Brazil's Economic Identity

Motivations and Expectations

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CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

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Executive Summary

Though policymakers would do well to understand what motivates the second-largest economy in the Western Hemisphere, comprehension of Brazil's economic and geostrategic motivations remains low at best. A greater understanding of Brazil's economic identity must be based on the following:

- In the economic realm, Brazil is motivated by its development agenda. It seeks concrete gains in technology and innovation that can improve its competitiveness.

- The importance that domestic policies have played in Brazil's success over the past two decades has made Brazilians hesitant toward comprehensive and binding free trade agreements. Instead, Brazil seeks bilateral and multilateral relationships that complement its development agenda. To this end, Brazil is consolidating the position of its manufactured goods in the Mercosur and seeking out nonbinding flexible relationships that emphasize stakeholder relations through government brokering. We are seeing Brazil take this approach with the BRICS countries (Brazil, Russia, India, China, and South Africa), and we have seen it to a much greater extent in Brazil's relationship with the United States.

- Until that posture dissipates, policymakers should continue to engage with Brazil on an issue-by-issue basis. Nevertheless, we should expect to see much more global engagement from Brazil, as Brazil's emerging status is an important part of its global identity.

- Equally important, however, are the Western values that underpin Brazil's institutions. This in some ways positions Brazil to serve as a bridge between the Global North and South, both economically and politically.

As Brazil continues to navigate this delicate new role, its relationship with the United States will be indispensable. Given recent political challenges, the two countries will have to take concrete steps to rebuild confidence—perhaps through a meeting at Camp David, the locale traditionally used to soften presidential relations and build trust in a more intimate setting—as a key measure in strengthening their bilateral relationship and taking advantage of its enormous potential.

Brazil's Economic Identity

Motivations and Expectations

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Introduction

This week, July 14 through 16, marks the sixth summit of the heads-of-state of the BRICS countries—Brazil, Russia, India, China, and South Africa—in Fortaleza, Brazil. The group has met annually since 2009—before South Africa was formally added as a member—to discuss issues of common economic and geostrategic interest, and this summit is no different.

The idea of the BRICS came about in 2001, when Goldman Sachs economist Jim O'Neil coined the term "BRIC" to identify the economies he expected to become globally dominant by halfway through the twenty-first century. But beyond that loose grouping, the BRICS have traditionally struggled to define themselves. What does it mean to be a member of the BRICS? What role do individual members play in the global economy? And what role might the group take on moving forward?

In many ways, what the BRICS countries share is their individual incomparability. Within its own regional or sub-regional context, each BRICS member clearly stands out. What sets each country apart? For Russia, its sheer size, its history as a global power, its rich energy endowments, and its nuclear weapons arsenal. For India, its positioning in the global war on terrorism (particularly given its border with Pakistan) and the sheer size of its market. For China, its size and the speed and robustness of its economic growth and stability. For South Africa, its place as the most stable economic and political system on the African continent. But what about Brazil?

Unlike its fellow BRICS, Brazil is not an undisputed leader in its region—a region it shares with the United States. But it is the single-largest, most promising, and fastest growing developing economy in the Western Hemisphere, and that isn't to be taken lightly. In a region accustomed to U.S. leadership and dominance, Brazil is a rising star—and one that is increasingly demanding to be taken seriously and on its own terms. But Brazil—both its nature and how it conceives of itself—remains, in large part, ill understood.

This paper seeks to bring clarity to Brazil's role in the global economy—its identity, its self-perception, and what can be expected of it as we move forward. Neither the economic basket case it is at times made out to be nor a budding economic superpower, Brazil's primary motivation is its own development agenda. This agenda, largely the driving force of Brazil's global strategy, demands Brazil's deep but cautious involvement in global markets, new strategic partnerships in technology and manufacturing, and, more than anything else, nonbinding and flexible relationships to complement the existing deep, legally binding ties Brazil already has—in particular with the Mercosur.

The country has a strong tradition of honoring its international obligations, and its institutional stability serves as a solid foundation for international commercial engagement. Brazil, in other words, demands to be taken seriously—and on its own terms.

Brazil's Economic Identity

As a BRICS country and a rising star in the Western Hemisphere, Brazil is positioned to be an important player in the global economy as we move forward in the twenty-first century. But the country's complex economic identify and motivations remain poorly understood, as does its role in the global economy.

Brazil's international economic relationships are based on its desire to consolidate and build upon the gains it has achieved as a result of policies involving price stabilization and targeted economic stimuli—both of which are central to the country's continued economic development. As such, Brazil avoids institutionalizing relationships that have the potential to limit domestic policy options. Rather than extensive bilateral free trade agreements, Brazil instead operates within the constraints it long-since set in its involvement in the Mercosur trade bloc and the World Trade Organization (WTO). While the priority is to avoid limiting policy options, Brazil *does* actively seek flexible nonbinding partnerships that can contribute to its development agenda.

