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

HEARING

BEFORE THE

SUBCOMMITTEE ON
THE WESTERN HEMISPHERE

OF THE

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

Wednesday, July 26, 2000

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

The Subcommittee met, pursuant to notice, at 1:30 p.m., in room 2200, Rayburn House Office Building, Hon. Elton Gallegly (Chairman of the Subcommittee) presiding.

Present: Representative Gallegly.

Mr. BALLENGER. [presiding] Ms. Secretary, I would just like to welcome you here.

For those of us, and presuming—some of you may not know this, but I had a Brazilian son for about 8 months one year that lived with us, went to college, and then we visited his family many times in Sao Paulo, and I would say that, for those of us in this country who look into the future of the Western Hemisphere in general, not recognizing the size, the economy, the population of Brazil is sheer ignorance on our part.

So this is the beginning of an effort on our part to get a little better connection. I know the Ambassador asked me if I would help put together an interchange between the Brazilian legislative body and ours, and I hope to do that after the election. But first of all, we have all got to get elected for this thing to happen. But it is a pleasure to have you here, and any knowledge you can partake to us we would greatly appreciate.

Anybody wish to make an opening statement?

Mr. ACKERMAN. Thank you very much. Appreciate your saying that we all have to get reelected. I take that as an endorsement of my campaign.

Mr. BALLENGER. My voice in New York is completely worth——

Mr. ACKERMAN. I doubt that.

I want to thank you and thank the Chairman for calling this hearing. I think it is very important. I have a prepared statement that, in the interest of saving time and hearing from the Secretary, I ask unanimous consent to be able to put in the record.

Mr. BALLENGER. Without objection.[The statement of Mr. Ackerman appears in the appendix.]

Mr. BALLENGER. It is all yours, Ms. Secretary.

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

Ms. EDDLEMAN. Thank you very much, sir, and thank you for that warm welcome. 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. With the Chairman's permission, I would like to submit a copy of my written statement for the record.

Mr. BALLENGER. Without objection.

Ms. EDDLEMAN. I will now use my oral remarks to highlight some key elements of our bilateral relationship.

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 percent of South America's population and 45 percent of GDP.

It shares a common border with all but two of South America's nations, and its Portuguese-speaking 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 key to hemispheric prosperity, and also impacts on U.S. and global financial markets.

Brazil is influential at the U.N. and other multilateral fora, and is active on international security and peace keeping issues. Within the Hemisphere, Brazil is a critical player in efforts to deepen democracy and promote regional stability. There is almost no global or hemispheric issue today that can be addressed without Brazil's participation.

U.S. policy recognizes Brazil's increasing hemispheric and global significance, and U.S.-Brazilian bilateral relations are currently better than at any time since Brazil sent 25,000 men to fight with the Allies in Europe during World War II. On foreign policy issues, President Cardoso's modernizing, internationalist vision has combined with our active engagement with Latin America to broaden and deepen bilateral cooperation in a wide range of sectors.

The level of exchange between our governments has never been higher. Similarly, President Cardoso's efforts to modernize Brazil's economy—based on macroeconomic stabilization, privatization, deregulation, and trade liberalization—have greatly enhanced bilateral trade and investment ties.

Since the end of military rule, Brazil has held four Presidential elections and successfully weathered the impeachment and resignation of its first directly elected president. The Brazilian military no longer plays a significant role in domestic politics, and Brazil appointed its first defense minister—a civilian—last year.

Brazil's Federalist system provides multiple opportunities for local involvement in politics, and numerous political parties and nongovernmental 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, unemployment, and the poor quality of public services, but no major political actor in Brazil advocates a break with democratic governance.

Brazil's economic crisis in late 1998, which was triggered by the Russian default in August 1998 and culminated in the real devaluation in January 1999, underscored the importance of a sound Brazilian economy to global and hemispheric prosperity. During the fall of 1998, senior IMF and Administration officials warned that the collapse of the Brazilian economy could trigger an economic melt down in Latin America and deepen the turmoil in international capital markets.

The impact on Argentina, which sends over 30 percent of its total exports to Brazil, would have been especially grave. These considerations led the IMF, in close consultation with the United States, to assemble a $41.5 billion financial package to help Brazil overcome the crisis. The U.S. contributed $5 billion from its 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 crisis and to embark on a path of renewed growth. This year, the economy is projected to register GDP growth of 3½ to 4 percent, with inflation falling to 6 percent. Brazil has regained access to international capital markets and repaid the loans disbursed by the U.S. and other bilateral lenders ahead of schedule.

Still, 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.

President Cardoso's economic modernization program has created numerous trade and investment opportunities for U.S. firms. U.S. exports to Brazil rose 64 percent during this period, and Brazil was the 13th largest export market for U.S. goods in 1999. Moreover, U.S. direct investment in Brazil almost doubled between 1994 through 1999, rising to over $35 billion. Brazil is the 8th largest recipient of U.S. direct investment in the world, and more than 400 of the Fortune 500 companies have operations in the country.

Manufacturing accounts for almost 60 percent of U.S. investment, but the fastest-growing sectors are telecom and energy.

Excuse me, Mr. Chairman. I notice you just walked into the room. Would you like me to break, or should I finish making the statement?

Mr. GALLEGLY. [presiding] No, go right ahead.

Ms. EDDLEMAN. In the hemisphere, Brazil and the U.S. share a common interest in promoting stability and democracy. In the past, citing principles of national sovereignty, Brazil was, in our view, overly reluctant to speak out forcefully when hemispheric countries violated their citizens' basic human or political rights.

We have welcomed greater Brazilian activism under the Cardoso administration in promoting internationally the tenants of democracy. For example, Brazil advocated the inclusion of a democracy

clause in Mercosur. The first ever summit of South American presence will take place in Brazil later this month, and will focus on democracy as well as on the threat posed by narcotics trafficking and other transnational criminal activities.

These welcome initiatives, aimed at creating mechanisms for mutual support among democracies must, in our view, be complemented by meaningful measures when countries retreat from democratic norms. There are sometimes important 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 7th Madrid meeting on Colombia, and it has informed the Pastrana government that Brazil adheres to the Madrid Declaration and is in favor of Plan Colombia.

President Cardoso has met with Pastrana several times and has encouraged him to continue with these peace efforts. At the same time, senior Brazilian military officials have voiced concern about possible spill over from the Colombian conflict into western Brazil, and have taken steps to increase Brazil's military presence in the border area.

Among these is Raytheon's SIVAM Amazon Monitoring System Project, which will help Brazil improve its control over its territory, including air space, to better combat narcotraffic in the Amazon region.

In the sphere of military cooperation, Brazil's improved diplomatic and economic relations with its neighbors and its shift toward a more outward-looking foreign policy have led to enhanced bilateral military ties. The U.S. relationship with the Brazilian military, which had been very close after World War II, deteriorated during Brazil's military government from 1964 to 1985. With the return of civilian rule, increasing contacts between the Brazilian and U.S. militaries produced a steady improvement in relations.

