U.S. RELATIONS WITH BRAZIL: STRATEGIC PARTNERS OR REGIONAL COMPETITORS?

HEARING

BEFORE THE

SUBCOMMITTEE ON
THE WESTERN HEMISPHERE

OF THE

COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

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SECOND SESSION

EDNESDA , JUL 26, 2000

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GAR L. ACKERMAN, N
ENI F.H. FALEOMAVAEGA, Am S m
MATTHE G. MARTINE , C
DONALD M. PA NE, N J
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BRAD SHERMAN, C
ROBERT E LER, F
STEVEN R. ROTHMAN, N J
JIM DAVIS, F
EARL POMERO , N D
ILLIAM D. DELAHUNT, M
GREGOR . MEEKS, N
BARBARA LEE, C
JOSEPH CRO LE , N
JOSEPH M. HOEFFEL, P v

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CONTENTS

P

ITNESSES

L E m , D A S , B H m
A , U.S. D m S 2
H. E. R B , Am , Em B 10
M A. M , D , MERCOSUL S Am P , C
S I S 13
M Sm , Ex v D , U.S.-B B C 16

APPENDI

P m :

T H E G , R v C m S
C , C m , S mm H m 32
T H G L. A m , R v C m
S N , R D m , S mm
H m 33
T H R M , R v C m N
J 35
L E m 37
H. E. R B 51
M A. M 52
M Sm 72
Q m , A D A S
E m 85

U.S. RELATIONS WITH BRAZIL: STRATEGIC PARTNERS OR REGIONAL COMPETITORS?

Wednesday, July 26, 2000

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON THE ESTERN HEMISPHERE
COMMITTEE ON INTERNATIONAL RELATIONS
Washington, DC.

T S mm m , , 1:30 .m., m 2200, R H O B , H . E G (C - m S mm) .

P : R v G .

M . BALLENGER. M . S , I m .

F , m m m , I B 8 m v , , v m m m S P , I , H m , , m , B .

S . I Am m I B v , I . B , v . B v , .

A m m ?

M . ACKERMAN. T v m . A v . I m m m .

M . BALLENGER. M v N m

M . ACKERMAN. I .

I C m . I v m . I v m , v m m S , I m .

M . BALLENGER. . T m M . A - m x.

M . BALLENGER. I , M . S .

STATEMENT OF LINDA EDDLEMAN, DEPUTY ASSISTANT SECRETARY, BUREAU OF WESTERN HEMISPHERE AFFAIRS, U.S. DEPARTMENT OF STATE

M . EDDLEMAN. T v m , ,
m m . M . C m , M m S mm ,
U.S.-B . C m ' m ,
I m m m
.

M . BALLENGER. .

M . EDDLEMAN. I m m
m , m .
B , m
L Am m m
U.S. . I , m
m . B 50 S Am '
45 GDP.
I mm S Am '
, P -
. A v
1998 1999, B ' m m -
, m U.S.
m .
B U.N. m ,
v .
H m , B -
m m . T m
m B '
.
U.S. B ' m
, U.S.-B
m B 25,000 m
A E II. O ,
P C ' m , v m-
v m L Am
.
T v x , v m v
. S m , P C ' m B '
m m m , v , -
, v -
v m .
S m , B P
m m -
. T B m
m , B -
m v .
B ' F m v m
v v m , m
v m v v . A
v ,
, .
R v
, B m' m v
m , m ,

m , m m , v ,
m B v m -
v .
B ' m 1998,
R A 1998 m v -
J 1999, m B -
m m . D
1998, IMF A m
B m m
m L Am m -
m .
T m A , v 30
x B , v v . T -
IMF, U S ,
m $41.5 B v -
m . T U.S. $5 m m
.
T -
m P C ' , m m,
m v B C ,
B v m m -
. T , m GDP
3½ 4 , 6 .
B m -
U.S.
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S , B m , -
x m, -
. T
C m m -
,
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P C ' m m m
m v m U.S. m . U.S.
x B 64 , B
13 x m U.S. 1999. M v ,
U.S. v m B m 1994
1999, v $35 . B 8
U.S. v m , m 400
F 500 m v .
M m 60 U.S. v -
m , - m .
Ex m , M . C m . I
m. m , I m
m ?
M . GALLEGL . N , .
M . EDDLEMAN. I m , B U.S.
mm m m . I ,
v , B , v ,
v m
v , m .
v m B v m C
m m m -
. F x m , B v m

M . T v mm S Am -
B m ,
m
m v .
T m v , m m m m -
m m m , v , m-
m m m m
m m . T m m m -
U S B v
m .
I C m , B P P ,
v , B v v m
U.S. . B J
7 M m C m , m P
v m B M D
v P C m .
P C m P v m
m . A m
m , B m v v
v m C m B ,
v B ' m
.
Am R ' SIVAM Am M S m
P , B m v v ,
, m Am -
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I m , B ' m v -
m m -
m - v
m . T U.S. B
m , v II, -
B ' m v m m 1964 1985.
v , B -
U.S. m m v m -
.
T v B D M ,
, J v
v m - -m . S m ,
S 505 m J 2
x m m
B C .
B ' m
m mm U.S. B -
m
. O m , P
C ' m - m m
x v U.S. v m
m B U.S. v -
mm m m .
O , P C ' -
U.S. B
v ,
. T -

m v m m x B ’
v v m m .
T .
T m M . E m -
x.
M . GALLEGL . T v m , M m S . I -
m m , v v-
, - v .
I v S . B
, , I v m m
m ,
v m , I’ m v m’
m v .
T m M . G -
x.
M . GALLEGL . M . S , v m

M . SANFORD. I .
M . GALLEGL . F .
S , m m m
.
M m S , U.S. m B -
v m m m , m .
I , , B ’
OAS P
m U.S.?
M . EDDLEMAN. M . C m , I v
, m -
P . M ,
B ,
v m , -
E P , , v m
m ,
C m B v m
mm m m
.
T , I m U
S B v -
v v m . T U
S m v ,
B m / v v .
v v , v
m m v . B
P m .
T P I , v ,
B v m , U.S. G v -
m , m P
m m . S G v F M -
Ax m .
M . GALLEGL . B ’ C m-
m . B v B
v m v . A
B C m ?

M . EDDLEMAN. T C m , , ,
v m. I m , I m
m B v m
, . A m m m ,
B m m m P
P , M D , m
B v m
C m .
M . GALLEGL . T , M m S .
M . A m ?
M . ACKERMAN. T v m .
M m S , m m m
m B P -
m . I m v v
m 20 m ,
m m m
, m m m m m
m v m ?
M . EDDLEMAN. , ,
’ v . H -
v 1 1½ , 50- m
v , v , 13
m , 20’ . H v
m m m m
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B m m m m
v ,
B -
m . T x m -
m .
T , , -
v
. S v
m .
M . ACKERMAN. H
m m m m -
?
M . EDDLEMAN. C m m
v m . O ,
m , ,
v Em B . T
v , m v
m . S x , v
m.
M . ACKERMAN. O , I m , M . C m .
O $41½ m mm
B m ,
m m
m , , m $5 -
m v m U.S. ?
M . EDDLEMAN. I ’ I v -
. A , $41.5 m -
; $5 U.S. . T m

A . I , m
. I m
M . ACKERMAN. A .
M . EDDLEMAN . I . T -
,
IMF m .
T m :

MS. EDDLEMAN'S ritten RESPONSE TO MR. ACKERMAN'S QUESTION

m v B v
A . Ov , B $23 -
, $9.46 m , $3.25 m
U S . B .

M . ACKERMAN. I , M m S .
T , M . C m .
M . GALLEGL . M . B ?
M . BALLENGER. T , M . C m .
B m N , M . A -
m , I B m . I
I m m
, v m I . I
, v . I
.
M . EDDLEMAN. S , I m
I R v . I -
P . I ,
, v m m.
T I
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T B v m P ,
P m mm m
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M . BALLENGER. I v ,
.
T - , I m
, Am . D x ,
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M . EDDLEMAN. I m . I
m AID v B
v m , AID
m , m m m
m v m Am . B I
, .
T m :

MS. EDDLEMAN'S ritten RESPONSE TO MR. BALLENGER'S QUESTION

I m , . A Am -
- Am . I -
m 20 .