But what does that development agenda entail, and what has it achieved?

Over the past 10 years Brazil has seen a period of steady economic growth whose benefits are more equitably distributed than ever before. The income of the poorest 20 percent of Brazilians increased at a rate seven times greater than the richest Brazilians, which helped to reduce Brazil's GINI coefficient (measure of a nation's income inequality) from 0.553 to 0.5 during that period.[1] Between 2002 and 2012, 8.4 million Brazilians moved out of conditions of extreme poverty.[2] And in the past 10 years Brazil's GDP per capita increased 29 percent.

Sustained macroeconomic stability, innovative cash transfer programs, real increases in the minimum wage, and the extension of credit to lower-income groups have all played an important part in achieving these historic gains and have given rise to policy consensus around two key issues in the Brazilian economy: price stability and the need for industrial policy.

In order to guarantee *price stability*, the Lula administration (2003–2011) bolstered central bank autonomy, the central bank maintained an overvaluation of Brazil's currency, the real, and it retained high interest rates to attract investment and contain inflation.[3] Furthermore, both the PSDB (the Brazilian Social Democracy Party, a center-

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[1] Ministério do Planejamento, *Indicadores de Desenvolvimento Brasileiro* (Brasília: Ministério do Planejamento, 2013), 9, http://www.planejamento.gov.br/secretarias/upload/Arquivos/publicacao/indicadores_de_desenvolvimento.pdf.

[2] Gustavo Patu, "Segundo Ipea, Dilma inflou dado sobre diminuição da miséria," *Folha de São Paulo*, June 12, 2014, http://www1.folha.uol.com.br/poder/2014/06/1469015-segundo-ipea-dilma-inflou-dado-sobre-diminuicao-da-miseria.shtml.

[3] Cornel Ban, "Brazil's liberal neo-developmentalism: New paradigm or edited orthodoxy?," *Review of International Political Economy* 20, no. 2 (2013): 304, http://dx.doi.org/10.1080/09692290.2012.660183.

left political party) and the PT (the Worker's Party, a left-leaning political party) administrations worked to increase tax revenue, and set primary surplus targets to avoid deficit-based fiscal policy.[4] These opposing parties have good reason to prioritize price stability. A recent Datafolha poll indicates widespread apprehension about inflation among all Brazilian income groups, largely attributed to the memory of hyperinflation that plagued Brazil in the 1980s.[5] So while Brazil's inflation rate is under control, it has recently hovered around the upper end of the government target range. It is clear that the Brazilian political landscape will *not* tolerate the out-of-control inflation Brazil experienced in the past.

This consensus manifests in many important areas of the economy requiring investment. For example, while *industrial policies* are associated with the PT, even before the Lula administration 300 firms responsible for 15 percent of exports received benefits from industrial policy.[6] There is further consensus on the idea that industrial policy benefits should go to hi-tech firms and firms that generate the most widespread economic benefits.[7] Where the two main political parties in the 2010 presidential election differ most strongly is on the issue of minimum wage increases, and use of federal banks to extend cheap credit.[8]

Brazil in the World: Regional and Global Engagement

Following a 30-year period of Import Substitution Industrialization (ISI), Brazil began to open its economy unilaterally to international competition in 1988. The extent of the transformation cannot be overstated. In that first year alone, Brazil cut its average tariff rate from 51.3 percent to 37.4 percent, reduced redundancies in tariffs by nearly two-thirds, eliminated the majority of special import regimes, harmonized taxation for external and internal purchases, and reduced the variance between tariff rates on different goods from a range of 0–105 percent to 0–85 percent.[9] The 1988 democratic constitution also ended discrimination against foreign investors, ensuring that foreign firms and their subsidiaries established in the country received the same treatment as Brazilian companies.