The first visit to Washington by a Brazilian Defense Minister, a post created only a year ago, in late June provided an opportunity to deepen the level of military-to-military cooperation. Similarly, the conclusion of a Section 505 assurances agreement on June 2nd is a concrete example of increased mutual trust and will result in closer ties once it is ratified by the Brazilian Congress.

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 has generated pressure from both the Brazilian and U.S. private sectors for bilateral commercial agreements that reflect the new economic reality.

On foreign policy issues, President Cardoso's internationalist approach has produced new opportunities for the U.S. and Brazil to work together constructively on global and regional issues, and has resulted in growing policy coordination. This cooperation will be-

come even more important in the future as the extent of Brazil's involvement in the hemisphere and the world continues to grow.

Thank you.

[The prepared statement of Ms. Eddleman appears in the appendix.]

Mr. GALLEGLY. Thank you very much, Madam Secretary. I apologize for coming in a few minutes late, but between the vote and everything else, our schedule is a little bit topsy-turvy today.

I do have a couple questions for the Secretary. But before we do that, without objection, I would like to have my opening statement made a part of the record rather than reading it into the record, to save time, I'll just submit it because we are going to have some more votes.

[The prepared statement of Mr. Gallegly appears in the appendix.]

Mr. GALLEGLY. Mr. Sanford, did you have a statement you would like——

Mr. SANFORD. I do not.

Mr. GALLEGLY. Fine.

So without objection, my statement will be made a part of the record.

Madam Secretary, you state that the U.S. welcomes greater Brazilian activism in the promotion of democracy in the hemisphere. I would like to know, in your opinion, did Brazil's position at the OAS with respect to the recent flawed elections in Peru pose any problems for the U.S.?

Ms. EDDLEMAN. Mr. Chairman, I would like to give you first a general reaction to your question, and then a more specific response with respect to Peru. My general reaction is that, based on our interactions with our Brazilian counterparts, and based on the actions they have taken in the hemisphere, particularly with respect to Ecuador and Paraguay where, of late, those governments were threatened by potential military coups, it is clear that the Cardoso administration and the Brazilian government generally are committed to the principle of promoting democracy throughout the region.

That being said, I think it must be acknowledged that the United States and Brazil have traditionally taken a different tactical approach to questions involving threats to democracy. The United States approach has traditionally been a bit more proactive, and the Brazilians tend to take a more low profile/less proactive view.

We feel that their policy has been evolving, and they have been willing to become a little bit more proactive. But our approach on Peru was somewhat different.

The point with Peru that I would like to stress, however, is that in the end the Brazilian government, along with the U.S. Government, supported the consensus to send a mission down to Peru to work on democratic reforms. Secretary Gaviria and Foreign Minister Axeworthy are in the process of carrying out that mission.

Mr. GALLEGLY. You spoke of Brazil's effort with respect to Colombia in your statement. But others have hoped that Brazil would take an even more active role in the conflict. Are you satisfied that Brazil is doing all it could with respect to Colombia?

Ms. EDDLEMAN. The situation in Colombia is, as you know, sir, a very intractable problem. It is not my area directly, but I am aware of some of the steps that the Brazilian government has taken, both publicly and indirectly. As mentioned in my statement, the president of Brazil has met a number of times with President Pastrana, has supported the Madrid Declaration, and has made clear the concern the Brazilian government has for the situation in Colombia.

Mr. GALLEGLY. Thank you, Madam Secretary.

Mr. Ackerman?

Mr. ACKERMAN. Thank you very much.

Madam Secretary, your statement talks about the macroeconomic reforms undergone in Brazil under the President during his current term in office. Inasmuch as his approval rating is hovering somewhere around the 20 percent mark, and considering there seems to be an emerging scandal concerning his former chief of staff, how do you assess the momentum to complete the economic reforms that have been embarked upon?

Ms. EDDLEMAN. You are correct, sir, in pointing out that the president's popularity ratings certainly have decreased. He was reelected a little over 1 or 1½ years ago, with 50-some percent of the vote, and his poll ratings hover between—actually, as low as 13 percent in some polls, and in the 20's. He has been very successful in promoting macroeconomic reform and in securing passage of the legislation.

But the low poll numbers could make it more difficult for him to achieve passage of certain key pieces of legislation, which do need to be passed in order for Brazil to continue its structural adjustment. There is outstanding tax reform legislation and social security reform legislation that needs to be passed.

That being said, we can only look to the history, and the president has been very successful in securing passage of legislation when it is critical. So we are hopeful that he will be successful over time.

Mr. ACKERMAN. How do you assess the possibility that has been speculated upon from time to time that he might be forced to resign?

Ms. EDDLEMAN. Certainly the poll numbers must be of concern to his advisors and to the president himself. On the other hand, it has not come to the attention of anyone, certainly in Washington, and we have checked with our Embassy down in Brasilia. There have been no calls for resignation or calls for, perhaps removal from office. So we do not expect that to be the case, and believe that he will fulfill his term.

Mr. ACKERMAN. One further question, if I may, Mr. Chairman.

Of the $41½ billion assembled by the international community for aid to Brazil during its economic crisis, all of which—that was borrowed has been paid back on time or early—how much of that money was actually borrowed, indeed, and how much of the $5 billion made available from the U.S. was borrowed?

Ms. EDDLEMAN. I don't know if I can give you an accurate breakdown. As you say, the $41.5 billion was—a component of it was bilateral assistance; $5 billion of it was U.S. loans. Those amounts

were paid back in full as of April. I don't know how much of it was drawn down. I can get you that information in writing——

Mr. ACKERMAN. Appreciate it.

Ms. EDDLEMAN [continuing]. If you would like. The other bilateral assistance has also been paid back, and they are hitting all of their IMF targets on time.

[The information referred to follows:]

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

You are correct that all of the funds made available to Brazil have been repaid as of April of this year. Over the course of the crisis, Brazil borrowed about $23 billion, $9.46 billion of which was from bilateral sources, including $3.25 billion from the United States. Brazil repaid early and with interest.

Mr. ACKERMAN. I thank you, Madam Secretary.

Thank you, Mr. Chairman.

Mr. GALLEGLY. Mr. Ballenger?

Mr. BALLENGER. Thank you, Mr. Chairman.

Because of our friend from New York's past history, Mr. Ackerman, I was in the southern part of Brazil at one time. I noticed that just lately there was a large I guess amount of damage done to the environment in Iguacu. It turns out—the newspaper said it didn't have any great effect on it. I was just curious as to how that could happen.

Ms. EDDLEMAN. Sir, I think you might be referring to an oil spill that recently took place on the Iguacu River. I think it was a tanker that was owned or operated by Petrobras. I don't think that the spill affected the falls per se, but it was an environmental problem. There actually was a spill—I think that occurred either today or yesterday—so this is certainly an area of concern.

The Brazilian government has fined Petrobras in the past, and Petrobras has made public commitments to do a better job in this area.

