” (p. 16). This raises questions: Did Kissinger make Brazil his laboratory for experiments with regional powers? Or was it da Silveira who discovered in Kissinger the cure for Brazil’s “invisible power” syndrome? In either case, the situation of Brazil and South America at the time must have certainly weighed on the decisions of policy makers.

Progress [in Brazil-U.S. relations] was stymied by Brazilian fears of generating and later frustrating U.S. expectations.
Does Brazil need 37 ministries?

The organization chart of the Brazilian government has been designed more to accommodate the demands of political parties for ministerial positions than for efficient public administration. Since there were more demands than ministries, the solution was to create new ones.

Brazil currently has 37 ministries divided among different areas of government.

- Agriculture has three: Agriculture, Fisheries and Agrarian Development.
- The economy has four: Finance, Planning, Strategic Affairs Secretariat, and the Central Bank.
- The Presidency of the Republic has five: Chief of Staff, Department of Communications, Secretary General, Secretariat for Institutional Relations, and Institutional Security Cabinet.
- Justice is not far behind: the Ministry of Justice, Human Rights, Racial Equality, the Attorney General’s Office, and the Comptroller General of the Union. The Special Secretariat for Women could also be counted here.
- Development has five: Industrial Development and Foreign Trade, Tourism, Environment, Communications, and Science and Technology.
- Integration has three: Integration, Cities, and Social Development.
- The Ministry of Labor and Social Welfare was split into Work and Pensions.

Fernando de Holanda Barbosa is a professor at the Graduate School in Economics from FGV (EPGE).
The United States has 14 ministries, France also has 14, Germany 15, Australia 18, and the United Kingdom 21. Is Brazil so different that it needs 37 ministries?

- The Transport Ministry was split into Transport and Ports.
- Education, Culture, and Sports have become separate ministries.
- The Ministries of Mines and Energy, Health, and Foreign Affairs have not yet been split, but who knows when they might be?
- The Ministry of Defense was the only exception: the Army, Navy and Air Force were merged into a single ministry, now run by a civilian.

How many ministries do other countries have? The United States and France each have 14, Germany 15, Australia 18, and the United Kingdom 21. Is Brazil so different that it needs 37?

Many people in our country believe that the way to resolve a national administrative problem is to create a ministry. The same mentality exists in the states, which also create departments as a political accommodation. But experience has shown that swelling the government does not necessarily solve anything, though it does increase costs and inefficiency.

President Rousseff has realized that it is impractical to have a ministerial meeting with so many people. If each spoke for five minutes, it would take over three hours (185 minutes) just to hear what each has to say. The president has therefore grouped ministries in four thematic areas: Economic Development, Management and Competitiveness, Poverty Eradication, and Social Movements. The Ministries of Finance and Planning, and the Chief of Staff participate in all four groups. However, a better option would be to streamline the number of ministries to make government more efficient.