By 1994 the average tariff rate was reduced to 14 percent, tariffs on goods with no domestic competitors or with little value added were eliminated, and traditionally protected industries saw tariff levels decline. And these across-the-board reductions of tariffs and removal of many nontariff barriers impacted Brazil's trade relationships: between 1988 and 1997, Brazilian exports grew by 57 percent (at an average annual rate of 4 percent). At the same time, imports quadrupled.[10] The volume of Brazil's total trade

[4] Ibid., 305.
[5] "Medo da Inflação É Generalizado, Revela Pesquisa Datafolha," *Folha de São Paulo,* April 8, 2014, http://www1.folha.uol.com.br/poder/2014/04/1437329-medo-da-inflacao-e-generalizado-revela-pesquisa-datafolha.shtml. Datafolha is among the leading Brazilian polling organizations.
[6] Ban, "Brazil's liberal neo-developmentalism," 310.
[7] Ibid., 312.
[8] Ibid., 317.
[9] André Averbug, "Abertura e Integração Comercial Brasileira na Década de 90," BNDES (Banco Nacional de Desenvolvimento Econômico e Social), 1999, 46, http://www.bndespar.com.br/SiteBNDES/export/sites/default/bndes_pt/Galerias/Arquivos/conhecimento/livro/eco90_02.pdf.
[10] Ibid., 48.

by 2012 stood at 26.5 percent of GDP compared to just 15.2 percent in two decades before.[11]

In addition to the unilateral opening during the late 1980s and early 1990s, Brazil became more integrated into the regional market through the Mercosur—the Common Market of the South. Today, the trade bloc consists of Argentina, Brazil, Paraguay, Uruguay, Bolivia, and Venezuela. With the accession of Venezuela in 2012, the trade bloc incorporated 70 percent of South America's population, and a GDP of US$3.3 trillion, which is more than 80 percent of South America's total GDP.[12] Despite the bloc's size, it exports 60 percent less than its regional counterpart, the Pacific Alliance. While the bloc's stability and competitiveness in the long run remain in question, particularly given Argentina's economic troubles and Venezuela's deepening political and economic crisis, there remains strong support for the vision of the Mercosur as a well-established, deep regional integration process on the continent, particularly from the two leaders and strategic allies Brazil and Argentina.

In sum, Brazil's trade relationships are built upon the unilateral opening and regional integration initiatives described above, combined with active participation in the WTO. Another important element that is frequently overlooked is the fact that the Mercosur has a network of economic complementation agreements under the Latin American Integration Association (ALADI), binding Mercosur countries with its most important Latin American partners, including the Pacific Alliance members. While these factors serve as the institutional pillars for Brazil's trade relationships, they are not a complete representation. Only by mapping Brazil's trade relationships in terms of both quantity and quality vis-à-vis its trading partners can we better understand Brazil's role in the global economy and more importantly, how Brazil's global engagement advances its development agenda.

Global Partners

By virtue of sharing a border with 10 countries and having a diversified industrial base (despite Brazilian products' difficulties breaking into the world's more developed economies), Brazil has maintained a strong presence in South America. Recently, however, Brazil is increasingly taking a global perspective rather than a regional one. Between 2002 and 2009, Brazil opened 35 new embassies around the world bringing the total number of embassies to more than 120.[13] This new global perspective is part and parcel of a Brazilian brand of commercial diplomacy, ensuring a growing number of export partners, which in 2012 stood at 134 compared to 29 in 1990. And these partners are purchasing an increasingly diverse range of Brazilian products. In 1990 Brazil exported 1,642 different products, but by 2012 Brazil exported 3,022 products. All this also means greater potential for partnerships in key sectors such as innovation and technology.

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[11] World Integrated Trade Solution (WITS), "Brazil Trade Summary 2012," http://wits.worldbank.org/CountryProfile/Country/BRA/Year/2012/Summary.
[12] Ministério do Planejamento, *Plano Mais Brasil 2012–2015: Volume 1: Dimensão estratégica* (Brasília: Ministério do Planejamento, 2013), 66, http://www.planejamento.gov.br/secretarias/upload/Arquivos/spi/publicacoes/130612_Rel_Aval_2013_Vol_1.pdf.
[13] Gabriel Mestieri, "Lula cria 35 novas embaixadas e abre quatro vezes mais vagas para diplomatas," *R7 Notícias*, November 1, 2009, http://noticias.r7.com/brasil/noticias/lula-cria-35-novas-embaixadas-e-abre-quatro-vezes-mais-vagas-para-diplomatas-20091101.html.

This strategy has yielded real results. Brazil benefits from trade with a diverse group of partners. Brazil's top export partners—considering each EU member separately—include China (17 percent), the United States (11.07 percent), Argentina (7.42 percent), the Netherlands (6.20 percent), Japan (3.28 percent), Germany (3 percent), India (2.3 percent), Venezuela (2.08 percent), Chile (1.9 percent), and Italy (1.89 percent).[14] The composition of Brazil's import partners includes China (15.35 percent), the United States (14.61 percent), Argentina (7.37 percent), Germany (6.37 percent), the Republic of Korea (4.08 percent), Nigeria (3.59 percent), Japan (3.47 percent), Italy (2.78 percent), Mexico (2.72 percent), and France (2.65 percent).[15] Brazil's Herfindahl-Hirschman (HH) Index score of 0.07—a metric for market concentration, where zero represents perfect diversification—is similar to both the United States (0.06) and China (0.07).