Mr. BALLENGER. I was just curious on the energy conservation, and so forth.

There was a large tree-planting area, and I think the gentleman that set it up, an American liquidated it. Does that still exist, do you know?

Ms. EDDLEMAN. I am not aware of that particular project. I do know that a good deal of the money that AID provides to Brazil goes to sustainable development, and AID tries to target that money to local projects, because some of the problems in terms of enforcement are environmental laws in the Amazon. But I could look into the question on that particular project, if you would like.

[The information referred to follows:]

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

If we are thinking about the same project, your recollection is correct. An American did once own a paper-pulp project in the Amazon region. I understand he liquidated his holdings some 20 years ago.

Mr. BALLENGER. I know in flying over that area at night—have they cut down on the fire? I mean, the burning of the trees, and so forth, the jungle?

Ms. EDDLEMAN. My understanding is that the rate of deforestation is fairly constant, so it is not a terrible story to tell in that

the situation isn't worse, but it isn't a great story because the situation hasn't improved all that dramatically. Fires did take place in the region, I think it was last year, and this forced the Brazilian government to come together with a plan to deal with fires in the future, and the U.S. Government made a contribution to that effort, to the fighting of the forest fires.

Mr. BALLENGER. I notice President Cardoso has—you mentioned working on social security reform. Is there an effort generally—I mean, do people—because of the success in Chile, is that a reason that there is success in that effort, or that effort in general in South America?

Ms. EDDLEMAN. In Chile, the Chilean social security system is known partly because of its privatized aspect. The effort of social security reform in Brazil has focused on attempts to reduce the amount of the budget that needs to go to social security payments, to pensioners. The number is quite extraordinary. I don't have the statistic off the top of my head, but it really boggles the mind.

The president was successful, in fact, in passing social security reform, a first cut at it, a few—I think maybe 6 to 8 months back. The courts then overturned portions of it, so they need to go back to the legislature now and try to deal with the problem a second time around.

Mr. BALLENGER. Thank you.

Mr. GALLEGLY. Mr. Davis?

Mr. DAVIS. It is my understanding that in the Seattle Round of the WTO, the position that the Brazilian government took with respect to the United States was to register some level of opposition to our anti-dumping laws, and also to express concern about discussion of labor and environmental protections in connection with trade agreements. Could you elaborate a little bit on that position, as you understand it?

Ms. EDDLEMAN. The Brazilian government is very active in multilateral and regional trade agreements, both the WTO and the FTAA. In Seattle, the government of Brazil took some positions that were very supportive of our positions.

They are very supportive, for example, of the dispute resolution process in the WTO and are very supportive of our position generally on agriculture; for example, attacking the EU position on export subsidies. There was actually a fairly coordinated Latin American approach to the question about agriculture.

However, sir, you are correct that on the anti-dumping question the Brazilian government has been fairly critical of our anti-dumping laws and wanted to address this issue through the WTO process—a position that we oppose.

Also, on the question of labor and the environment, the position of the Brazilian government at this point is not to include trade—excuse me—not to include labor and environmental issues in trade negotiations. They are afraid that it could be used for protectionist purposes.

Mr. DAVIS. Let me followup on what was being asked by Mr. Ballenger. What types of tax reform are we hoping the Brazilian Congress will approve?

Ms. EDDLEMAN. I understand that the Brazilian tax system is—part of the problem is that it is very, very complex. There are many

layers of Federal, state, and local taxes, and the administrative burden on companies—that alone is very difficult for companies to deal with and to comply with. In addition, some of the aspects of the tax system are regressive and were put into effect as an immediate response to the financial crisis.

For example, there is a financial transaction tax, which is considered to be fairly regressive. The Brazilians would like to see this tax done away with and perhaps replace it with other types of tax measures.

Mr. DAVIS. The opposition to those changes is coming?

Ms. EDDLEMAN. I think tax reform is generally a difficult topic, particularly before municipal elections, which are going to be taking place in October.

Mr. DAVIS. I have no more questions. Thank you, Mr. Chairman.

Mr. GALLEGLY. Thank you, Mr. Davis.

Mr. Sanford?

Mr. SANFORD. Yes, sir. A couple of quick questions.

First, as I understand it, the U.S. has basically expressed support of the upcoming meeting of South American presidents in Brazil. But some people have registered the concern that, well, no, this is another attempt at Brazil basically trying to press for a quicker integration of, basically, South American countries in advance of the FTAA negotiations.

Do you agree with the concern, or, no, it is an unwarranted concern?

Ms. EDDLEMAN. As a general matter, we think the idea of a South American summit is a very good idea. It is an opportunity—it is the first time the South American presidents will be getting together in one place, I think ever, and it is going to address, in our understanding, a range of issues, including trade but also democracy, infrastructure, counter narcotics questions, and other transnational issues.

We think that efforts for the regional leaders, and particularly important players like Brazil, to address these kind of questions, that these are laudable efforts.

The point you make with respect to trade, however, is well taken. We feel that regional trade agreements, if that is the purpose of—one of the purposes of this meeting, is that that's an acceptable objective as long as these regional agreements are not trade-diverting and are consistent with the WTO.

Mr. SANFORD. With respect to social security reform, do you like what has happened with the idea of these private or personal accounts? Or do you dislike what has happened?

Ms. EDDLEMAN. In terms of privatized social security accounts? I have to say, sir, I don't know enough about it to give you a good answer. But I could try to get back to you with a Departmental view, if you like. I think the Treasury Department probably takes the lead on these kind of things, though.

[The information referred to follows:]

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

A number of Latin American countries, beginning with Chile in 1981 and including Peru, Colombia, Argentina, Uruguay, Bolivia, Mexico, and El Salvador, have reformed their social security systems either to replace or supplement public pensions with individual investment/savings accounts. In many cases these whole or partial

privatizations of social security have increased the resources available to individual retirees and have expanded the size of capital markets in these countries. The success of the programs has varied from country to country.

Mr. SANFORD. You handle economic issues, though, right?

Ms. EDDLEMAN. I do handle economic issues. The social security reform effort in the pension system in Chile has been very effective.

Mr. SANFORD. Right.

Ms. EDDLEMAN. But it is unclear whether it has been effective because of the particulars of the Chilean economy, which differs somewhat from the situation of Brazil, which is a much more heterogeneous country in which you have wide variations in income. Whether a system like that would work in Brazil isn't clear. It has been very successful in Chile.

Some, in fact, in the United States have looked to the Chilean model and have advocated adoption of aspects here in the U.S.

Mr. SANFORD. Yes. Although I would take exception there, and certainly you could see a wide range of different income levels when you go to the Andes in Chile or either the Andes on the Argentinean side.

The mission after the fact—I was really concerned about what happened in Peru. The mission after the fact, does that embolden people or encourage them to say, yes, you go ahead, you grab all the marbles, and he who holds the gold makes the rules, and they are going to send a mission after the fact to help us to look at the better work in terms of democratization? Do you agree with that or disagree?