M . BALLENGER. I v v
? I m , ,
, ?
M . EDDLEMAN. M -
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, m v m . F
, I , B
v m m
, U.S. G v m m -
, .
M . BALLENGER. I P C m
m. I I
m , C ,
,
S Am ?
M . EDDLEMAN. I C , C m
v . T
m B m
m m ,
. T m x . I , v
m , m .
T , ,
m, , I m 6 8 m .
T v ,
m
m .
M . BALLENGER. T .
M . GALLEGL . M . D v ?
M . DAVIS. I m S R
TO, B v m -
U S m v
- m , x -
v m
m . C ,
?
M . EDDLEMAN. T B v m v v m -
m , TO
FTAA. I S , v m B m
v v .
T v v , x m ,
TO v v -
; x m , EU x-
. T L Am -
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H v , , - m
B v m - m -
TO -
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A , v m ,
B v m
x m v m
. T
.
M . DAVIS. L m M .
B . x m B
C v ?
M . EDDLEMAN. I B x m
m v , v m x. T m

F , , x , m v
m v m
m . I , m
x m v mm -
.
F x m , x, -
v . T B
x x
m .
M . DAVIS. T m ?
M . EDDLEMAN. I x m ,
m , -
O .
M . DAVIS. I v m . T , M . C m .
M . GALLEGL . T , M . D v .
M . S ?
M . SANFORD. , . A .
F , I , U.S. x -
m m S Am
B . B m v , , ,
m B
, , S Am -
v FTAA .
D , , , -
?
M . EDDLEMAN. A m ,
S Am mm v . I
m S Am
, I v , ,
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m , , ,
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m B , ,
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T m , v , .
m ,
m , -
v m - v
TO.
M . SANFORD. m,
v -
? O ?
M . EDDLEMAN. I , m v ?
I v , , I v
. B I D m
v , . I T D m
, .
T m :

MS. EDDLEMAN'S RITTEN RESPONSE TO MR. SANFORD'S QUESTION

A m L Am , C 1981 -
P , C m , A , U , B v , M x , E S v , v -
m m m
v v m / v . I m

v v v v
v x m . T -
m v m .

M . SANFORD. m , , ?
M . EDDLEMAN. I m . T
m m C v -
v .
M . SANFORD. R .
M . EDDLEMAN. B v
C m ,
m m B , m m -
v v m .
m B , . I
v C .
S m , , U S v C
m v v U.S.
M . SANFORD. . A I x ,
m v
A C A A -
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T m I
P . T m , m
m , , ,
m , m ,
m
m m ? D
?
M . EDDLEMAN. v
P , . I m v
D , m , I m .
I , P , .
T m :

MS. EDDLEMAN'S RITTEN RESPONSE TO MR. SANFORD'S QUESTION

v P ,
. OAS v P ,
P F m
m . m OAS G -
A m m P v
m m OAS' .
OAS v m m m
m , m m
m x , v
v m . F m v m
m mm m OAS m . H v ,
v P v -
mm m m .

M . SANFORD. T .
M . EDDLEMAN. B I .
M . GALLEGL . T v m , M m S ,
. A , I m ,
I m m .
m .
I x m .
I m .
M . EDDLEMAN. T v m v m .

M . GALLEGL . T .
I m ,
v Am , I m
m C mm .
M . Am , , m
m .

STATEMENTS OF H. E. RUBENS BARBOSA, AMBASSADOR, EMBASSY OF BRAZIL

Am BARBOSA. T v m , R v
G , v m C mm . I
m x m B -
U.S.
I mm m m , I v -
m , M . C m , .
M . GALLEGL . , m
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Am BARBOSA. T .
I v m mm B m
, I A S v
x . I mm m
B 10 , I
m m . E m m
m , m
v m . T v-
m v B .
I m m , m v
m m . m
. B ,
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v m v $31 . T
m m .
I m m , -
m -
m v m . T m
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m , m , m .
I m , I I m
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M , A , B , U , P ,
S Am . T
m mm , I
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A , mm FTAA,
F T A Am . B m
B ,
S Am m ,
B m
U S ; E , .
T - E . T U
S m m S Am . L ,
, U S m
. I v , , U

S v . B ,
S Am m , U S m .
S v

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A U.S.-B , v
. I x v . v v
v , v , , . F
m , I , m m .
B m U.S., U.S. m
B . A I , v , U.S. m -
, v , v .
A B , U S , , m .
11 U.S. T U.S.
B m , , -
.
v U.S. U.S. m v v -
m v m B m -
m , R , C , I , v
M x , m . U.S. v m B 50
M x .
I 500 U.S. m , F , v 420
B . S , , I , 11
, $13 x B . I 5
, U.S. v . C m
, . L $2 $1.9
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B v ,
v B m v -
x U S . I -
, I m U S , m
, m , m
$200 $300 . B
B , m m -
. I , m .
I m m , I B v
NAFTA m m
. v . v N
Am , C , M x , U S ; v
C Am C ; v S Am .
T , m
, m U.S.
m -
x H m , m
v , -
x .
S Am . Ev m
L Am L ,
U S Am , I , I
, L Am ,
M x C Am , S Am -
. T m .
v m S Am , m
, S Am mm ,
mm v , , m v

m 31 A . I
v mm m . v
. m -
. m . M m ,
, , m
, mm , mm .
T , I , v . I m
U.S. G v m v ,
,
U S , NAFTA, .
F v m v m m -
, , , S Am -
, , , ,
mm . T m .
T m , B ,
m , , v -
m . mm M
. T x M S Am ,
, A m m ,
FTAA. O ,
FTAA, F T A , ,
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T , m -
, v v . T
m , . 2005 v -
v m .
S I B U
S x , v m .
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, v ,
v , .
I , B -U.S.
m ,
U S . v
m v m U S ,
B U S v
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T v m .
T m Am B
x.
M . GALLEGL . T v m , M . Am .
M . M , D MERCOSUL,
m ?

STATEMENT OF MICHAEL A. MAY, DIRECTOR, MERCOSUL—SOUTH AMERICA PROJECT, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

M . MA . T , M . C m .
M m M M . I B MERCOSUL
C S I S , I
m m m m
.
B , I B Am
B , m v U.S.-B -

, m v -
v v m B M m-
C .
M . GALLEGL . , M . M , m
m m.
M . MA . T .
I S mm m
m
v B , A , m
S C .
I v B 20
U.S. B m -
m . F m
mm U.S. m
C B . T U.S.-B
m . v .
CSIS ,
m
M . D v v v B
MERCOSUL . T 19-m m -
C
x m-
U S .
T CGS B A
C . O m m B C m
, D R .
I . CSIS - v 28
B MERCOSUL. F m
, v L Am . T m -
T A ,
. T x m
m
v .
I , , m m
U.S.-B m m m ,
m C , .
I v m
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U.S. m L Am v ,
v S Am x M x-
. B . I 3.3 m
m . I m , $900
GDP, 170 m P -
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B , m R ,
v m m Am v m C . T ,
B -U.S. m m m ,
m v mm .
T , v v
m x
mm .
I v v m U S -
B , C E -
, . T ,

v m m -
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B v v m MERCOSUL v m . A m -
, MERCOSUL A , B , P ,
U . I m 1991, C B v -
m m . I ,
GDP $1.3 , v 200 m
, v 50
L Am .
B m m , MERCOSUL, -
m - , GDP. A ,
25 .
A m B A -
, v m ,
MERCOSUL . T m .
B ' A
. T -
m m .
B m MERCOSUL -
, m m U.S. C -
, U.S. M x , C v v .
C m m m MERCOSUL. I
U S B ,
MERCOSUL. ,
. ,
m .
T E U , v -
m EU-MERCOSUL .
N v , E U v
m MERCOSUL, U S
m , , .
MERCOSUL' m m m -
m P . B v , v
. I m P
B v v m . T MERCOSUL v m -
m m
m m .
B U S m
P -E ,
C m-
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T Am m mm m .
I v m . I U.S.
, U.S.
v v m .
T F T Am , FTAA, -
2005. D m A m -
, m C , -
, U.S. v -
. D U.S. v
FTAA , m
FTAA, S Am ,
U S .