Despite the diversity of trading partners, there is not a similar diversity in products exported. In 2012, 43.48 percent of Brazil's exports were raw materials, 26.61 percent were intermediate goods, 14.28 were capital goods, and 13.7 percent were consumer goods. The greatest challenge Brazil faces in the global economy is to increase the proportion of exports that is made up of consumer, intermediate, and capital goods. Moving into more complex production creates important linkages between producers and suppliers of component parts that have significant and widespread employment benefits in addition to spurring other high-skilled and innovative economic activity in the local economy. Even with the globalization of production networks, in which product design occurs in one country, component parts are sourced from all over the world, and assembly of the components takes place in yet another country, moving into higher-skilled production is critical to a country's ability to maximize returns on its insertion into these global supply chains. Facing such challenges explains, to a certain extent, the focus of the Greater Brazil Plan in developing stronger firms in high-technology and knowledge-based sectors.

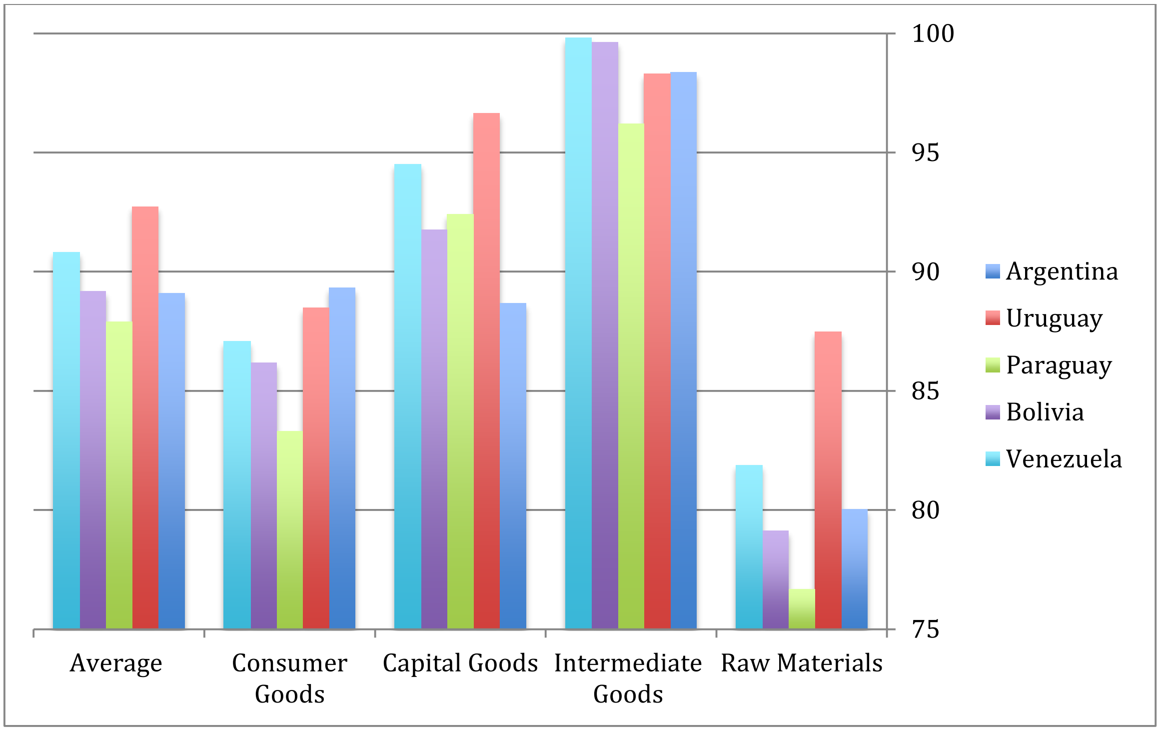
Brazil and Mercosur

Figure 1 presents the percentage of trade complementarity between Brazil and each member of the Mercosur in relation to products at each stage of production. Across the board, trade complementarity with Mercosur members is significantly lower than with the BRICS. The lowest level of complementarity is in raw materials, in particular with Paraguay, Bolivia, Argentina, and Venezuela. Importantly, however, there are high levels of trade complementarity for capital goods and intermediary goods.

These results reflect the important role the Mercosur plays as a destination for Brazilian goods in the higher stages of production. The high levels of complementarity in intermediate and capital goods, the low tariff barriers between members, and the fact that Brazilian products are very competitive vis-à-vis regional competitors spurs higher-level production in Brazil to supply the Mercosur market with more refined products.