Ms. EDDLEMAN. We certainly have concerns about the situation in Peru, and your points are well taken. In terms of giving you a Departmental position, I would be out of my depth in doing that. I don't handle Peru, sir.

[The information referred to follows:]

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

We certainly have concerns about the situation in Peru, and your points are well taken. We support the conclusion of OAS election observers that Peru's national electoral process which returned President Fujimori to office was not free and fair and failed to meet internationally recognized standards. We welcome the OAS General Assembly resolution tasking a special mission to Peru to develop proposals for democratic reform and we fully support the OAS' work. We are urging all parties to the political process to work with the OAS to develop and implement reforms to the judicial and electoral systems, measures to enhance protection of human rights and freedom of expression, and steps to ensure civilian control of the intelligence services and armed forces. We will work with the Fujimori government as long as it meets its commitments to the OAS and to strengthen democracy. However, we are reviewing all aspects of our relations with Peru with a view to responding appropriately if these commitments are not met.

Mr. SANFORD. Thank you.

Ms. EDDLEMAN. But I will take it back.

Mr. GALLEGLY. Thank you very much, Madam Secretary, for being here this afternoon. Again, I apologize for coming in late, and I am sure we will be seeing a lot more of each other in the future. We appreciate your testimony today.

If the next panel would come forward.

I really apologize for coming in here late.

Ms. EDDLEMAN. Thank you very much for having me.

Mr. GALLEGLY. Thanks for working with our folks.

I want to welcome our second panel today, and it is an honor for us to have the Ambassador with us, and I thank you for making the trek up here to come and testify before our Committee today.

Mr. Ambassador, we will start with you, and you are welcome to start your statement.

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

Ambassador BARBOSA. Thank you very much, Representative Gallegly, for inviting me to be present here in the Committee. It is an honor for me to examine the situation in Brazil and the relationship with the U.S.

I will be summarizing my prepared statement, which I have already submitted to you, Mr. Chairman, for the record.

Mr. GALLEGLY. Without objection, that will be made a part of the record in its entirety.

Ambassador BARBOSA. Thank you.

I have prepared some comments here on the Brazilian—domestic situation, but I think that the Assistant Secretary covered that to a large extent. I just will stress that if we could summarize some of what happened in Brazil in the last 10 years, I would say two words—modernization and democracy. Economic modernization has transformed the country, as well as the strengthening of democracy after a period of authoritarian government. This is the fourth government after the civilian rule was back in Brazil.

In terms of the economy, we are in the middle of a very strong program of economic stabilization. We managed to curb inflation to restore growth and restore confidence abroad. Brazil, due to this situation, today is the third largest recipient of foreign direct investment with over $31 billion last year. This year we think that the number will be similar.

In terms of priorities in the economic area, the stabilization program and the fight against inflation and reduction of the fiscal deficit remain priorities of the government. The social reforms and the strengthening of the allocations for these social areas—education, health, social security—are also top in our priority. The improvement, the consolidation of democracy, is also our main priority.

In terms of foreign policy, I think that I should mention that is a top priority for us—the consolidation of the regional trading bloc. Mercosur, integrated by Argentina, Brazil, Uruguay, and Paraguay, and also the efforts to consolidate South America as a unit. The reference was made here about the summit, and perhaps I could discuss further that.

Also, we are committed to discussing at this stage the FTAA, the Free Trade Area of the Americas. But it is important when one considers the Brazilian position in relation to regional integration, both in South America and the hemisphere, to understand that as far as Brazil is concerned the major trading partner for us is not the United States; it is Europe, considered as a bloc.

Twenty-eight percent of our trade is with Europe. The United States comes normally third after South America. Last year, due to the recession and other reasons, the United States became the second largest trading partner. Individually, of course, the United

States is the biggest trading partner we have. But as a group, South America comes second, and the United States comes third. So this has to be seen in perspective when one tries to understand our position in relation to the trade negotiation.

As far as U.S.-Brazil bilateral relations, we never had such a good stage. It is an excellent level. We have developed in the last years a convergence of values, of frank, transparent dialogue. For many years, I can't remember a better period in our relations.

Brazil is important to the U.S., as the U.S. is important to Brazil. As I said, individually, the U.S. is the major trading partner, the largest investor, we have good cooperation in all areas. And Brazil, for the United States is also, as we see it, important. We are the 11th trading partner to the U.S. The U.S. stakes in Brazil are enormous, perhaps not always appreciated here, understood here.

You have U.S. interests U.S. companies have the largest investment—foreign direct investment in Brazil than in any other emerging market countries, including Russia, China, India, and even Mexico, to my surprise. U.S. investment in Brazil is 50 percent higher than in Mexico.

If you take the 500 top U.S. companies, the Fortune list, over 420 are based in Brazil. So, in trade, as I said, we are the 11th trading partner with you, with $13 billion exports to Brazil. In the last 5 years, the U.S. has developed a trade surplus with us. Coming down, it is true. Last year we had nearly $2 billion or $1.9 billion deficit.

Brazil is one of the few countries with which you have a surplus, and this has not prevented Brazil from being perhaps severely affected by restrictions in our exports to the United States. It happens, and I am not questioning that the United States, is the most open, the most liberal country in the world, is an importer of last resort with $200 or $300 billion deficit. But it happens that—in the case of Brazil, most of our main products are affected by restrictions. If you are interested, we can come back to this point.

In terms of the hemisphere, I think that the Brazilian view is that after NAFTA the economic geography of the hemisphere changed. We clearly have three different areas. You have North America, with Canada, Mexico, and the United States; you have Central America and the Caribbean; and you have South America.

This is a reality, and we think that the time is right for a new approach, a fresh approach toward the hemisphere in which U.S. economic and foreign policy would take into consideration the differentiations that exist in the Hemisphere, not only in terms of the individual characteristics of the countries, but also about the different characteristics of the regions that exist in this area.

South America is the case in point. Even though we hear much about Latin America here and about Latin countries, after a year here in the United States as Ambassador, I can say that, as I see it, when you speak about Latin America, you are speaking actually about Mexico and about Central America, not about South America. This is a question—an important question to be discussed.

We are giving importance to South America, as it was mentioned here, because we think that South America has a common history, common values, and we are, for the first time ever holding this

meeting which will take place on the 31st of August. It will be the first ever summit among heads of states of the region. We have a defined agenda. We will be discussing a strengthening of democracy. We will be discussing drug problems. Most important, we will be discussing regional integration, physical integration, in terms of energy, communications, and telecommunications.

This is good, I think, for everybody. It was mentioned that the U.S. Government has supported this initiative, which will open new opportunities of doing business and trade between the north, the United States, NAFTA, and us.

For you to have an important view of the meaning of this meeting, you know that in energy, for instance, South America is self-sufficient in oil, natural gas, coal, and water, which is a precious commodity. This will be discussed for the first time in the future.