T x m C
B
MERCOSUL m , m ,
v -
m .
B U S FTAA -
mm
FTAA 2005. I v
FTAA U S B -
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I v v m v v-
m m C m . B I
m m , 2 m U.S.
B m Am m
m B ' A S C . T
x m m m -
v v .
F , , m -
m
m x m v -
. I C v v
B , m B -
. CSIS'
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I v m-
v , m
. I m Am
v m m C v B . B
v v .
T m ,
m . T U.S. B -
v . A m
m , I m , B
v . T m , v
m , v
v x-
.
T .
T m M . M x.
M . GALLEGL . T v m , M . M .
O x M . M Sm , Ex v D , U.S.-
B B C .
M . Sm ?

STATEMENT OF MARK SMITH, EXECUTIVE DIRECTOR, U.S.-BRAZIL BUSINESS COUNCIL

M . SMITH. T v m .
G , M . C m M m
H m S mm .
I m M Sm , I m Ex v D B -
U.S. B C , D L Am A
U.S. C m C mm . I
B -U.S. -
.

T B -U.S. B C
m B U
S , v m
. T C
U S , 65
U.S. v B , B ,
R J , m B
U S , B S F
I .
B m U.S. m
v . I 1999, U.S. D m
C mm , U.S. v m
B v $35 , M x , $34
, 4½ m v U.S. v m
C .
F m v , B U.S.' 11 x-
m . M
U.S. x m B C ,
. U.S. $68
C , $1.9
B .
S P C B m
1991, U.S. x B v m , v
$13 1999. T -
v U S , F -
, C , T x , N , I ,
v m x B .
T m m . T , B F ,
N . 1 x . F m 1993, F x B -
312 . D m , C x -
215 , T x 290 , N 207 ,
I 375 . O v . G x-
v B 768 , O
x v 420 .
T B m -
B -U.S. . , -
m , B U S , B
m -
, $6.28 1997. F m 1991 1999,
U.S. x B 114 , B x
U S 68 .
T m B ,
U.S. v . M B v m m -
U.S. m
m x , , ,
. H v , m m x.
U.S. m m
m , m , m
m . N B , x
v m . H v ,
m B , U
S .
T B , x
U.S. m , m v m

, B -
U S ,
B ' x m .
A m , , B m x
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A P P E N D I X

JUL 26, 2000

Opening statement of Chairman Gallegly
Hearing: U.S.-Brazil Relations

It is said by some that generations of Brazilians have long been taught that they lived in the country of the future and that Brazil had a guaranteed place as one of the world's leading countries.

With a land mass occupying nearly one-half of the entire South American continent, making it the 5th largest country in the world;

With a population of nearly 165 million, making it the fifth most populous country in the world; And with a Gross Domestic Product of nearly $700 billion, making it one of the ten largest economies in the world, it is no wonder that the Brazilians feel that way.

Additionally, Brazil's democracy is strong and vibrant. Its institutions such as the legislature, the judiciary, and the press are, by all account, independent and active. Brazil's current efforts at internal political and economic reform appear to be on a successful path.

This is critical because a stable and more economically viable Brazil is not only important for our own economy, offering more attractive markets for U.S. trade and investment, but it is important for all of South America as it can provide a model for stability and the engine for growth in the region.

Yet, as large as Brazil looms in the Hemisphere; despite the fact that over 400 of the Fortune 500 U.S. companies operate in Brazil; and despite the enormous bi-lateral trade relationship, little is really known or appreciated of Brazil here in the United States.

Thus, the purpose of this hearing is to attempt to bring the U.S.-Brazil relationship onto the forefront of our policy agenda.

Over the past few years, Brazil and the United States have made important strides in building a more productive relationship. Ambassador Barbosa is playing a key role in that effort.

And while the interests of our two countries may be considered more parallel than identical, I believe both nations are headed in a positive, constructive direction as key partners in areas such as trade, counter-narcotics, weapons proliferation, human rights, the environment and international peacekeeping.

Brazil and the United States share a common interest in nurturing a democratic, vibrant and growing Latin America. I welcome and encourage this new era of strong U.S. - Brazil relations and look forward to hearing from our witnesses.

STATEMENT OF REP. GARY L. ACKERMAN
JULY 26, 2000
U.S.-BRAZIL RELATIONS

Mr. Chairman, I am pleased that we are holding this hearing today. Despite the existence in Congress of a Brazil Caucus as well as a Congressional Working Group on Brazil, the nation with the largest economy in Latin America often escapes our notice. Perhaps that is better for the Brazilians.

Seriously, Brazil should command our attention much more often. 420 of the Fortune 500 do business there and U.S. direct investment in Brazil exceeds that of our investment in Russia, China, India, or Mexico. My own state of New York has benefitted from expanded trade with Brazil as exports from New York rose by 207% between 1993 and 1998. Given the size of Brazil's economy, it is clear that when Brazil sneezes, South America catches cold. That is why the international community assembled a $41.5 Billion financial assistance package when the *Real* was under speculative attack in 1998.

But our relationship with Brazil is and should be about more than just economics. We share a common desire to see the democratic transition in South America endure and deepen. Brazil and MERCOSUL have been leaders when coups threatened Paraguay and Ecuador. It is precisely because of this leadership that the Brazilian Government's reaction to the election in Peru puzzles me. I understand that there was no coup in Peru, but I think that threats to democracy should be forcefully addressed no matter where they come from. In my judgement, Mr. Fujimori has undermined Peruvian democracy and the countries of the hemisphere should be

unified in our response to that.

I share Ambassador Barbosa's view that it is important for us to institutionalize our relationship by having more regular meetings of officials at the working levels of our respective governments. In addition, I also believe that our increased cooperation on organized crime and counter-narcotics reinforces the common interests of our two nations. So Brazil and the U.S. have a positive, common agenda on which we can move forward.

Mr. Chairman, as Brazil and the United States address issues of regional integration, I think that partnership is the operative word. I look forward to hearing today's testimony and hope this will be the first of many useful exchanges we will have regarding Brazil-U.S. relations.

Thank you.

STATEMENT FOR THE RECORD
Hon. **Robert Menendez**
Hearing on
The U.S. and Brazil: Strategic Partners or Regional Competitors?
Western Hemisphere Subcommittee of the
House Committee on International Relations

Thank you, Mr. Chairman. And thank you, Secretary Eddleman for being with us today. I look forward to hearing from you, as well as from Amb. Barbosa and our private witnesses, Michael May from CSIS and Mark Smith of the Brazil-U.S. Business Council. I am proud to be a member of CSIS's Brazil-Mercosul Congressional study caucus.

Before we get into the question of whether we are strategic partners or regional competitors – and I hope we can be both – I'd like to know why you think Brazil earns so little of our attention.

Despite being the world's fifth largest country, in terms both of land mass and population, Brazil probably does not make the list of the top 100 countries to which this Congress pays most attention. As Ambassador Barbosa pointed out in a recent meeting we had, though, this is not necessarily a bad thing – considering the list of countries upon which we do focus.

Certainly, one of the reasons we mostly ignore Brazil is that the country, in the past 15 years since

On the question of "Strategic partner or regional competitor?" – as I said, I hope we can be both. A little friendly competition never hurt anyone. Brazil's economy certainly is competitive – and President Cardoso has done a great deal to make it so. I would ask that we all play by the rules, of course, or the competition will suffer. Brazil has moved in a favorable direction recently on several difficult issues, including intellectual property rights, export subsidies, and protection of its domestic computer industry, and that is positive. However, the dumping of Brazilian steel on the U.S. market remains a concern.

On another very important issue, I hope that our two countries can come to agreement on the importance of including labor and environmental provisions in trade discussions and eventual agreements.

For the good of the Hemisphere – and the world – the two largest countries in the Americas must be strategic partners. And I believe we are strategic partners.