[14] WITS, "Brazil Export to all country 2012," http://wits.worldbank.org/CountryProfile/Country/BRA/Year/2012/TradeFlow/Export/.
[15] Ibid.

Figure 1: Mercosur-Brazil Trade Complementarity (%)



Given that Brazil's development agenda emphasizes moving into higher-skill production and the fact that the Mercosur provides an avenue to achieve that goal (regardless of its challenges), it is likely that the Mercosur will be considered a foreign policy priority. Many observers have questioned the bloc's vitality given the bloc's internal divisions and affinity for market regulation rather than true liberalization, which limits Brazil's ability to negotiate trade agreements with other countries. These criticisms are valid, but the supremacy of Brazil's development agenda and the contribution the Mercosur makes to that agenda ensures Brazilian commitment to the group. Similarly, understanding the importance of the Mercosur for Brazilian manufactured goods provides an economic explanation for a bloc often dismissed by international observers as largely politically motivated.

Brazil and the BRICS

The BRICS already play an important role in the global economy, and that role will only increase moving forward. The group is home to 43 percent of the world's population, 30 percent of its landmass,[16] 21 percent of global gross domestic product (GDP),[17] and 15 percent of global trade.[18] As a group, the bloc's share of global GDP has grown by some

[16] Suresh P. Singh and Memory Dube, *BRICS and the World Order: A Beginner's Guide* (Jaipur: CUTS Centre for International Trade, Economics & Environment and the South African Institute of International Affairs, 2014), 8, http://cuts-international.org/BRICS-TERN/pdf/BRICS_and_the_World_Order-A_Beginners_Guide.pdf.
[17] Jon Herskovitz, "Factbox—BRICS emerging powers grow in global strength," Reuters, March 26, 2013, http://in.reuters.com/article/2013/03/26/brics-summit-factbox-idINDEE92P09120130326.
[18] Singh and Dube, *BRICS and the World Order*, 8.

150 percent in the past two decades alone.[19] The group is well on the way to setting up a development bank designed to mobilize funding for infrastructure and sustainable development projects, both in the BRICS and throughout the developing world. Increasingly, the group can mobilize political will and resources to support shared development objectives in every corner of the world.

But in many ways, the flexible BRICS format is the best-case scenario for Brazilian engagement in the world. The summit-style arrangement and its inherent malleability are what make the forum so appealing to Brazil. Through the summits, Brazil is empowered to identify those areas in which cooperation would best suit its own development agenda, promoting peer-to-peer exchanges in those areas beneficial to Brazilian interests. And though these same summits have been the subject of criticism for falling short of turning out tangible achievements, they have opened *regular channels of communication* with potential partners and peers in every region of the world.

Using the World Integrated Trade Solution[20] data from the World Bank and the World Bank's Trade Complementarity Index (TCI) formula,[21] we can get a sense of the extent to which there is trade complementarity between potential trade partners. Essentially, the index measures whether one country imports what the other exports. The index reveals where there is space for Brazilian exports, but ultimately only improved competitiveness of Brazilian products and, to some degree, the elimination of barriers to entry of Brazilian products can ensure that Brazilian products occupy that space.

Figure 2 presents the percentage of trade complementarity between Brazil and each of the BRICS in relation to products at each stage of processing. The TCI results reveal that there are high levels of trade complementarity between Brazil and India in relation to goods at each stage of processing. At the other end of the spectrum, Russia exhibits the lowest levels of trade complementarity with Brazil at all processing levels than any of the other BRICS. The level of processing with greatest trade complementarity across the board was in intermediate goods. Given that trade in intermediate goods indicates increasingly globalized supply chains,[22] the elevated potential for trade with BRICS in intermediate goods suggests that the group presents an opportunity for a Brazilian presence in new supply chains.