The main priorities, as Brazil sees it, in the region are the strengthening of democracy, fighting drug, and trade and investment. We are committed in the negotiations in Mercosur as our top priority. The expansion of Mercosur to South America, including other countries, the Andean countries as associate members, and the discussion about the FTAA. Of course, we will be discussing the FTAA, the Free Trade Area, according to our national interest, as you will be discussing according to your national interests.

There are principles that the presidents of the region, the hemisphere, have approved. They will be following these principles—the market access, reciprocity. We think that by 2005 we have a reasonable chance to have something in place.

So I think that the relationship between Brazil and the United States is excellent, and our views on the hemisphere are shared. The increased consultations between our two countries in this frank and transparent way, covering all of these areas, are good and are positive, fruitful to our two countries.

I think that the title of this hearing, the strategy of Brazil-U.S. as strategic partners or regional competitors—as we see it, we see the United States as a strategic partner. We would like to have the same view from the United States, because the stakes between Brazil and United States are of a sort that there is no alternative to this strategic partnership.

Thank you very much.

[The prepared statement of Ambassador Barbosa appears in the appendix.]

Mr. GALLEGLY. Thank you very much, Mr. Ambassador.

Mr. May, Director of MERCOSUL, would you please present your statement?

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

Mr. MAY. Thank you, Mr. Chairman.

My name is Michael May. I direct the Brazil MERCOSUL project at the Center for Strategic and International Studies, and I would like to make some brief points and request that my testimony be placed in the record.

Before beginning, I would like to recognize Brazilian Ambassador Barbosa, who has worked tirelessly to improve U.S.-Brazil rela-

tions, and he has pursued his mission energetically and is very active in developing meaningful links between Brazil and the Members of the Congress.

Mr. GALLEGLY. Without objection, Mr. May, your testimony will be put in the record in its complete form.

Mr. MAY. Thank you.

I congratulate you and the Subcommittee 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 20 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 Brazil. The U.S.-Brazil relationship should not suffer from benign neglect. We should give sufficient attention to it.

CSIS has congressional outreach, and with the support of some of your colleagues such as Mr. Davis we have developed the Brazil MERCOSUL congressional study group. The 19-member congressional study group is to be used as a resource for the Congress in helping to expand its knowledge and focus on this increasingly important region of the United States.

The CGS has counterpart groups in the Brazilian and Argentine Congress. One of the members—a Brazilian Congressman is sitting here today, Deputy Roches.

It is interesting. CSIS has sponsored four fact-finding visits of 28 key congressional staff to Brazil in MERCOSUL. For most of the staff, it was their first visit to anywhere in Latin America. The majority of the group had been to Taiwan and other countries in Asia, but it was their first trip into the region. This is an example of the need that we need to do to get more of an interchange and raise the level of understanding.

I think, unfortunately, far too often the institutional memory of the U.S.-Brazil relations among most of our policy makers is short, and maybe it goes back to the election of Cardoso, the real plan. I believe that it contributes to perhaps somewhat of an inconsistent relationship.

U.S. policy makers paint Latin America with a very wide brush, and very often consider South America to be an extension of Mexico. Brazil is of continental size. It has a land area of 3.3 million square miles. It has a huge manufacturing potential, $900 billion GDP, and a population of about 170 million Portuguese-speaking people.

Brazil's economy is larger than that of Russia's, and it 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 respected communication. Through trials and error, we have established an effective working relationship 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 closest allies in Western Europe, will pursue an independent foreign policy. This is natural,

and it is indicative of a mature relationship built on mutual respect.

Brazil's involvement in MERCOSUL is very important. As mentioned, MERCOSUL consists of Argentina, Brazil, Paraguay, and Uruguay. It was formed in 1991, and Chile and Bolivia are associate members. It is the third largest trading block in the world, has a GDP of about $1.3 trillion, a population of over 200 million people, and it accounts for over 50 percent of the industrial output of Latin America.

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

Although there has been some tension between Brazil and Argentina, both countries are working hard to resolve trade problems, and MERCOSUL is a fact of life. The currency issue is problematic. Brazil's real floats while the Argentine peso is pegged one on one with the dollar by a currency board. This issue will probably continue to cause some amount of tension.

But despite the continuing problems that face MERCOSUL countries, such as the same problems that would face the U.S. and Canada, and the U.S. and Mexico, Chile—the group is very cohesive. Chile plans to become a full member of MERCOSUL. It is clearly in the best interest of the United States to engage Brazil, to engage MERCOSUL. We should not be afraid, nor be ignorant of this group. We should understand how it functions, and we should try to engage it as much as possible.

The European Union's predatory and aggressive agricultural policy has been a major hindrance to EU-MERCOSUL integration. Nevertheless, the European Union continues to aggressively pursue a free trade agreement with MERCOSUL, while the United States remains, unfortunately, on the sidelines.

MERCOSUL's democracy clause has been instrumental in maintaining democracy in Paraguay. Brazil played a very, very key role in this. I think that democracy is in Paraguay in large part due to Brazilian involvement. The MERCOSUL countries have dramatically reduced tensions by reducing their militaries and eliminating missile and nuclear programs.

Brazil has also cooperated with the United States in mediating the Peru-Ecuador border conflict, and it will be interesting to see how close the two countries will be as far as cooperating on Colombia.

The Ambassador mentioned about the summit that is coming up. I think this is a very natural meeting. It is one that the U.S. should support, and it is one that the U.S. should continue to be involved with as much as possible.

The Free Trade of the Americas, the FTAA, is projected to conclude in the year 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 are indeed serious in developing strong ties with this increasingly important region.

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 of FTAA in 2005. I think it is very clear that there will be no FTAA unless the United States and Brazil are fully engaged in this process.

I will leave the trade and investment issues—they have been covered—for my colleague from the Chamber. But I would like to make one small point on that, that about 2 months ago the U.S. and Brazil signed an agreement whereby American companies can launch satellites from Brazil's Alacontra Space Center. This is yet another example of the importance of the strong and maturing relationship that the two countries have been able to develop.

Finally, regarding the future, one of the most interesting problems affecting the two countries is a surprising lack of knowledge about each other that perhaps may exist amongst the average person. I encourage Congress to take a proactive role in visiting Brazil, and especially meeting your Brazilian congressional colleagues. CSIS's congressional study group would be pleased to help in this effort.

I would suggest that both countries investigate ways to streamline the tourist visa processes, to encourage more interaction of our people. It is interesting that there are more American tourists that visit some small Caribbean countries than visit Brazil. Brazil is just a beautiful country and very inviting.

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, and I repeat 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 better understanding and to never lose sight of the strong bond and friendship that exists between the two countries and their peoples.

Thank you.

[The prepared statement of Mr. May appears in the appendix.]

Mr. GALLEGLY. Thank you very much, Mr. May.

Our next witness is Mr. Mark Smith, Executive Director, U.S.-Brazil Business Council.

Mr. Smith?

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

Mr. SMITH. Thank you very much.

