

As Prepared for Delivery

Robert B. Zoellick
U.S. Trade Representative
American Chamber of Commerce
Sao Paulo, Brazil
March 13, 2002

Brazil and the United States: Common Cause in the 21st Century

I am delighted to be here in Sao Paulo: a diverse city with more Italians anywhere outside of Italy and more Japanese anywhere outside of Japan. Sao Paulo – like the rest of Brazil – has a tradition of tolerance that has helped to smoothly integrate different ethnicities, races, and religions into the Brazilian mosaic.

I want to thank the American Chamber of Commerce for hosting this event. I appreciate all that you are doing to promote deeper ties between the United States and Brazil.

My first message is one of thanks to the Brazilian people. In the hours and days after the terrorism of September 11, your warmth and sympathy helped my countrymen and women overcome the chill and shock of the brutality. We greatly appreciate that President Cardoso and Minister Lafer moved with dispatch to secure unanimous support within the OAS for a resolution affirming the Rio Treaty. Sadly, as President Bush has warned, the challenge of overcoming terrorism has just begun, but thankfully this is a mission we will undertake together as partners of the New World, new peoples with optimism about the world that can be.

Brazil & the United States: Converging Interests

In November 1999, then-Governor Bush gave a speech at the Reagan Presidential Library that outlined a foreign policy vision for a world that could be. Looking back, I have reflected on how many of the core objectives of that “distinctly American internationalism” create a common cause for Brazil and the United States. Since I have the honor of being the first member of President Bush’s cabinet to visit Brazil, I would like to share with you my view of our converging interests.

President Bush explained that U.S. foreign policy must be anchored by strategic – and we hope positive – relationships with the major countries of the world. Brazil – like Russia, China, and India – is a country of continental scope, the fifth largest in territory, fifth in population, and ninth by size of the economy.

The President also said in 1999 that he wanted to “promote a fully democratic Western Hemisphere, bound together by free trade.” Brazil’s traditions – and its future – are

fundamental to the successful transformation of the Americas. Like the United States, Brazil both stands out from and yet seeks close friendship with the other nations of our hemisphere. A colony that became a metropole, a constitutional empire amidst republics, a new people born of migration and assimilation, Brazil united a great land across vast territory. Brazil became, in the words of Jose Guilherme Merquior, “Another West,” and through this achievement, Brazil, like the United States, has a calling and special contribution to make in the hemisphere and the world.

Finally, President Bush sounded the call for “a world that trades in freedom.” Similarly, President Cardoso has courageously pointed Brazil toward the path to open regionalism and global competitiveness, recognizing that Brazil’s future should be that of a great trading nation in a world of commerce and freedom.

This commonality of place and purpose and pursuits between the United States and Brazil provokes a question: Why are Brazil and the United States only now discovering their shared potential and interests?

Understanding Brazil’s Journey to Today

Of course, in decades past, Brazil and the United States have on many occasions worked together – in diplomatic endeavors, through ventures of production and trade, and even on the fields of battle.

The United States is proud that it was the first country to officially recognize Brazil as a free and independent nation in 1822. In 1894, President Grover Cleveland was asked to arbitrate the sensitive question of boundaries between Brazil and Argentina, neighbors whose relationship is as important to the New World as the Franco-German partnership is to the Old. In 1907 at the Hague, and again in 1919 at the Paris Peace Conference, our two nations tried, unsuccessfully, to bring a New World perspective to the traditional ways of Europe.

Then in World War II, the Brazilian “smoking cobras” joined U.S. GI’s in fierce efforts to free our European forebears from fascism, giving Brazil a special place of comradeship.

Brazil and the United States always recognized the viability of commerce to our national development. In 1940, the United States financed the development of the steel industry in Brazil, prompting President Vargas to write in his diary that the happy news offered “a new . . . life for Brazil: wealth and power.” (The legacy of that assistance for the United States, as I will explain later, is more complex. . . .) Then in 1947, Brazil and the United States joined 21 other nations to launch a new General Agreement on Tariffs and Trade in the hope that the second half of the Twentieth Century could avoid the protectionism and calamities that plagued the first half.

Yet for all this cooperation and even alignment, I believe the United States and Brazil are just beginning to recognize their potential for common cause.

I trace this lack of development of our mutual possibilities up until now to two sources.

First, the United States has often overlooked Brazil's special identity and how it has been evolving; then at times, U.S. uncertainty about Brazil's sensitivities and future course has led to caution and hesitation.