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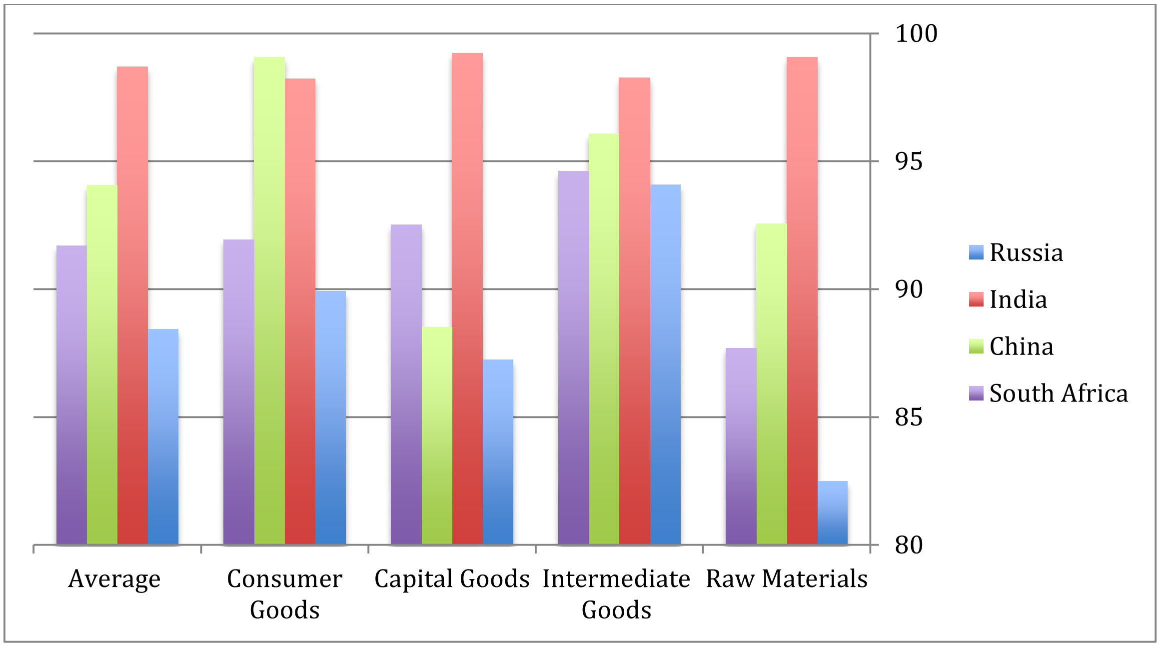
[19] Ibid., 3.
[20] Ibid.
[21] TCij = 100 – sum (|mik – xij| / 2), where xij is the share of good 'i' in the global exports of country 'j' (Brazil) and 'mik' is the share of good 'i' in all imports of country 'k' (BRICS partner). World Bank, "Export Trends and Trade Structure Indices," http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/EXTEXPCOMNET/0,,contentMDK:21260645~menuPK:4228621~pagePK:64168445~piPK:64168309~theSitePK:2463594~isCURL:Y,00.html.
[22] Gary Gereffi, "Global Value Chains in a Post-Washington Consensus World," *Review of International Political Economy* 21, no. 1 (2013): 19, http://dx.doi.org/10.1080/09692290.2012.756414.

Figure 2: BRICS-Brazil Trade Complementarity (%)



Economic ties among the BRICS are still, however, in their infancy and the most likely short-term gains to Brazil from its relations with the BRICS will come in the form of innovation collaboration. In fact, in recent years BRICS members have dedicated themselves to research and development of nanotechnologies. In addition to partnering on shared research interests, such as nanotechnology, information sharing on projects BRICS are not collaborating on can be mutually beneficial for this diverse group. Especially given the expertise that Brazil has in the area of civil engineering, specialized machinery, transport equipment, semiconductors, and IT methods; that Russia has in food chemistry, medical technology, digital communication, and civil engineering; that India has in IT, pharmaceuticals, and biotechnology; and that China has in computer technology, electrical machinery, IT methods, digital communications, and pharmaceuticals.[23] We have already begun to see some of these dialogues emerge from the BRICS summits such as in the case of the establishment of the BRICS Think Tank Council.[24]

In many ways Brazil's engagement with the BRICS reflects Brazil's increasing tendency to look to the global economy to address its development goals. Brazil's relationship with the BRICS is increasingly complementing Brazil's more established partnerships in innovation and research and development (such as the one with the United States). And the low risk but potentially high reward associated with the new and still-developing

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[23] Giuditta de Prato and Daniel Nepelski, *A Framework for Assessing Innovation Collaboration Partners and Its Application to BRICs* (Seville: Spain European Commission Joint Research Centre, 2013), 25, http://ftp.jrc.es/EURdoc/JRC79395.pdf.
[24] Carolina Milhorance de Castro, "The 5th BRICS Academic Forum: Towards a Long Term Vision and Partnership with Africa?," Les carnets de recherche de l'Institut Français d'Afrique du Sud," n.d., http://ifas.hypotheses.org/899.

BRICS format will likely remain central to Brazil's self-identity, particularly in economic terms, moving forward.