Good afternoon, Mr. Chairman and Members of the Western Hemisphere Subcommittee.

I am Mark Smith, and I am the Executive Director of the Brazil-U.S. Business Council, and Director of Latin American Affairs for 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. The Council has two country sections—one in the United States based in Washington, which represents 65 of the largest direct U.S. investors in Brazil, and one in Brazil, based in Rio de Janeiro, which represents major Brazilian corporations with interest in the United States, as well as Brazil State Federation of Industry and key trade associations.

Brazil is the top priority market for any U.S. company with a global perspective. 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, surpassing Mexico, which is $34 billion, and reaching 4½ times the level of U.S. direct investment in China.

From the trade perspective, Brazil is the U.S.'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.

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 opening has created significant opportunities for businesses all over the United States, particularly in Florida, California, Texas, New York, and Illinois, which are the top five states in terms of total exports to Brazil.

The numbers tell a compelling story. Today, Brazil is Florida's No. 1 export destination. From 1993, Florida exports to Brazil increased 312 percent. During the same period, California exports increased 215 percent, Texas 290 percent, New York 207 percent, and Illinois 375 percent. Other states have also benefited. Georgia exports over this period to Brazil increased 768 percent, while Ohio exports increased over 420 percent.

The opening of the Brazilian economy has also changed the nature of Brazil-U.S. trade flows. Whereas, prior to opening its economy, Brazil enjoyed large surpluses with the United States, Brazil saw those surpluses dry up and become increasingly sizable deficits, reaching as high as $6.28 billion in 1997. From 1991 to 1999, U.S. exports to Brazil increased 114 percent, while Brazil exports to the United States increased only 68 percent.

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, 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 to the United States.

The disconnect between Brazil's export portfolio in 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.

As many of you know, early last year, Brazil underwent a maxi devaluation of its currency with the real losing close to 40 percent of its value vis-a-vis the U.S. dollar. The devaluation had a significant impact on both the Brazilian economy and Brazil-U.S. trade flows.

Due to the decrease in Brazilian purchasing power, U.S. exports to Brazil fell 13 percent last year, while a cheaper real helped Brazil increase its exports to the U.S. by 12 percent, bringing the trade deficit down to $1.8 billion, from $5.04 billion in 1998.

Although Brazil's devaluation should help decrease Brazil's trade deficit with the United States, it clearly will 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 address the challenges that I have outlined.

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 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 level since the launch of the real plan in 1994. Inflation is expected to end this year below 6 percent. Brazil is expected to grow at least 4 percent this year.

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 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 investments in the state of Mato Grosso, and the efforts of the state of Minas Gerais to limit the shareholder's rights of Southern Company, 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 are closely monitoring this disturbing trend.

Now that I have shared the Council's analysis of the commercial relationship, I would like to highlight two of the most important bilateral and regional issues that our member companies are looking at. Our members feel very strongly that the negotiation of the Free Trade Area of the Americas should be given top priority by both governments and congresses.

The United States should move quickly to cement the terms of our commercial relationship with Brazil and the region through an accelerated negotiation of this important trade agreement. Fast track has become the measure of U.S. leadership in, and commit-

ment 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 in the NAFTA. This lack of certainty increases the risk of doing business in Brazil for all companies, most significantly 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 percent, the U.S. actually gained market share vis-a-vis our European and Asian competitors.

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 our competitors 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 No. 1 foreign direct investor in Brazil last year illustrates that this competitive threat is very real. President Cardoso and President Frei's announcement in June that Chile will be joining the block as a full member should also serve as a wakeup call for the United States.

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 in the hemispheric integration process.

Working with Brazil to promote legal and regulatory framework that promotes electronic commerce is also a top priority of the business community. This is an area where we believe the Members of the U.S. Congress can be particularly helpful by sharing their experiences and lessons learned with their Brazilian counterparts.

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 e-commerce. The business community is also focused on postal legislation in Brazil that could subject the express shipments industry to regulation by its competitor, the Brazilian Postal Service.

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 the partnership and competition are not mutually exclusive.

While our countries are working together in the areas as diverse as the elimination of agricultural export subsidies in the WTO, and the construction of an 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 sector is to build a framework for this competition based on shared goals and principles.

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.

I would just 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 the right people?

Currently, the G–7 has no representatives from the developing world, even though Brazil's economy is the eighth largest in the 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 of the world in which we live. This means providing a seat at the table for leaders of the developing world, like Brazil.

I would like to encourage you to take a closer look at the impact of Brazil-U.S. trade and investment on your district and our country, and thank you very much for the opportunity to testify.

[The prepared statement of Mr. Smith appears in the appendix.]

Mr. GALLEGLY. Thank you very much, Mr. Smith.

Mr. Ambassador, some of the folks in Brazil—and I think including the press—raised the concern that the U.S. is trying to undermine Brazil's growing international role and to undermine the country's aspirations for political and economic autonomy. How do you respond to that and assess that, at least as it relates to what appears to be suspicions?

Ambassador BARBOSA. After a year here in Washington, I can say that I haven't seen, on a concrete basis, any action that would go in that direction. I see, on the contrary, a growing recognition of Brazil as a partner, and as a country in the hemisphere that shares the values, the principles, and could forge an important strategic partnership to the matters in the hemisphere.

We are not concerned about that. We read much things in the press. But I don't think—and I couldn't see by myself here in any way this—an action in that sense. Of course, as it was said here, being strategic partners doesn't mean that we agree on everything. We have our own positions. You have your own positions, and we respect that.

There is a growing respect between the two countries, and this is a good sign.

Mr. GALLEGLY. I think that is encouraging. But the fact remains there are some, and it is my understanding, it happens rather frequently in the press, that there is this underlying concern for the U.S., or at least suspicion that the U.S. is making an effort to undermine the country's political and economic aspirations.

But you say that that is really not the belief of your office, or the people that you represent in the government?

Ambassador BARBOSA. Brazil is a developing country. Our action is focused on the region, and we don't see any action from the U.S. to the contrary. Now, we just saw how the administration is supporting the Brazilian initiative in South America.

The only point in which we have some strong disagreement is in the trade area. We disagree in some areas in Geneva, in the WTO, and we disagree on anti-dumping, on subsidies, on specific issues. But, in general, in the bilateral relations, I don't see any major problem.

Mr. GALLEGLY. Just disagreeing doesn't mean that there is an attempt to undermine. I really wanted to get your assessment if those suspicions were prevalent, or whether they were just sporadic, and I think you have answered the question.

Obviously, there are going to be differences as we go along. That is healthy. Differences, I think, are healthy, depending on how broad the differences are. But the fact remains is that suspicions of undermining is a lot more serious than—or at least the perception of undermining is a lot more serious than having some reasonable differences on respective trade policies.

Ambassador BARBOSA. From our point of view, from the Brazilian point of view, we don't see any—we don't hear any—in any way, this threat of undermining us in the world forum.