Economically, we are very linked and there is clearly recognition on the part of business, investors, and economists of the importance of the U.S.-Brazil relations. And I know that the testimonies of all our witnesses today will attest in detail to this blossoming economic relationship. As I just mentioned, too, I hope and expect we can work together to promote free and fair trade.

But equally important, I hope that we can work together to promote free and fair elections, and democracy generally – because of course democracy is more than just elections. Brazil, in some instances, has fought hard to maintain democracy in the hemisphere – when a military coup threatened democracy in Paraguay, Brazil and the other Mercosul members invoked the trade group's democracy clause and ensured the continuation of elected government in that country. But we must recognize electoral coups as we recognize military coups, as detrimental to democracy and progress in the hemisphere. I am disappointed in Brazil's stance in the OAS on the question of Peru's recent elections. This is not a question of imposing U.S. will on a sovereign country in the region. It is a question of whether or not the OAS is going to have any relevancy; and a question of whether or not countries in the hemisphere are dedicated to upholding the will of their own people at the moment of truth.

But, again, I hope and expect to work cooperatively with Brazil and other partners in the region on the question of maintaining and consolidating democratic institutions in the hemisphere. Brazilians have a lot of proud history and experience of democracy-building, much of it recent, to share with other countries in the region. I am pleased to see that the coming South American Summit, to be hosted by Brazil, includes the strengthening of democracy as its number one agenda item. Also, Brazil will host the second World Democracy Forum, in November in Sao Paolo.

Amb. Barbosa is correct to try and educate us about the regional and individual country differences in Latin America – that Brazil and the Southern Cone are very different from the Andean region, for example. Brazil should play a more proactive role in trying to shape policy for the better of the hemisphere – help us and the Colombians to figure out the best response to Plan Colombia; the best way to modernize and make relevant the OAS; the best way forward on free trade in the Americas.

I know that the U.S. and Brazil share common values; I fully expect an ongoing partnership that is not only mutually beneficial, but also of immense help to the hemisphere as a whole. I look forward to hearing from you today about how we continue on that road.

STATEMENT OF LINDA H. EDDLEMAN

Deputy Assistant Secretary

Bureau of Western Hemisphere Affairs

Before the House Committee on International Relations

Western Hemisphere Subcommittee

July 26, 2000

Brazil: A New Era of Bilateral Cooperation

Mr. Chairman, Members of the Subcommittee, it is a pleasure to be here with you today to discuss the state of U.S.-Brazilian bilateral relations. In recent years, Brazil's economic modernization program and more forward leaning approach to international issues have led to much greater interaction between our two societies. U.S.-Brazilian commercial activity has surged, the number of citizens traveling between our two countries has climbed, and Brazilian participation in hemispheric and international events has risen. In my testimony today, I will review the current state of U.S.-Brazilian bilateral ties, with a focus on political, economic and security issues.

Brazil: A Growing International Actor

Brazil's growing international stature and its dominant position in Latin America make it a key player on many issues affecting U.S. interests. It is the world's fourth largest democracy and ninth biggest economy. Brazil accounts for 50% of South

America's population and over 45% of GDP. It shares a common border with all but two of South America's nations, and its Lusophone heritage links it to countries on three other continents. As evidenced during the world financial crisis in 1998 and 1999, Brazil's economic health is pivotal to hemispheric prosperity, and also impacts on U.S. and global financial markets. Brazil is influential at the UN and other multilateral fora, and is active on international security and peacekeeping issues. Within the Hemisphere, Brazil is critical to efforts to deepen democracy and to promote regional stability.

[redacted]

Brazilian Democracy

The vigorous political activity now underway in Brazil in anticipation of nationwide municipal elections in October is testimony to the country's vibrant democracy. Since the end of military rule in 1985, Brazil has held four presidential [illegible] successfully weathered the impeachment and resignation of its first directly [illegible] elected President. The Brazilian military no longer plays a significant role in domestic politics, and established a civilian Defense Ministry last year. Brazil's federalist system provides multiple opportunities for local involvement in politics, and numerous political parties and non-governmental organizations create an active civil society. An aggressive, independent press also enriches political and cultural life, and helps hold politicians accountable to the public. Recent opinion polls show a high level of public dissatisfaction with the Brazilian political system's seeming inability to solve the country's daunting social problems—including income inequality, high crime,

economy could trigger an economic meltdown in Latin America and deepen the turmoil in international capital markets. The impact on Argentina, which sends over 30% of its total exports to Brazil, would have been especially grave. These considerations led the IMF, World Bank and IDB—in close consultation with the U.S.—to assemble a $41.5 billion financial package to help Brazil overcome the crisis. The U.S. contributed $5 billion from the Economic Stabilization Fund.

The international financial package—coupled with the fiscal discipline maintained by President Cardoso's economic team and structural reforms approved by the Brazilian Congress—enabled Brazil to overcome the *real* devaluation and to embark on a path of renewed growth. Brazil's economy grew by almost 1% of GDP in 1999, with consumer inflation under 9%. This year, the economy is projected to register GDP growth of 3.5-4%, with inflation falling to 6%. Brazil has regained access to international capital markets, and repaid the loans disbursed by the U.S. and other bilateral lenders ahead of schedule. It has maintained sound fiscal and monetary policies, and its public sector fiscal deficit will fall from over 10% of GDP in 1999 to 4.5% this year. Still, while the economy appears to be recovering from the detrimental effects of its financial crisis in early 1999, substantial hurdles remain. Brazil needs to pursue additional structural reforms, including social security and tax reform, to consolidate its fiscal position and lay the foundation for future sustained high growth. The Cardoso administration recognizes the need for additional measures, and is working to build congressional and public support for these politically difficult actions.

Despite Brazil's better than expected economic performance in 1999, the *real* devaluation put substantial pressure on other economies in the region. Argentina's economy fell by 3% of GDP, and Uruguay and Paraguay experienced negative growth. Trade within Mercosur (Southern Cone Common Market), the imperfect customs union consisting of Brazil, Argentina, Paraguay and Uruguay, dropped by 25%, and Mercosur members erected an array of tariff and non-tariff barriers to intra-regional trade. Still, Brazil's strong recovery this year has boosted growth in the region, and alleviated trade tensions within the group. Moreover, Brazil and Argentina have worked to improve macroeconomic coordination within Mercosur and to resolve specific sectoral disputes over autos, textiles, sugar and footwear. However, the consolidation of macroeconomic stability in Brazil remains key to the Southern Cone's economic prospects.

Brazil-U.S. Economic Ties

President Cardoso's economic modernization program has created numerous trade and investment opportunities for U.S. firms. Total bilateral trade reached $24.5 billion in 1999, up from $16.8 billion in 1994, and U.S. exports rose 64% during this period. Brazil was the 13th largest export market for U.S. goods in 1999, and the U.S. ran a bilateral surplus of $1.9 billion. Capital goods and other high-value added products account for approximately 50% of our exports. Moreover, U.S. direct investment in Brazil almost doubled between 1994-99, rising from $19 billion to over $35 billion. Brazil is the 8th largest recipient of U.S. direct investment in the world, and accounts for almost 50% of U.S. investment in South America. Over 400 of the Fortune 500

companies, including Colgate, Citibank, Compac, Bell South and Ford, have operations in the country. Manufacturing accounts for almost 60% of U.S. investment, but the fastest growing sectors are telecommunications and energy. The U.S. share of total foreign direct investment in Brazil is approximately 28%, and U.S. firms have been the leading participants in Brazil's privatization program.

The size of Brazil's economy and its growing trade and investment links with the U.S. and other countries in the Hemisphere make it an essential player in the Free Trade Area of the Americas (FTAA) negotiations. Brazil accepts the Miami Summit commitment to reach an agreement by 2005, and will co-chair the talks with the U.S. during the final phase of negotiations starting in November 2002. Still, it generally favors a slower pace in the talks than that advocated by the U.S. The government voices concern that the absence of U.S. "fast track" negotiating authority and the impact of U.S. trade barriers on some of Brazil's largest exports. Brazil continues to spearhead efforts to revitalize Mercosur and also hopes to use a Summit of South American leaders convened by President Cardoso for late August to revive trade talks between Mercosur and the Andean Community. The U.S. supports these efforts at sub-regional trade liberalization as long as they are WTO-consistent, support further market-opening in the Hemisphere and are trade creating rather than trade diverting. Brazil and its fellow Mercosur members are also engaged in trade negotiations with the European Union, but Europe's reluctance to trim its agricultural subsidies makes progress unlikely in the near term.