The United States and Brazil

One of the most long-standing and robust trade relationships Brazil has is with the United States and in recent years, despite some political disagreements, the relationship has taken on new dynamism. Between 2000 and 2011, bilateral trade between the two more than doubled.[25] Unlike Brazilian exports to China, more than 80 percent of which is concentrated in raw materials, Brazil's trade with the United States is highly diversified. In fact, intermediate goods account for almost 37 percent of all Brazilian exports to the United States, compared to raw materials (29 percent), capital goods (20 percent), and consumer goods (14 percent).[26]

Given the high degree of complementarity (see Figure 3) and the existing penetration of Brazilian intermediate and capital goods in the U.S. market, the United States has an appeal that neither the BRICS nor the Mercosur can boast. Like the Mercosur, the United States offers a market for Brazil's higher-skilled production, which, as discussed above, is a central component of Brazil's development agenda. But the sheer size of the U.S. market, with a GDP of around US$16 trillion and a GDP per capita of more than US$51,000, provides an entirely different scale of profitability than any other market in the world. The United States is, and will continue to be, a major priority for Brazil. The U.S. market fits squarely in Brazil's developmental priorities of moving into higher-skilled production and offers greater returns than any other market in the world.

The United States also features prominently in Brazil's approach to developing technology and innovation partnerships. According to the Brazil-U.S. Business Council, the two countries have 26 government-to-government strategic dialogues and 9 business-to-business dialogues—though these have partially been put on hold since last summer's revelations of the intelligence-gathering programs conducted by the National Security Administration (NSA). These dialogues are geared toward identifying and resolving technical issues that serve as a barrier to both technology cooperation and trade as well as toward promoting research and development in areas of mutual interest and concern.

What is perhaps the biggest success story to emerge from these dialogues is the U.S. Brazil Aviation partnership. Under the auspices of this partnership, two leaders in the aviation industry, Boeing and Embraer, have partnered to open a joint research center for sustainable aviation biofuel in São Jose dos Campos Technology Park in Brazil. The aviation industry's sensitivity to fuel-price fluctuation and the contribution the industry could make in addressing climate change encouraged the two aviation giants to pool their resources to develop solutions beneficial to the industry as a whole. The companies will perform joint biofuel research, and will coordinate and fund research with Brazilian

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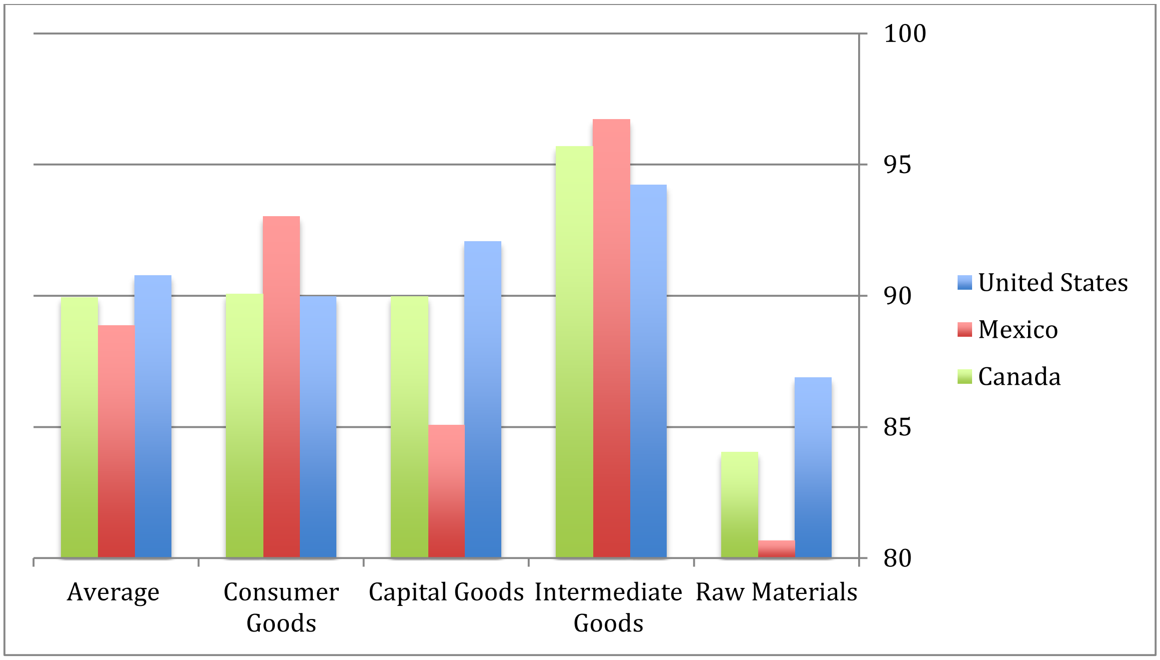
[25] Maria Cameron, "U.S.-Brazil Commercial Dialogue: Fostering Increased Bilateral Trade," *Tradeology* (blog), August 30, 2012, http://blog.trade.gov/2012/08/30/u-s-brazil-commercial-dialogue-fostering-increased-bilateral-trade/.