Second, Brazil has itself been preoccupied by a journey that is only now reaching the global horizon. Brazil began by creating a unique nation of grand size and spirit, then continued by establishing a union of friendship and cooperation with Spanish South America, and is just now at the stage where the polity is debating how Brazil might contribute to a healthy hemisphere in a prosperous and peaceful global system.

In the spirit of a new partnership for the Americas, I thank my friends in Brazil and Latin America for these insights – and most of all, my close colleague Celso Lafer, whose writing recalls that Brazil's heritage and honor is that of the pen as well as the sword.

Minister Lafer and I have worked closely together on a range of issues over the past year. I have seen why he has earned respect around the world as a thoughtful scholar, skilled diplomat, able negotiator, and most effective promoter of Brazil's interests. I also consider him a friend. Without his leadership, and the contributions of his able Brazilian colleagues, I can tell you plainly that the nations of the world would not have been able to launch new global trade negotiations for the World Trade Organization at Doha last November.

Brazil's Journey to Tomorrow: A New Economic Future

To appreciate Brazil's vantage point as it crosses the threshold of a new century, one needs to recognize its unique attributes. Unlike Spanish America, Portuguese-speaking Brazil maintained its unity. Starting with the social and linguistic characteristics that distinguished Portugal in Iberia and Europe, the Brazilian forefathers recognized, like the Founding Fathers of the United States, that their new nation would be created by "We, the people. . .," an amalgamation of settlers, freed slaves, immigrants, and native peoples. Furthermore, like the United States, Brazil has struggled with problems of social exclusion and has had to do so amidst frustrating poverty.

At the same time Brazil was establishing its new nationhood, it had a complementary international challenge: to consolidate its national space through establishing borders and constructive relations with ten neighbors. This was the impressive legacy of Foreign Minister Rio Branco, of whom later generations of Brazilian diplomats are justifiably proud. At the same time, as Brazil's continent-sized economy grows in importance, I suspect that Rio Branco's successors will find that his concept of relative equality among neighbors will be harder to maintain in fact. Brazil's neighbors will be wary of its influence at the same time that they seek Brazil's support. This is a tension that is not new to the United States.

The key, I believe, to Brazil's evolving role in South America, the hemisphere, and indeed the world is to be found in both its democracy and its economic choices.

Like the United States, Brazil's economic development focused first on the creation of a huge national economy that spanned much of a continent. Brazilians understandably concentrated on the economy within its borders. The events of the late 20th Century, however, prompted a new generation of Brazil's democratic leaders to turn their vision outward.

At home, the debt crisis of the 1980s and the severe limitations of import substitution strategies led some Brazilians to consider how to integrate their national economy within open regionalism and a global system of trade and investment. Abroad, the collapse of the Soviet Empire, China's economic resurgence, and the increasing abandonment of dependency theory, led some Brazilians to recognize that the challenge was an opportunity: Brazil could use its special identity, geography, diplomatic skills, and most of all, its strengths as a mega-economy, to benefit its citizens and strengthen Brazil's stake in the world economic system. Or as President Cardoso said pointedly last August: "Either we increase our exports or we die."

Indeed, the leadership of President Cardoso and his colleagues has been critical at this point in history for Brazil and the world. The introduction of the *real* in 1994 signaled that Brazil was intent on making a clean break with the era of hyperinflation and creating a climate supportive of long-term economic growth. It is no small achievement to have transformed the uncontrollable torrent of inflation into a single-digit drizzle. According to Professor Frederic Mishkin of Columbia University, Brazil maintains the most sophisticated inflation-targeting apparatus of any developing nation.

Equally important, Brazil has complemented its macroeconomic program with reforms to strengthen the businesses that create prosperity and jobs. Brazil has privatized 123 companies, generating \$100 billion in revenues; slashed tariffs by more than 50 percent; liberalized restrictions on foreign capital; and solidified the banking system.

These reforms are enabling Brazil to transform its trading profile. The export of sugar, gold, diamonds, coffee, and rubber has been a hallmark of Brazil's trade for centuries; today, Brazil is making great strides in other sectors as well. Embraer is now the world's third-largest manufacturer of commercial aircraft, generating over 90 percent of its sales revenues outside of Brazil. Last year, Brazil exported over \$100 million worth of software. And Recife, traditionally known as a port city, has begun to transform itself into a center of high-technology.

A more open Brazil is showing its dynamism in other ways:

- In 1994, there were 800,000 Brazilian subscribers to mobile telephone service; today, there are nearly 29 million. By 2005, predicts the President of Anatel, there will be 60 million.