The rapid expansion of U.S. investment in Brazil has inevitably led to a growing number of trade and investment disputes. USTR is currently engaged in WTO consultations on issues involving intellectual property rights and custom valuation. On investment, one problem is the conflict between U.S. investors and state authorities over control of an electric utility company in the state of Minas Gerais. A second case involves a dispute between a U.S. telecommunications firm and Brazilian federal tax authorities over unpaid tax bills stemming from the Telebras privatization. Similarly

Environment meeting, annual meetings of the U.S.-Brazil Education Partnership, annual Bilateral Law Enforcement talks, annual Bilateral Working Group for Defense meeting,

exploring the possibility of setting up a bilateral Consultative Committee on Agriculture. These mechanisms have greatly facilitated bilateral policy coordination and have helped institutionalize our cooperative relationship.

There are sometimes notable differences between the United States and Brazil over the appropriate tactics for responding to threats to democracy.

In Colombia, Brazil strongly backs President Pastrana's peace initiative, and Brazilian officials regularly review developments in the country with their U.S. counterparts. Brazil attended the July 7 Madrid meeting on Colombia, and it has informed the Pastrana government that Brazil adheres to the Madrid Declaration in favor of Plan Colombia. President Cardoso has met with Pastrana several times and has encouraged him to continue with his peace efforts. At the same time, senior Brazilian military officials have voiced concern about possible spillover from the Colombian conflict into Western Brazil, and have taken steps to increase Brazil's military presence in the border area. In addition, Raytheon's SIVAM (Integrated Amazon Monitoring System) project, which is scheduled to come on line in 2002, will help Brazil improve its control over its territory, including air space, to better combat narcotrafficking in the Amazon region.

Similarly, Brazil has worked with the U.S. and other regional actors to support

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political issues within a democratic framework. President Cardoso has met with President Chavez on several occasions to reiterate this message. In Paraguay, Brazil has used its substantial economic and political leverage, including Paraguay's membership in Mercosur, to promote democracy and constitutional rule. Brazil granted asylum to former Paraguayan President Cubas during the 1999 political crisis, and recently detained former Army Commander and convicted coup plotter Lino Oviedo in Foz do Iguacu. Brazil has said it will carefully consider extradition requests for Oviedo presented by the Paraguayan government.

On regional stability, Brazil's willingness to assume the lead role in the Peru-Ecuador border dispute, both diplomatically and on the ground in running the peacekeeping operation, was vital to the successful resolution of the conflict. Brazil also participates in the Defense Ministerial of the Americas process, and will host the fourth

[redacted]

leadership role in developing country groups such as the Rio Group and the Group of 77. There are some within Brazil who fear that close cooperation with the U.S. will bring a loss of policy independence.

Brazil made a valuable contribution to international peacekeeping in the Ecuador-Peru border dispute, and has also participated in peacekeeping operations in Angola, East Timor and Mozambique. Brazil's Lusophone connection has been particularly useful in Angola and East Timor, where it has consulted with the U.S. on the reconstruction efforts underway in both countries. Brazil strongly backs UN sanctions efforts against UNITA and has financed training programs to help demobilized Angolan soldiers return to civilian life.

Brazil has made outstanding progress on nonproliferation. Steps that show Brazil's commitment in this area include joining the Missile Technology Control Regime (MTCR) and the Nuclear Suppliers Group; forgoing MTCR-class offensive military missiles; implementing MTCR export controls; abandoning its nuclear weapons aspirations by joining the Tlateloco treaty; acceding to the Nuclear Nonproliferation Treaty (NPT) and the Chemical Weapons Convention; signing the Comprehensive Test Bank Treaty and joining the Biological Weapons Convention; and signing the Comprehensive Test Ban Treaty. In October 1998 our bilateral agreement concerning

Brazil has also been very supportive of U.S. nonproliferation efforts in South Asia, both as a member of the South Asia Task Force, and by serving as an important

[redacted]

than engage in a costly nuclear arms race with a neighbor. Through its participation in the New Agenda Coalition, it also recently made an important contribution to moving the Nonproliferation Treaty Review Conference toward a compromise on nuclear disarmament issues.

Bilateral Military Relations

In the sphere of military relations, Brazil's improved diplomatic and economic relations with its neighbors and its shift toward a more outward looking foreign policy

For example, some members of the Armed Forces continue to assert that the U.S. has designs on the Amazon; an allegation that I am certain takes the Committee as much by surprise as it did the Department of State.

Space Cooperation

Space is another area in which U.S-Brazilian cooperation has flourished in recent years. In 1995 Brazil joined the Missile Technology Control Regime (MTCR), overhauled its military-controlled space program, and enacted a law governing sensitive technology exports. These changes enabled the U.S. and other countries with space program to enhance cooperation on space issues including data sharing and experimental coordination. In 1996 the United States and Brazil signed a framework agreement for space cooperation, allowing for a wide range of activities. NASA and Brazil's new civilian space agency now work closely on a variety of programs directed toward the peaceful uses of outer space. U.S cooperation does not extend, however, to space launch vehicles. Brazil is the only developing country participant in the International Space Station (ISS) and is contributing hardware that is vital for the effective use of the station. President Cardoso recently reaffirmed his administration's commitment to the ISS by instructing the executive branch to ensure that funds are available to meet Brazil's ISS obligations even in a time of fiscal austerity.

Conclusion

Brazil's increasing economic and political integration into global and hemispheric affairs has created common U.S. and Brazilian interests on a range of regional and multilateral issues and led to a new era of bilateral cooperation. On economic issues. President Cardoso's market-based modernization program has generated an explosive surge in U.S. trade and investment and greatly expanded Brazil's links with Latin America and the rest of the world. Brazil's importance to Hemispheric prosperity prompted the U.S. to take the lead in assembling a financial package to assist Brazil during the *real* crisis, and has made it a key player in the negotiation of the Free Trade Area of the Americas. Increased bilateral economic activity has also generated pressure from both the Brazilian and U.S. private sectors for bilateral commercial agreements that reflect the new economic reality.

Similarly, President Cardoso's internationalist foreign policy approach has produced many opportunities for the U.S and Brazil to work together constructively on global and regional issues and has resulted in the creation of a number of formal and semi-formal structures to facilitate policy coordination. These structures deal with issues ranging from security to the environment to regional stability and have been key in deepening the level of cooperation between our governments. The further development of such institutional ties will become even more important in managing bilateral relations as the extent of Brazil's involvement in the Hemisphere and the world continues to grow.

I would like to thank the Committee for inviting me to testify here today, and look forward to answering any questions that you may have.

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CURRENT ECONOMIC AND POLITICAL CONDITIONS IN BRA IL

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BRA IL'S PRIORITIES AND CHALLENGES AHEAD

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CONCLUSION: STRATEGIC PARTNERS IN THE REGION

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Testimony Before the Subcommittee: Western Hemisphere Affairs
Committee on International Relations
U.S. House of Representatives

The U.S. and Brazil:
Strategic Partners or Regional Competitors?

July 26, 2000

By Michael May
Director
Brazil - MERCOSUL Project
Center for Strategic and International Studies
Washington, D.C.

Good morning, Mr. Chairman, and members of the Western Hemisphere Subcommittee. My name is Michael May and I am the Director of the Brazil - MERCOSUL Project at the Center for Strategic and International Studies (CSIS).

Before going further, I would like to recognize Brazil's Ambassador to the United States, Rubens Barbosa who has worked tirelessly to improve U.S.-Brazil relations. He has pursued his mission energetically and has been quite active in working with members to develop meaningful links with the U.S. Congress.

