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LADB Staff

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Brazil's Alternative Solutions for Developing Economies

by LADB Staff

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Brazil's peripatetic President Luiz Inacio Lula da Silva has taken another step forward following his victory at the World Trade Organization (WTO) meetings in Cancun (see NotiSur, 2003-12-05) in his search for an alternative to US-brokered free-trade agreements.

Lula was in India last week for the ceremonial signing of a tariff accord that will, say Brazilian officials, lead to a free-trade agreement between the subcontinent and MERCOSUR, the trading bloc that links South America's largest economy to Argentina, Uruguay, and Paraguay, with Bolivia and Chile as associate members.

This is just one of six separate pacts Lula was in India to sign. Also getting his seal were an agreement allowing family members of each other's diplomats to seek gainful employment, visa exemptions for official and diplomatic passport holders, cultural exchange, and cooperation between the Indian Space Research Organization and the Brazilian Space Agency. Taken together, these agreements portend a long and close relationship.

Lula called the two countries "strategic partners," and he said that together "Brazil and India can construct a political force capable of changing the commercial geography of the world." The arrangement follows not only on the WTO upset but also on the launching of the India-Brazil-South Africa (IBSA) Dialogue Forum, known as the G-3, crafted at a meeting of ministers of the three countries in Brasilia last June. It was that meeting, and that agreement, that ultimately led to the successful thwarting of the pretensions of the developed countries at Cancun in September.

Soon after Cancun, Lula made a five-nation tour of Africa and then announced that he wanted to develop "a strategic policy" with African states, China, Russia, India, and Mexico. He said at the time, "This would guarantee that developing countries at the WTO could negotiate equitable market access for their products." The IBSA countries met in New Delhi to boost cooperation not only in trade but also in defense, aviation, shipping, and rural development.

Trade between Brazil and India totals US\$1.2 billion, according to news reports. Brazil imports diesel fuel, pharmaceuticals, machinery, textiles, pigments, and rubber. Exports to India are chiefly crude oil, soy oil, auto parts, sugar, and chemicals, as well as other goods. The total figures for trade between the two developing giants is modest, but the growth rate of that commerce is not. Between 2000 and 2003 trade has increased 250%. Officials at the signing estimated the figure would grow to US\$5 billion by 2005 and continue upward from there, accelerated by the entry of MERCOSUR.

In his public pronouncements in India, Lula made much of the common aims of the countries to improve the lives of their respective peoples. "To be in the land of Mahatma Gandhi," he said, "one of the greatest names of the last century, is the realization of a dream." Fundamentally, the strategy boils down to this: "It does no good for India and Brazil to stand around with our arms folded

waiting for the rich countries to solve our problems. It is necessary that we ourselves, countries in development, assume the responsibility for our destiny and join forces to defend our own interests in trade negotiations and in questions relative to peace and international security," said Lula.

A next step in the evolution from object to subject for developing countries could come in June, at the XI meeting of the UN Conference on Trade and Development (UNCTAD) in Brazil. Taking advantage of the combined strength of the G20, said Lula, "This will be, possibly, the first step for the creation of a free-trade area among the countries of the group, open to other countries in development."

Domestic economy is part of the plan

Lula's interest in increased trade is not limited to the export economy. In a radio speech taped to air while he was in India, the president called upon Brazilians not to be content with exporting raw materials, but to manufacture finished goods and export more value-added product. He said he wants the country to stand out in the world "not just with carnaval and futebol, but also with the sale of products of high added value. We don't want to just keep on with agribusiness, exporting products in their natural form. We want to transform those products with added value, so that they earn better prices and give more money to Brazil." He told listeners on his weekly radio show, named, aptly enough, "Cafe con el presidente," that he would involve his Cabinet in a major new thrust.

The Ministries of Foreign Relations, Agriculture and Development, Industry, and Foreign Trade would all be enlisted in promoting Brazilian industry abroad and reactivating the economy. "The ministers will have to travel a lot throughout the world to say that the country has carnaval, poverty, street children, futebol, but also industry, agriculture, and technology," Lula said. "The country has all the conditions to be the boldest in international trade. I'm convinced that we still aren't using 30% of the audacity we have to compete with."

Breaking eggs, making omelets

Leading the way on the audacity front, Lula performed a major overhaul on his own Cabinet. This was in part a move to increase his legislative power by making room for a key centrist party in his government with one eye on local elections. The changes, which created two new ministerial posts and involved nearly a third of the Cabinet, were designed, say analysts, to facilitate reforms. He told his new people that he expected them to work 24 hours a day.

Lula gave the center-right Partido do Movimento Democratico Brasileiro (PMDB) both the Communications and the Social Security Ministries. He had earlier tested the party and found them worthy when they helped push through tax reforms and public-pension reforms. The PMDB, with 77 members in the 513 seat lower house of Congress, is the second largest after the ruling Partido dos Trabalhadores (PT) and the largest in the Senate. While the PMDB would appear to be distant from the PT on Brazil's political spectrum, Lula, in framing his embrace of the party as "a re-encounter, an alliance that goes beyond politics," recalled that the two parties have a long history working together in opposition to the military rule of 1964-1985.

Many now in the PT were first members of the PMDB. The shakeup was also seen as an attempt to make up for a lack of progress on some key elements of Lula's platform. To get traction on his Zero Hunger (Fome Zero) Plan, he created the new Ministry of Social Development and the Fight on Hunger, and named Patrus Ananias, a former PT mayor of Belo Horizonte, to head it. He also sacked his education minister. Lula was able to effect the changes, acknowledged to have been more extensive than anticipated, without disturbing what has been called the "hard nucleus" of the Cabinet. That was a feat that required some dexterity.

To parcel out ministries to allies while keeping key people, a good deal of shuffling was required. For instance, Chief of Staff Jose Dirceu will take over management of the government, formerly under the Ministry of Planning, Budget and Administration, but PT member Guido Mantega will continue as minister. Besides Dirceu, other first-teamers who will remain are Antonio Palocci at treasury, Celso Amorim at foreign relations, Luiz Dulci at presidency, and Luiz Gushiken at communication.

Among PT ministers sacrificed for the greater good were Cristovam Buarque at education, Jose Graziano at food security, and Benedita Da Silva at social assistance. None of these was simply cast aside. Buarque was invited to accompany Lula to India, Graziano was offered a position as presidential advisor, and da Silva was offered, but declined, the position of special secretary for women.

A final item of business on Lula's itinerary will be a meeting with UN Secretary General Kofi Annan on Jan. 29. The two will discuss the imposition of a Tobin tax, or tax on the movement of foreign capital (see NotiSur, 2002-02-01) to help finance Zero Hunger in Brazil. Taxing the flow of capital could impart significant benefit to developing countries for its potential to put the brakes on speculative foreign investment and capital flight and encourage productive investment.

Lula will reportedly also speak to French President Jacques Chirac about the Tobin-tax plan. The Tobin-tax idea is highly controversial, with critics arguing that it could as easily dry up foreign investment altogether as stabilize it. But, while there is wide agreement that imposition of the tax would be difficult to accomplish, it is significant that the issue is even being discussed at high levels.

Also significant is that an initiative of this kind has the support of Chilean President Ricardo Lagos, who talked up the need for rules governing capital flows in Copenhagen. "A world without rules is very difficult," he said. "There has to be some guidance for capital flows. There are different formulas, but the problem is where we discuss it, in the UN, in the International Monetary Fund (IMF), or do we have to wait and see what the Group of 8 decides?" Lula isn't waiting.

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