- In 1990, there were 10.3 million fixed phone lines here; today, there are nearly 48 million.
- And Brazilian scientists working here in Sao Paulo at the Research Support Foundation have cracked the DNA code of a bacteria that destroys orange crops, a landmark breakthrough in biotechnology which offers a new dimension for U.S.-Brazil cooperation.

The combination of price stability and reforms to ready Brazil for the global economy have fostered a favorable climate for long-term planning and investment. AT Kearney, the management consulting firm, has rated Brazil the third most attractive destination in the world for direct investment, and your country already has the eighth largest share of global foreign direct investment. Brazil attracted a total of \$55 billion of foreign investment over the past two years, up from \$4 billion in 1993-94.

I am delighted that U.S. businesses are active in Brazil's development. As of year 2000, total U.S. investment in Brazil reached more than \$35 billion, more than doubling since 1994. According to the American Chamber of Commerce, 420 of the Fortune 500 companies have operations in Brazil. Microsoft is in the process of establishing six software development centers in Brazil over the next 18 months, and *Forbes*, a U.S. business magazine, has launched one of its two regional editions in Brazil.

This morning, I visited the first International Global Sourcing Summit in São Paulo, an event developed by Wal-Mart and the Brazilian government. This Summit is both a symbol and practical example of how the global economy will influence Brazil's future. It offers a two-way street for businesses that can see beyond borders:

The Summit invites Wal-Mart's global merchants to consider product, manufacturing, and resource opportunities in Brazil, while also educating Brazilian suppliers about sourcing opportunities with Wal-Mart's global retail business.

Our investment ties and business networks are creating a new economic framework between the leading nations of North and South America. Last year, the United States and Brazil exchanged over \$30 billion of goods.

Over the past six years, U.S. exports to Brazil have increased 90 percent. As President Bush has pointed out, "America is right to welcome trade with China – but we export as much to Brazil."

In turn, the United States is Brazil's single largest export market; nearly one-quarter of all the goods exported from Brazil are destined for the United States. And 67 percent of Brazil's exports to the United States enter duty-free. Brazil is among the top three suppliers of wood, aircraft, shoes, coffee, and gold to the United States. I have reason to think of Brazil every morning as I start work, because a Brazilian company, Ipanema Agricola, is now providing beans for the Starbucks coffee with which countless Americans – including me – greet the day!

As Brazil sells to the United States and prospers, it will offer even greater opportunities for U.S. businesses. Brazil is already the world's second-largest market for executive jets, helicopters, cell phones, and fax machines; third largest for soft drinks; fourth largest for refrigerators; and the fifth largest for compact discs.

I recognize that this reorientation of Brazil's economy, for all its achievement, is still a work in progress. Indeed, the challenge facing Brazil's next Administration is how to build on this foundation, so that the full talents and ingenuity of the Brazilian people can be unleashed.

As Brazilians have pointed out, regulatory restrictions still reduce business incentives to hire more workers. Limitations on property rights – including intellectual property – undermine business development and investment potential, especially in the knowledge industries of the future.. Further privatization, particularly in the banking and energy sectors, could draw capital and increase the flexibility of the economy to adapt to change. The tax code contains too many out-of-date limitations on work, savings, and investment.

In the area of trade, Brazil is still moving from the old model of a closed national economy to the new one of global capabilities. Brazil's exports as a share of its economy are the lowest in Latin America and among the lowest in the world. Brazil's tariffs – at an average of 13 percent – far exceed that of the trading powerhouses. By way of contrast, the average trade-weighted tariff for the United States is less than 3 percent. Brazil's higher tariffs add costs and reduce choice for both Brazilian businesses and families.

Usually, the poor are hit hardest by trade barriers: As three Brazilian economists concluded in a study published last year, Brazil's push to liberalize trade helped reduce wage inequality.

A more open Brazilian economy will also help counter one of the most insidious dangers to both economic growth and public trust: corruption. A study by the Vargas Foundation in Sao Paulo asserted that Brazil would nearly double its per capita GDP within two decades by reducing levels of corruption by just 10 percent.

In making these observations, I recognize that all our countries must manage the conflict between those seeking increased economic and political openness and those who retreat to the false security of protectionism and isolationism. I know about these battles because I am fighting them every day in the United States. My message to Brazil is the same one I deliver at home: The future is with those countries that embrace the modern, decentralized, wired-world – by keeping markets open, taxation low, and currencies sound. The genius of our future lies with our people, and our goal should be to create national and international frameworks in which our peoples can achieve their full potential.

Brazil and the United States: Interests for Today and Tomorrow

As Brazil continues its historic transformation from building a large national economy to freeing Brazilians to compete in a global economy, I believe the interests of our countries will increasingly converge.