Mr. Chairman, I congratulate you for holding this timely hearing and encourage you and others to make additional fora available dedicated to Brazil, Argentina, and the democratic and stable countries of the Southern Cone. I have been dealing with Brazil professionally for twenty years and still find that U.S. relations with Brazil are somewhat of an enigma. Few other countries with the strategic size and economic and commercial potential are as ignored by U.S. policy makers and the congress as is Brazil. Surprisingly, this is even apparent within this hemisphere. While attention should rightly be focused on problem areas in the region such as Colombia, Peru, and Cuba, the U.S.-Brazil relationship should not suffer from benign neglect.

CSIS' Congressional Outreach

With the support of some of your colleagues, CSIS has developed the Brazil - MERCOSUL Congressional Study Group (CSG). The goal of the 19-member CSG is to be a resource for the congress by expanding its knowledge and focus on this increasingly important region for the U.S. Representatives Archer, Bono, Chambliss, Davis, Delahunt, Dooley, Dreier, Matsui, Menendez, Ramstad, Regula, Salmon, and Watkins and Senators Bayh, Breaux, Chafee, DeWine, Dodd, and Graham. The late Senator Paul Coverdell was also a very active member of the CSG. The CSG has counterpart groups in the Brazilian and Argentine congresses.

The CSG allows us to offer ongoing seminars on the Hill and to invite key congressional staff to the region. Since November 1998, CSIS' Congressional Study Group has sponsored four

congressional staff visits totaling 28 staff to Brazil and MERCOSUL. These visits were the first to any part of Latin America for the vast majority of the group. It is interesting that nearly three-quarters of the group had been to Taiwan and other Asian countries. This, I believe, is an example of the benign neglect that so often characterizes U.S. relations with Brazil and MERCOSUL.

Friends or Rivals?

Unfortunately, the institutional memory of U.S.-Brazil relations among most policy makers goes back no further than the launch of the Real Plan and the first election of President Fernando Henrique Cardoso both in 1995. Few will recall Brazil's participation in World War II in support of the United States when it sent ground troops to Italy; moving the capital from Rio de Janeiro to Brasilia in 1960; the 21 years of military rule; its import substitution policy and U.S. trade sanctions over informatics in the 1980s. This thumbnail sketch reveals the multifaceted nature of Brazil's recent history and an inconsistent relationship between the United States and Brazil.

Too many U.S. policy makers paint Latin America with a wide brush and consider South America but an extension of Mexico. South America is different from Mexico and Central America. South America itself varies from the Andean and Caribbean flavor of the Northern Tier to the sophisticated urban, manufacturing and agriculture areas of the Southern Cone. Then there is Brazil, of continental size with a land area of 3.3 million square miles, huge manufacturing potential, a $900 billion GDP, and a population of about 170 million Portuguese speaking people. Brazil's economy is larger than Russia's and attracts about five times more American investment than China.

Today, the Brazil-U.S. relationship is more mature and dynamic and both sides are attempting to increase levels of respect and communications. Through trial and error we have established an effective working relationship. The view of both countries that resulted from the Cold War when disagreements were common, especially in the latter stages of Brazil's military rule when the country developed a more nationalistic stance and strict protectionist policies, is dissipating as both countries concentrate more on expanded trade and commerce.

I believe that it is very important for the United States to recognize that Brazil – not unlike Canada or our closest allies in Western Europe – will pursue an independent foreign policy. This is natural and is indicative of a mature relationship built on mutual respect.

MERCOSUL and the FTAA

MERCOSUL is a group of four countries – Argentina, Brazil, Paraguay and Uruguay – which have been joined in a Customs Union since 1991. Chile and Bolivia are Associate Members of the group. MERCOSUL, the third largest trading bloc in the world, has a GDP of about $1.3 trillion, a population of over 200 million and accounts for over 50% of the industrial output of

Latin America. Most American companies have a presence there and the area offers huge potential for trade and investment.

Brazil is by far the largest member country of MERCOSUL, accounting for more than two-thirds of the of the bloc's GDP. Argentina's percentage accounts for about 25% .

Although there has been tension – at times quite severe – between Brazil and Argentina regarding trade disputes and differences in currency over the past year, both Brazil and Argentina are working hard to resolve the trade problems. Prior to the devaluation of the real in January 1999, Brazil absorbed about one third of Argentina's exports. Argentina now sends slightly over twenty percent of its exports to the recovering Brazilian economy.

The currency issue is problematic. Brazil's real floats while the Argentine peso is pegged one-to-one with the dollar by a currency board. Brazil believes that Argentina should have a "more realistic" currency while Argentina, still clinging to painful memories of hyper-inflation, shows no sign of changing its policy. Thus, I believe that the currency issue will continue to cause tension.

Despite continuing problems facing the MERCOSUL countries, the group remains very cohesive. Chilean President Lagos recently announced that Chile plans to become a "full" member of MERCOSUL. It is clearly in the best interest of the United States to engage MERCOSUL. We should not be afraid nor be ignorant of this group. We should understand how it functions and try to engage it as much as possible. The European Union's predatory and aggressive agricultural policy has been a major hindrance to E.U.-MERCOSUL integration. Nevertheless, the European Union continues to aggressively pursue a free trade agreement with MERCOSUL, while the United States remains on the sidelines.

MERCOSUL is much more than an economic unit. The bloc's democracy clause has been instrumental in maintaining democracy in Paraguay, for example. Brazil played a key role in the support of democracy in Paraguay, a policy which coincided with that of the United States. The MERCOSUL countries have also dramatically reduced tensions by reducing their militaries and by eliminating missile and nuclear programs.

Brazil has also cooperated with the United States and Argentina in mediating the Peru-Ecuador border conflict. It will be interesting to see how much our two countries will be able to cooperate on Colombia.

Brazil is also active in developing strong relationships with its South American neighbors. On September 1, President Cardoso will host a meeting (Encontro Presidencial) for the presidents of South America's democracies.

The Free Trade Area of the Americas (FTAA), or ALCA in Portuguese and Spanish, is projected to be concluded in 2005. Despite public statements by the Administration and some in Congress, without Fast-Track negotiating authority, the U.S. is perceived in the region as aloof and

unconcerned. Despite the fact that U.S. negotiators have been diligently taking part in the FTAA working-groups, the perception remains that the FTAA and especially the southern part of South America are not priorities for the United States. The next administration and congress should cooperate to enact Fast-Track and take other strong concrete actions to show Brazil and the MERCOSUL democracies, and the hemisphere as a whole, that we, indeed, are serious in developing strong ties with this increasingly important region.

In this context, it is important to note that Brazil and the United States will be the final set of FTAA co-presidents in the period immediately prior to the conclusion of the negotiations in 2005. The final outcome of these negotiations is likely to be determined by agreements – perhaps at the last minute – between the hemisphere's two largest economies. There will be no FTAA unless the United States and Brazil are fully engaged in this process.

Trade and Investment Issues

The United States is Brazil's number one export market. This year Brazil should run a trade surplus with the United States after six years of a U.S. trade surplus with Brazil. From 1979 to 1994, Brazil had a trade surplus with the United States. Brazil is the twelfth largest market for U.S. exporters. Last year American companies continued to invest heavily in Brazil, reaching a cumulative total of nearly $40 billion, the seventh largest investment recipient.

Despite this growing trade and investment both sides would like to see the other further open their markets. Brazil would like increased market access for orange juice, footwear, citrus and steel. Conversely, the U.S. would like to see Brazil work to reduce the common MERCOSUL tariff of 14 percent, sign a tax treaty with the U.S., and address specific issues of concern to the pharmaceutical and satellite television industries. Despite these issues, bilateral trade tensions have declined dramatically in the past few years.

Brazil has successfully completed privatizations of telecommunications, power generation, and the huge mining company, Companhia Vale do Rio Doce (CVRD). Although the initial privatizations were well done, there is concern among U.S. investors that further privatization projects have been put on hold as well as concern about state-level involvement in privatized industries.

It is interesting to note that in the last two months, the United States and Brazil signed an agreement that will allow for American companies to launch satellites from Brazil's Alcântara Space Center in the north eastern state of Maranhão. This is yet another example of the importance of the strong and maturing relationship the two countries have been able to develop.