Mr. GALLEGLY. I am pleased to hear that, and it appears that you have very definite feelings about that. I appreciate that, Mr. Ambassador.

Mr. Ackerman?

Mr. ACKERMAN. Thank you very much.

Mr. Ambassador, in your statement, you enumerate a number of things that you believe restrict products from Brazil to the U.S. market. We would argue, I think, that some of these items are legitimate forms of—come under the rubric of concern that U.S. consumers have for safety for the products that we buy and the standards that we have.

How can we reconcile your concern for access to the markets with our consumers' concern with safety?

Ambassador BARBOSA. The main items that are restricted actually meet the standards here. It is a question of protection for areas here, industries that sometimes feel it difficult to compete. In the case of steel, the most pressing point for us, it is clear, we met all of the standards here.

We compete with other countries. There is not the question of standards of this product and the quality of the product. It is really a question of restrictive measures to, in some cases, protect some industries here.

Mr. ACKERMAN. In the areas of labor and environmental standards, how do you respond to the position of most of our citizens that they are entitled to protect the environment?

Ambassador BARBOSA. In the case of labor standards and the environment, Brazil is comfortable to say that we abide by most of the conventions of the ILO, and we changed completely the approach toward the environment. Today, in Brazil, there is a growing concern by the population about the preservation of nature, the rain forest, and preservation of all standards. This is one thing.

Another thing is the question of inclusion in the WTO, or in the FTAA for that matter, of a reference to labor standards and environmental criteria, because one thing is to discuss labor standards and environmental in their appropriate fora, in the ILO.

Another thing is to draft a clause in a trade agreement, taking into consideration labor standards for export, for the transactions. So we think that labor standards and environmental issues could be easily taken by countries to protect their economies.

In the case of Brazil, speaking for Brazil, we have still some social problems. But they are not linked to trade. It is probably not revealing any secret, we have as the government has acknowledged, a problem of child labor in some areas, but not related to export. This could be seen by importing countries as an area that could be invoked to restrict products in the future.

So Brazil has a very strong view against inclusion of labor standards and environmental issues in trade agreements. This is a very strong position that we take, we took in Seattle, and we will be discussing this in international fora.

Mr. ACKERMAN. Let me try this with Mr. May, if I might. How would you explain the Brazilian government's differing reactions to the political crisis in Paraguay with the clearly, in our view, flawed electoral process in Peru?

Mr. MAY. I think in the case of Paraguay, first of all, there was a consensus that the country was literally on the verge of a violent perhaps civil war. The Brazilians took a very proactive position, with the support of Argentina, the U.S., and some others.

In the case of Peru, Brazil's policy is to support democracy. But I think its traditional approach, if you look in terms of the way Brazilian foreign policy has functioned, literally since—I would say the last 20 to 50 years—they tend to go about working behind the scenes and taking a rather low-key or less high-profile approach.

I think that it is safe to say that the Brazilian Foreign Ministry is closely involved in monitoring what is happening in Peru. I think it is more or less a difference of approach. The U.S. has taken a position that what has happened there is not propitious for the development of democracy, and many feel that Fujimori has not done the right thing.

I can't speak for the Brazilian Foreign Ministry, but I would think that their view is that they would also like to see a return to a fully democratic Peru. In their view, this is the best way of bringing it about.

Mr. ACKERMAN. Did you want to comment on that, Mr. Ambassador?

Ambassador BARBOSA. I agree. In relation to Paraguay, in Mercosur, we included what we call the "democratic clause". We borrow that from the European Union. So there is a mechanism in Mercosur that gives the right for the members to, if it is the case, if the constitutional law is not complied with by a specific country, to suspend that country.

Mr. ACKERMAN. Are you talking about the 1080 process?

Ambassador BARBOSA. What?

Mr. ACKERMAN. For Mercosur, OK.

Ambassador BARBOSA. Mercosur. We have that, the democratic clause. This is important. That is why Brazil, Argentina, the way

we helped to find a political solution in Paraguay. This was a more proactive role.

In the case of Peru, I think that what May said is true. We tend to take a more—a less conspicuous, a less high-profile position. Our style is different. We don't go to the press. We don't go—we don't put pressure in public.

But we are not unaware of the situation, and we are concerned because you may appreciate that Brazil has borders with all but two countries in the region. We have 10 neighboring countries, and we follow very closely all of the situations, political situations, in countries, neighboring countries to us.

Mr. ACKERMAN. I appreciate that.

I only have one more question, if we have the time, for Mr. Smith, if I could. Your statement commends President Cardoso for his economic team, for getting what you say is the economy back on track. With that in mind, how much of Brazil's structural reforms depend upon the president himself? Or, to phrase it a different way, if the president—and when the president leaves office, will Brazil continue down that same macroeconomic reform path?

Mr. SMITH. I would have to say that I don't think that Brazil's path toward reform is completely vested in the person of President Cardoso. The fact is that the overall Brazilian society has supported his efforts. In fact, the Congress, which I hope that you feel as I do that represents Brazilian society quite effectively, has also been very supportive in all of his efforts and been very involved.

In fact, if you take a look at what has taken place in the tax reform discussion, which we view as probably one of the most important structural reforms that still needs to take place in Brazil, President Cardoso has lost a lot of the momentum in the process. Brazilian government has really been—the Brazilian Congress has been driving the issue.

So I think that is an indicator that these reforms are universally—I wouldn't say universally—are widely held to be good and necessary, and I believe that the Brazilian population realizes that without making these reforms the Brazilian economy is not going to be the global competitor that they want it to be.

Mr. ACKERMAN. Thank you.

Mr. BALLENGER. [presiding] Let me ask a question I guess of anybody that wants to answer. But I think we are probably speaking of a quotation from you, Ambassador. You have been quoted recently as saying Brazil was not terribly anxious to negotiate a Free Trade of Americas Agreement, that the priority was to revitalize and possibly expand Mercosur. Would you react to that?

Ambassador BARBOSA. This has to be seen in the context I gave to you. we have our top priority, the consolidation and deepening of Mercosur, and negotiation with the other South American countries to become associate members of Mercosur. This is our top priority.

In relation to the FTAA, Brazil is committed at this stage to negotiate in all working groups, the nine working groups that exist. We prepared a paper. We are discussing in earnest, in a transparent way, and we think that by April 2001, which is the limit for the drafting of this trade agreement, we will have a draft—pre-

liminary draft of the agreement, with brackets in many parts, but we will have one.

Brazil is cooperating with that. This is one thing. Another thing is the trade negotiation, the preferences that will take place after that, by 2002 or 2003. We will have to enter into meaningful trade negotiations. At that stage, we think that fast track is important.

If there is no fast track, it will be difficult, not only to Brazil but to all other—32 countries in the hemisphere, to enter into negotiations, because the major partner—the United States—will not have a clear negotiating position. The statement has to be seen in this context.

Mr. BALLENGER. Mr. May?