[26] WITS, "Products by Stages of Processing Export by Brazil to United States 2012," http://wits.worldbank.org/CountryProfile/Country/BRA/Year/2012/TradeFlow/Export/Partner/USA/Product/Stages%20Of%20Processing/Show/Product%20Group;Trade%20Value%20(US$%20Thousand);Product%20Share%20(`);/Sort/Trade%20Value%20(US$%20Thousand),

Figure 3: NAFTA-Brazil Trade Complementarity (%)



universities and other institutions.[27] On the Brazilian side, this partnership also plays an important role in leveraging the development of small and medium-sized companies working in the second and third tiers of the aviation supply chain.

This model of engagement in which governments engage in dialogues on specific issue areas then bring in key stakeholders on these issues has borne fruit, as demonstrated by the U.S.-Brazil Aviation Partnership. And this approach could easily be replicated along a variety of issues by means of the dialogues. The proven success of this model speaks to the importance that it be reinvigorated as the two countries move past the differences that have served as a wedge between them since last summer. This model could be replicated in areas such as information and communications technologies and biotechnology, which are particularly promising for an enhanced bilateral partnership.

Given the extensive trade history between the United States and Brazil, as well as the importance of the U.S. trade and technology to Brazil's development goals, however, it makes sense for the two countries to lock in these benefits in a more comprehensive fashion, moving beyond bilateral dialogues and toward something resembling an institutional framework—a *legally binding* state policy invulnerable to changes of administration or often-fickle political will.

A bilateral tax treaty could help to encourage greater participation from nongovernmental stakeholders and lock in existing gains, while also establishing a formal underpinning of bilateral ties. A tax treaty provides exemptions from taxes or reduced tax rates that eliminate double taxation of income, which is currently a

[27] Boeing, "Boeing, Embraer to Open Joint Research Center for Sustainable Aviation Biofuel," news release, May, 12, 2014, http://boeing.mediaroom.com/2014-05-12-Boeing-Embraer-to-Open-Joint-Research-Center-for-Sustainable-Aviation-Biofuel.

disincentive for high-technology businesses in the United States from establishing a stronger presence in Brazil, and vice versa—though it is worth noting that such an agreement would likely increase incentives for Brazilian businesses even more than it would for their U.S.-based counterparts. In the U.S.-Brazil context, such a treaty could open avenues for investment and market access by simplifying the at-times burdensome *regulatory framework* that U.S. businesses face in Brazil. A commitment on tax reduction will promote cross-border investment, incentivize small and medium-sized enterprises to invest abroad, and ultimately deepen the technology and innovation partnerships and transfers that Brazil's development agenda emphasizes.

A key step in developing a legal, institutional framework for bilateral relations, though, is confidence building. Though the relationship the countries enjoy is already a dynamic and deeply beneficial one, the damage done to trust and confidence between the two governments cannot be ignored—and will, in fact, have to be addressed for the two to further benefit from the relationship's enormous potential. An informal presidential visit—perhaps at Camp David, the locale traditionally used to soften presidential relations and build trust in a more intimate setting—could serve as an ideal measure to build confidence and, in so doing, put the relationship fully back on track. As Vice President Joe Biden said while in Brazil on June 17, "when it comes to the United States and Brazil and our relationship, the sky is literally the limit of what we could achieve together. And we can do it to the immense benefit of both of our people, and, quite frankly, the entire hemisphere and the world in decades to come." For that to happen, it is essential that the United States understands Brazil's identity and global standing, which is based on multilateral engagement, open and diversified partnerships, and the pursuit of its development goals. This understanding will help to rebuild trust and ensure that both countries explore to the fullest the potential of their enhanced partnership.

About the Author

Carl Meacham is director of the CSIS Americas Program. He joined CSIS from the Senate Foreign Relations Committee (SFRC), where he served on the professional staff for Senator Richard Lugar (R-IN) for over a decade. He served as the senior adviser for Latin America and the Caribbean on the committee, the most senior Republican Senate staff position for this region. In that capacity, he travelled extensively to the region to work with foreign governments, private-sector organizations, and civil society groups. He was also responsible for managing the committee's relationship with the State Department regarding the Western Hemisphere and overseeing its $2 billion budget. Before he joined SFRC, Meacham worked on the staff of two Democratic senators. Prior to his Senate work, he served at the Department of Commerce as special assistant to the deputy secretary, at the Cuban Affairs Bureau of the Department of State, and at the U.S. embassy in Madrid.

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