Future Relationship

One of the most interesting problems affecting the two countries is the surprising lack of knowledge about each other. I encourage congress to take a proactive role in visiting Brazil and

especially meeting your Brazilian congressional colleagues. CSIS' Congressional Study Group would be pleased to help in this effort. In 1998, the Center sponsored the first-ever meeting between the Inter-parliamentary Commissions of the four MERCOSUL countries and the U.S. congress. We are anxious to arrange meetings between the CSG and its counterpart group in the Brazilian congress as well as to continue visits by U.S. congressional staff to Brazil and begin visits by Brazilian congressional staff to Washington.

I would suggest that both countries investigate ways to streamline the tourist visa process to encourage more interaction of our peoples. Brazil will surely reciprocate regarding any action that the United States' will do. For example, some small Caribbean countries receive more U.S. tourists than Brazil.

The future will bring its share of disagreements but they will be differences among friends. The U.S. and Brazil are distinct countries with specific vital interests. Although there is agreement on most issues, we will not agree with Brazil on everything. The important point for both countries is that, even in disagreement, they continue to strive for a better understanding and to never lose sight of the strong bond and friendship that exist between the two countries and their peoples.

STATEMENT
on
The U.S. and Brazil: Strategic Partners or Regional Competitors?
before the
Western Hemisphere Subcommittee of the
House Committee on International Relations
for the
U.S. Section of the Brazil-U.S. Business Council
by
Mark Smith

Good afternoon, my name is Mark Smith and I am the Executive Director of the U.S. Section of the Brazil-U.S. Business Council and Director of Latin American Affairs of the U.S. Chamber of Commerce. I appreciate the opportunity to testify today regarding the prospects for the Brazil-U.S. relationship.

The Brazil-U.S. Business Council is an organization focused on promoting a strategic partnership between Brazil and the United States to increase the flow of trade and investment between our two countries. Our organization's bilateral structure makes it ideally positioned to promote this strategic partnership. The Council has two country sections: one in the U.S., based in Washington, which represents sixty-five of the largest U.S. foreign direct investors in Brazil, and one in Brazil, based in Rio de Janeiro, which represents major Brazilian corporations with interests in the United States, as well as Brazil's state federations of industry and key trade associations. Both sections of the Council work together to negotiate bilateral policy recommendations aimed at strengthening commerce between our two nations.

During my testimony today, I will share some thoughts about the Brazil-U.S. economic relationship, the challenges U.S. businesses are facing in Brazil and how the U.S. government and Congress can work together with their counterparts in Brazil to address these challenges. I will conclude my remarks by drawing from my observations to address the question posed by today's hearing from a business perspective.

Brazil is a top priority market for any U.S. company with a global perspective. According to top executives of Global 1000 companies interviewed for A.T. Kearney's FDI confidence index, Brazil ranked as the fourth most attractive investment destination in the world, behind the U.S., Great Britain and China. While these indexes are helpful in terms of identifying trends, hard numbers paint a clearer picture. In 1999, according to the U.S. Department of Commerce, the total stock of U.S. foreign direct investment in Brazil reached over $35 billion dollars, surpassing Mexico ($34.265 billion) and reaching 4.5 times the level of U.S. direct investment in China ($7.766 billion). From the trade perspective, Brazil is the U.S.' 11th largest export market in the world and still growing. Many are surprised to hear that the U.S. exported more to Brazil last year than to China but this is only part of the picture. While the U.S. had a $68 billion trade deficit with China last year, it enjoyed a $1.9 billion surplus with Brazil.

The level of U.S. corporate interest in Brazil reflects the degree to which Brazil has succeeded in opening its market to foreign trade and investment and stabilizing its economy. Under the leadership of the Cardoso administration, Brazil has implemented important constitutional reforms that have opened key sectors of the Brazilian economy to foreign competition and investment. These actions have led to a boom in U.S. direct investment in Brazil, concentrated in the telecommunications, automotive, electrical energy and petroleum sectors.

Since President Collor began opening the Brazilian economy in 1991, U.S. exports to Brazil have more than doubled, reaching over $13 billion in 1999. This increase came as a result of the country's efforts to modernize its industrial park and the increased access of Brazilian consumers to imported products. This opening has created significant opportunities for businesses all over the U.S., particularly in Florida, California, Texas, New York and Illinois, which are the top five states in terms of total exports to Brazil, in that order. The numbers tell a compelling story. Today, Brazil is Florida's number one export destination. From 1993-1998, Florida exports to Brazil increased 312%. During the same time period, California exports increased 215%, Texas 290%, New York 207% and Illinois 375%. Other states have also benefited. Georgia exports over this period to Brazil increased 768%, while Ohio exports increased over 420%.

The opening of the Brazilian economy also changed the nature of Brazil U.S. trade flows. Whereas prior to opening its economy, Brazil enjoyed large trade surpluses with the U.S., Brazil saw those surpluses dry up by 1995 and become increasingly sizeable deficits, reaching as high as $6.28 billion in 1997. From 1991 to 1999, U.S. exports to Brazil increased 114% while Brazilian exports to the United States increased only 68%. This trade imbalance has defined Brazil's trade agenda with the U.S. ever since. Many in the Brazilian government and media contend that the deficit is largely a result of U.S. protectionism in many of its key export areas, particularly steel, orange juice, sugar and footwear. However, this scenario is a bit more complex.

While the U.S. does employ tariff quotas and other measures to protect its businesses in many of these areas, it remains the most open market in the world. No one disputes that Brazil's exports are negatively impacted by these protections, however, they are not the most significant reasons for Brazil's trade deficit with the United States. The disconnect between Brazil's export portfolio and the areas of strongest growth in U.S. demand, competitive challenges from other nations, and the failure of Brazil to create a recognized national brand in the United States are the principal factors behind Brazil's export performance. The bargain footwear market is a good example of how Brazil's market share in the United States has been eroded, not through additional trade barriers, but by a more agile and lower cost competitor, in this case China.

As many of you know, early last year, Brazil underwent a maxi-devaluation of its currency as it went from a sliding peg exchange system to a floating exchange rate, with the *Real* losing close to 40% of its value vis-à-vis the U.S. dollar. The devaluation had a significant impact on both the Brazilian economy and Brazil-U.S. trade flows. The

decrease in Brazilian purchasing power caused U.S. exports to Brazil to fall 13% last year, while a cheaper *Real* helped Brazil increase its exports to the U.S. by 12%, bringing the trade deficit down to $1.88 billion from $5.04 billion in 1998. Now that the exchange rate has settled around 1.8 *Reais* per dollar, it indicates that the majority of Brazil's currency related export gains should continue, while the skill with which President Cardoso's economic team has been able to get the economy back on track indicates that U.S. exports to Brazil should continue to grow at a rapid rate.

Although Brazil's devaluation should help decrease Brazil's trade deficit with the United States, it clearly will not be enough. Of course, Brazil will continue to work to reduce barriers to its products in the United States, but even if Brazil was able to overcome the deeply entrenched and powerful interests behind these barriers, this also would not be enough. In order for Brazil to even the trade gap in the long term, it is going to have to take a hard look at its export strategy and take decisive measures to alleviate the excessive taxes, complicated bureaucracy and lack of infrastructure collectively referred to as the "Brazil Cost".

Despite causing considerable pain for Brazilian consumers and heartburn for U.S. investors, the devaluation allowed the Cardoso Administration to introduce an inflation-targeting regime that will lay a firm foundation for sustainable growth well into the future. The short-term results of the regime are impressive. Brazil expects to easily meet the primary surplus numbers agreed to with the IMF as a part of its financial assistance package. Real interest rates are at their lowest levels since the launch of the "Real Plan" in 1994, inflation is expected to end this year below 6% and Brazil is expected to grow at least 4% this year. We believe that the positive economic scenario will continue to make Brazil an attractive destination for U.S. direct foreign investment and continue to create new export opportunities for U.S. businesses.