Equally appealing, our national identities – with fascinating similarities but also enriching differences – may complement one another as the United States and Brazil help shape this new century.

Consider our common goals as democracies promoting economic growth, regional integration, political openness, and peaceful relations:

- We both need to help Argentina recover as its political leaders, and public, accept responsibility for the country's future in the most trying times. As the most influential neighbor and partner of Argentina, Brazil's role will be vital. As a close friend with global reach, the United States will also support a sound and sustainable Argentinean reform program.
- Throughout the Southern Cone, Brazil and the United States need to support democratic leaders resisting seductive visions of populism that can only reverse the real but not yet sufficient gains of the 1990s. In doing so, we both must appreciate the particular needs and circumstances of our smaller partners.
- As the leader of Mercosul, Brazil will need to lend support to its partners to alleviate the anxieties of asymmetry, while as a friend of the Mercosul nations, the United States can show that its amity and interests extend equally to all four states.
- This approach is highlighted in the Four-Plus-One arrangement we reinvigorated last year, which is a means for strengthening the trade and investment ties between the Mercosul countries and the United States. Mercosul's peaceful cooperation is an historic achievement; it is most likely to be sustained through Brazilian policies that support its neighbors by connecting them to a wider, open world, not by limiting them.
- For the benefit of South America, our hemisphere, and indeed the world, Brazil and the United States will also need to be partners in countering transnational security threats: whether of terrorism; narcotics; criminal networks; disease; and in particular, HIV/AIDS; or dangers to the environment. As a country with extraordinary flora and fauna, recorded by naturalists from around the world over centuries, Brazil's environmental actions will be influential far beyond its borders.

In the area of trade, the cooperation between Brazil and the United States could prove particularly important. Of course, we will compete commercially and will need to manage the inevitable disputes. Yet both countries have common goals for the regional

and global trading systems: to open markets for agriculture, manufacturing, and services, while recognizing and addressing the real challenges of globalization for developing countries.

In agriculture in particular, our differences are far-outweighed by our mutual interests, especially in developing incredible new possibilities to counter malnutrition and disease, with sounder environmental protections, through biotechnology. For example, the results that President Bush achieved last week in China on soybeans will accrue to the benefit of Brazilian as well as U.S. farmers.

Our cooperation will be particularly vital for Latin America as fragile democracies seek to consolidate gains while turning to a second generation of reforms that are critical for countering poverty, building civic societies, and establishing public trust. Brazilians may feel reluctant to accept this additional responsibility, but Brazil – as well as the United States – will pay a price if we fail to act in cooperative leadership.

This October, Brazil and the United States will have a concrete opportunity to act in concert as we assume the co-chairmanship of the ALCA/FTAA negotiations. If Brazil's next government works with us as President Cardoso and Minister Lafer have done, I am optimistic about what we can accomplish.

On the global stage, Brazil and the United States worked arm-in-arm in 2001 to launch new global trade negotiations in the WTO. Together, we drafted the sensitive but important Declaration on the TRIPS Agreement and Public Health. Minister Lafer and I also worked closely to broker differences among many countries so that the global trading system could advance in accord with our plans for hemispheric free trade: Now both the Doha WTO Development Agenda and the ALCA have target completion dates of 2005.

Brazil and the United States also have been cooperating closely in the early phases of structuring the WTO negotiations. Together with our important hemispheric partner, Mexico, which will host the next WTO Ministerial in 2003, the leaders of the Americas will need to reach out to our colleagues in the European Union, the Asia-Pacific, and Africa.

U.S. Trade Policy: Regaining Momentum for Openness

Some in Brazil have asked whether the United States will continue to lend its energy and leadership to the trading system. One answer might be to recall that the United States imports well over \$1 trillion in goods from the world each year. Indeed, our record \$427 billion trade-in-goods deficit for last year suggests that much of the rest of the world is already relying on our open markets. While others, including Brazil, relied on a sizable currency devaluations to stimulate exports, the United States dollar maintains global economic stability. And with the U.S. economy poised for a recovery, I expect that we will once again be the engine for export-led growth around the world.

Within one year, President Bush has also forged strong free trade credentials. We have promoted trade liberalization on multiple fronts: globally, regionally and bilaterally.

In addition to reversing the Seattle failure at Doha, we completed China's and Taiwan's accession to the WTO. At Quebec City, we seriously launched the ALCA/FTAA negotiations.

We completed action on a Free Trade Agreement with Jordan and a Bilateral Trade Agreement with Vietnam. This year, we expect to complete Free Trade Agreements with Chile and Singapore, and launch new ones, including with Central America. We have been drawing the nations of Sub-Saharan Africa into the world trading system through a preferential trade arrangement, the African Growth and Opportunity Act. And we have been pressing to extend and expand our preferential trade arrangement with Colombia, Peru, Bolivia, and Ecuador – the Andean Trade Preference Act.

At home, even while leading a national and global response to terrorists attacks, President Bush persevered with the drive to achieve new Trade Promotion Authority (TPA) with the Congress. Reversing the failures of 1997 and 1998, the House passed TPA, and the Senate Finance Committee forwarded the bill with a strong bipartisan vote of 18-3. In the next few months, we hope to finish this important task of reestablishing an Executive-Congressional partnership for future trade negotiations – after an absence of almost a decade.

Some in Brazil have questioned whether the TPA bill rules out certain agricultural negotiations. It does not. In fact, Congress established special requirements for studies and consultations to guide negotiations for sensitive products. These steps institutionalize the type of consultations and cooperation we will need between the Executive and the Congress early in negotiations and may help us build understanding and support for any final agreement we might reach.

Each of these stepping stones will help us to lead the way to a trading system that creates sustainable prosperity for the United States, our major trading partners, and the world's developing nations. The unfortunate reality, however, is that when it comes to trade barriers, no nation is blameless.

In light of the President's decision last week to impose steel safeguards, many are understandably interested in the signals for U.S. policy. The reality is that the United States has long been the market of first and last resort for many of the world's steel producers, whether efficient or inefficient; indeed, in 1999 the OECD reported that the United States had an import penetration percentage of 30, compared with 16 for the EU and only 7 for Japan. Whereas Brazil's average steel tariff is 14 percent, the U.S. figure is only 1 percent.

U.S. openness – despite the practices of others – led to the bankruptcy of 31 U.S. steel companies, representing some 30 percent of capacity, the lowest prices in 20 years, and the loss of 45,000 jobs.

To address the underlying problems of global overcapacity, rampant government intervention and subsidies, and other market distortions in the international steel industry, last June the United States launched multilateral negotiations. Yet President Bush also made clear that we would not just wring our hands while diplomats met in drawing rooms:

Like other nations – including Brazil, Korea, Japan and India, among others – the United States availed itself of WTO rules to take temporary safeguard actions while U.S. steelmakers restructure, reduce capacity, and seek to return to profitability. We constructed these safeguards carefully to exempt our partners in free trade agreements and the vast majority of developing countries. It is a sign of our partnership and constructive economic integration with Brazil that we calculate that 87 percent of Brazil’s steel exports will not be touched by this safeguard. Therefore, our Western Hemisphere partners in the FTAA negotiations have been almost completely insulated from this action.

We hope our trading partners will respond to our safeguard in the same rules-based, multilateral fashion that we employed. If we have differences, we should debate them within the WTO framework. As we do so, we urge others to keep in mind two points.

First, even the record levels of U.S. steel imports that triggered these safeguards only account for about one percent of what the United States buys from the rest of the world. Second, a narrow focus on safeguards will not bring us any closer to addressing the fundamental problems that have repeatedly generated friction in the steel sector, so we urge others to continue our collective efforts to bring long-term stability and competitive health to the world steel market.

In sum, President Bush is committed to moving forward with an active free trade agenda. Like Brazil and almost all others, we have to work with constituencies that fear trade, help people adjust to change, and rely on the trading rules to build political coalitions that enable us to continue our advance for free trade.

You can be assured we will keep up the momentum – globally, regionally, and bilaterally – with those who will want to work with us.

Conclusion

In 1906, Elihu Root, a respected U.S. Secretary of State for a President with a fascination with Brazil, Theodore Roosevelt, visited Brazil for the Third International Conference of American States. Foreign Minister Rio Branco – a proponent of closer ties between the United States and Brazil – speculated at the time that Secretary Root “may not be dazzled by our small material progress, but his American philosophy will surely be pleased to note the new phenomena in the Brazilian nation: activity, energy, hope.” Brazil has achieved tremendous progress since that visit, and the United States remains impressed with Brazil’s activity, energy, and hope.

I wanted to come to Brazil to listen and learn about Brazil's 21st Century vitality and promise first-hand. For I believe that this is a moment in history when our two continental countries may be aligned to help shape a hemisphere – and a world.

Whether guided by the words on my nation's seal, *Novus Ordo Seclorum*, New Order of the Ages, or by the words on Brazil's flag, *Ordem e Progresso*, Order and Progress, we are dreamers and builders. So let us dream and build together.