Although we believe that Brazil has truly set the stage for a new burst of growth and prosperity, there are some dark clouds on the horizon. Investors are increasingly concerned about the rising popularity of leftist policies and an increased degree of nationalism among the key segments of the Brazilian population and government. Over the last year and a half, there have been several events that have highlighted this issue. The annulment of tax incentives connected to Ford's investment in the state of Santa Catarina and the efforts of the state of Minas Gerais to limit the shareholder rights of the Southern Company in the state's electrical utility are notable examples. Currently, the Brazilian government is trying to pressure the pharmaceutical industry into voluntarily freezing prices until the end of the year. We remain confident that the Cardoso Administration will continue to move forward with its impressive efforts to open the Brazilian economy, but we will be closely monitoring this growing trend.

Now that I've shared the Council's analysis of the Brazil-U.S. commercial relationship from a macro perspective, I would like to highlight two of the most important bilateral and regional issues that our member-companies are confronting in Brazil and how the Brazilian and U.S. governments and congresses could work to address them.

Our members feel very strongly that the negotiation of the Free Trade Area of the Americas agreement, or FTAA, should be given top priority by both governments and congresses. The United States should move quickly to cement the terms of our commercial relations with Brazil and the region through the accelerated negotiation of this important trade agreement. Fast-Track has become the measure of U.S. leadership in, and commitment to, the region. Congress' ability to pass fast-track legislation limited to trade issues would allow the U.S. to take the initiative and move the negotiations forward at a quicker pace. The longer the U.S. remains without Fast-Track, the more countries will decide to hedge their bets by pursuing other trade integration options with their partners in the hemisphere.

Why is the FTAA important? The U.S. doesn't have a trade agreement that ensures preferential access for U.S. exports in good times and bad with Brazil as we do with Mexico through the NAFTA. This lack of certainty increases the risk of doing business in Brazil for all companies and significantly increases the barriers to entry for smaller companies who don't have the resources to absorb this level of risk. When Mexico went through a devaluation in 1995, our trading preferences were protected by NAFTA. As Mexico's GDP plunged 8%, the U.S. actually gained market share vis-à-vis our European and Asian competitors. During these tough times, U.S. market share increased from 70% to 75% and our exports only decreased 8.9%, while the exports of our European and Asian competitors fell 20-30%.

While Brazil has lowered its import duties from an average of 32.2% in 1991 to14% today, its World Trade Organization tariff bindings remain very high, around 40%. These bindings allow Brazil to legally increase tariffs to these extremely high levels without notice. Given the importance of trade with Brazil to the U.S. economy we can simply not afford to have this uncertainty hanging over our heads.

Advancing the negotiation of the FTAA is also critical because Mercosur is aggressively moving to advance negotiations with our competitors in the region and in Europe. These agreements would give them preferential access to the Brazilian market and could facilitate the erosion of U.S. market share in Brazil. The fact that Spain surpassed the United States as the number one foreign direct investor in Brazil last year illustrates that this competitive threat is quite real. Presidents Cardoso and Frei's announcement in June that Chile will be joining the bloc as a full member in June should also serve as a wake-up call for the U.S.

It is ironic that after years of discussions here in the U.S. about bringing Chile into NAFTA, Mercosur will quickly bring Chile into the bloc. Chile is not the only country negotiating with Mercosur. Mercosur is finalizing negotiations with Mexico, has a framework agreement with the European Union and the Central American countries, is negotiating with the Andean pact and has announced that it will also be bringing in Bolivia as a full member. The U.S. cannot afford to sit on the sidelines as our competitors gain preferential access to the Brazilian market. We have got to make the FTAA negotiation a top economic priority and regain our leadership role in the hemispheric integration process.

Working with Brazil to promote a legal and regulatory framework that promotes the growth of electronic commerce is also a top priority of the business community. This is an area that we believe the members of the U.S. Congress can be particularly helpful by sharing their experiences and lessons learned as Brazil confronts many of the same policy challenges that we face here in the United States.

Specifically, the Council is working to support electronic signatures legislation in Brazil that is technology-neutral and broad enough in scope that it will promote the spread of the use and benefits of E-commerce. The business community is also focused on proposed legislation in Brazil that would subject the express shipments industry to regulation by their principal competitor, the Brazilian postal service. We believe that this bill, if passed in its current form, could be extremely damaging to the spread of E-commerce in Brazil. The Council is working with the Brazilian government and congress to address our concerns.

The title of today's hearing poses the question: Are Brazil and the United States strategic partners or regional competitors? I would submit that our countries are both but add that our competition and partnership extends beyond the Western Hemisphere and emphasize that partnership and competition are not mutually exclusive. While our countries are working together in areas as diverse as the elimination of agricultural export subsidies in the World Trade Organization and the construction of the international space station, we are also vigorous competitors. From a business perspective, the issue is not whether we will compete, but rather how we will compete.

The Council believes that the businesses and consumers of both countries will ultimately benefit from open and fair competition on a bilateral, regional and global level. The challenge for our public and private sectors is to build a framework for this competition based on shared goals and principles. The fact that both Presidents Clinton and Cardoso have committed their countries to the goal of creating the world's largest free trade zone by the year 2005 through the Free Trade Areas of the Americas process illustrates that we have a strong foundation to build upon but, of course, the devil is in the details. As those of you in Congress well know, building consensus requires a strong desire and a lot of effort. Given that Brazil is our second fastest growing export market in the world, after Mexico, we believe that the benefits of this partnership far outweigh the investment required.

The Council has made a major commitment to the bilateral congressional dialogue that we view as essential to the advancement of the Brazil-U.S. commercial partnership through its support of an informal Brazil Caucus in the U.S. Congress. Last year, the Council was approached by the Chairman of the Brazil-U.S. Committee in the Brazilian Congress, Rep. Manoel Castro (PFL-Bahia), and asked if we could help set up a counterpart organization here in the U.S. Congress. Last December, during the WTO Ministerial we made good on our promise to our partner when we inaugurated the caucus during a meeting between the Brazilian and U.S. congressional delegations to the WTO. The caucus is currently chaired by Rep. Jim Kolbe of Arizona and has a growing

membership. Already this year, caucus members and leadership staff participated in a fact-finding mission to Brasília, São Paulo and Rio de Janeiro sponsored by the Council, and we plan on building upon these activities significantly in the coming months.

I would like to close with a thought about the future of our economic and political relationship with Brazil. Recently, President Clinton traveled to Japan for the meeting of the G-7 where he discussed the global challenges presented by the 21st century. As we look to the future, we have to ask ourselves, is he talking to all of the right people? Currently, the G-7 has no representatives from the developing world even though Brazil has the eighth largest economy in world. If we are going to overcome the challenges of this new century, we are going to need institutions that more accurately reflect the political and economic realities in which we live. This means providing a seat at the table for the leaders of the developing world like Brazil.

I encourage you all to take a closer look at the impact of Brazil-U.S. trade and investment on your district and the country and invite you to get involved in the Brazil Caucus' activities. Thank you very much.

Question for the record submitted to
WHA DAS Linda H. Eddleman
Western Hemisphere Subcommittee
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Q: Brazil's market for legitimate copyright products is being destroyed by high levels of piracy. Pirated CD's manufactured in Asia are being smuggled into Brazil by organized criminal enterprises. Unauthorized reproduction of videotapes within Brazil's borders is also rife. The US copyright industries lost $917 million due to piracy in Brazil last year. Brazilian creators are also suffering staggering losses. What is the State Department doing to help bring this serious problem under control?

Answer: State Department officials in Washington and Brazil raise intellectual property rights (IPR) protection at all opportunities. The Brazilian government is aware of our concerns, which are shared by Brazilian creators whose intellectual property is also stolen. The Brazilian government has worked to strengthen border controls to reduce the volume of pirated products entering Brazil through Paraguay and through Brazil's ports. In May, Brazil's Federal Revenue Service, working with industry, seized two large shipments of approximately 500,000 pirated compact disks, which originated in Hong Kong. Earlier this year a Sao Paulo civil court issued a $70 million judgement against a clothing manufacturer for end-user software piracy. While we understand that the parties eventually settled out of court, the large judgement had a positive impact on public perceptions of IPR enforcement. We have used our public affairs programs to increase public

awareness about the importance of IPR protection and to bring Brazilian officials to the United States for IPR programs. We will continue to press Brazil to do more and will provide assistance, including training of Brazilian officials, as appropriate.