Mr. MAY. Yes. Three quick points. I think, first of all, Mercosur continues to be consolidated. If there is a down side about Mercosur, that it still needs institutions and infrastructure. I think the four countries in Mercosur, including the two observing countries, are in the process of putting more flesh on the bones. That is a process that is ongoing.

The second thing is, is that there is a certain concern inside Brazilian industry, among certain sectors, about opening up a bit too quickly and perhaps being inundated by other goods. They need time to make themselves a bit more competitive. I think that there is a final view that goes beyond Brazil that covers most of our trading partners in South America, and that is a view that no one really wants to go too far, give away too much, until they really know what the posture of the United States is going to be.

At this point, even though our professional negotiators are working very hard, along with the other professional negotiators on the FTAA, there is no official political commitment, i.e. the fast track process, and that is viewed very, very strongly, is a very strong signal in the region that the U.S. is, indeed, competitive. Without that, it is like, you can still walk away, you can still not really get involved. I think that it all—those three points reflect Brazil's position.

Mr. BALLENGER. I would like to throw in something that will fit with what I think you are going to say to me. As a Member who supported NAFTA, spoke strongly for NAFTA, I would say that NAFTA would have one heck of a time getting through this body again right now.

I think in speaking with the Chamber, when you want to talk fast track, somewhere along the line I think if we can ever get either of our Presidential candidates to—you will notice that neither one of them are saying anything about NAFTA. Nobody said anything about fast track, nobody said anything about world trade, because it doesn't win anybody any brownie points as far as the election is concerned.

It is an issue that I think somewhere along the line the money of the Chamber and its membership could be well spent in being the positive advertiser of what it has accomplished. The fact that most people don't know what fast track is back home, somebody needs to tell them. You all have money; go ahead.

Mr. SMITH. Thank you very much for spending our money in advance. I would just like to add one quick point about the Mercosur consolidation. Recently, as I mentioned in my remarks, President

Lagos and President Cardoso have announced that Chile will be entering as a full member of Mercosur.

This raises some very interesting questions because Chile's average tariffs are quite a bit lower than the average tariffs of the common external tariff in Mercosur. So, actually, if Chile was to enter—Cardoso also recently mentioned that he wouldn't expect that Chile would be raising—Chile to raise their tariff duties.

So, in fact, the consolidation of the Mercosur process could perhaps be a very good step toward the eventual FTAA negotiation and be a middle ground whereby Brazilian industry could get—have more time and get used to competing with lower tariffs.

In terms of the trade education process, the Chamber has identified that as the No. 1 issue for us, in terms of the international area. We have been working very heavily, particularly on the China PNTR, to make the case for trade. I think the fact is that we were very happy to hear that Candidate Bush mentioned the FTAA during his remarks on the border with Mexico. That is the first time any major candidate has mentioned it as a part of this process.

So there is a whole lot of work to be done. The Chamber has raised a whole lot of money and is putting together a program called trade routes that went to all of the districts where we thought we could have the most impact. I believe it is 65 U.S. Congressional districts.

Also, there is efforts by the business round table to do a similar thing. So we are trying to put our money where our mouth is, but it is a huge undertaking and it is not going to be a process that we are going to change people's sentiments overnight.

Mr. BALLENGER. Yes. But you don't have to run for reelection, so you can go ahead and do it.

Mr. SMITH. There we go.

Mr. BALLENGER. I have one thing more. I would like to say, having been to Brazil several times, you all at one time when I was there were converting your automobiles to pretty much a blend of alcohol and—I guess gasoline and alcohol was the blend. But you were going a substantially larger percentage of alcohol than we had tried in this country.

Did that turn out to be a way of cleaning up the atmosphere? I had heard that maybe it polluted in a different manner or something. I mean, I am really speaking to all of the——

Ambassador BARBOSA. We have a mix—22 to 23 percent of the fuel in any car is alcohol, is a blend they make. But the number of cars in Brazil increased so much in big cities, so we have this pollution problem. In Sao Paulo, we have a rotation by the registration number, so the problem remains there. But we are going ahead with this program of alcohol as fuel.

Mr. BALLENGER. But was that not basically because of the availability through the sugar—the amount of sugar that you had that it went to alcohol, not for pollution, not——

Ambassador BARBOSA. It is a bit of everything. First, when we started this program, the oil price was very high, as high as it is today. Second, the problem of the environment. Third, Brazil is the largest world sugar producer, so we have an excess stock of sugar cane. So there is a combination of the three elements.

Mr. BALLENGER. I am just curious because there is such a big to-do in this country today about the pollution caused by automobiles.

Ambassador BARBOSA. You were discussing here the subject. It is in the Congress, a piece of legislation about the replacement of MTBE for ethanol, and we are following that. It is important.

Mr. BALLENGER. But if pollution in Brazil was compounded, or was not any better because of the using of ethanol, alcohol, or MTBE——

Ambassador BARBOSA. But the fleet of our cars in Brazil increased tremendously. Today, we produce nearly two million cars by a year, per year. So it is a huge increasing number. That is why.

Mr. BALLENGER. I would like to say to any Members that want to go, when the times comes if you can, if you want to see a big city, it makes New York looks like a puddle jump that Sao Paulo. You get on one of their skyscrapers, and there are just miles of skyscrapers everywhere.

Mr. Davis?

Mr. DAVIS. I would like to ask each of you, taking into account all of the factors that have been discussed today, when are you recommending that Congress take up and debate renewal of fast track authority with the president with respect to the FTAA?

Mr. MAY. When?

Mr. DAVIS. When?

Mr. MAY. If you could do it in the next 5 minutes, it would be good since that can't——

Mr. DAVIS. No. That is why this is—it is a difficult point, and I expect, something relatively sophisticated from you all. I don't think the stage is set to debate this in January.

My second question, let me just go ahead and ask this. One of the reasons why the permanent NTR for China succeeded in the House, in my judgment, was that there was a defined agreement established. It was painfully clear who the winners and losers were going to be.

I think that made the debate more constructive because, Mr. Ambassador, in our country, as you know, the notion of free trade generates a tremendous amount of anxiety. I am sure it does in your country as well. When you can put things in a little clearer form, it makes it more manageable.

I don't assume that whatever form a multilateral agreement takes with South America is ready to be defined in those terms any time soon. It may be critical to do so in order to have a constructed debate here in Congress.

Mr. May, I think if it were to come up in 5 minutes or in 5 days or 5 weeks, I think we would have the same unfortunate result we had a year and a half ago.

Mr. MAY. But I think, Congressman, that in the next administration, regardless who wins, in the next Congress this will be an issue that will have to be addressed. Now, again, Congress may not pass it, but it will be forced to address it.

The interesting point, I think, is that the European Union is not waiting. The European Union is taking a very, very aggressive position. I think there are some subtle developments that occur on this. Is there just the perception that there is movement between MERCOSUL and the European Union? In the minds of many peo-

ple who may control some of the bureaucratic elements within Argentina or Uruguay or Brazil, or whatever, I would think that the tendency would be to be a little more favorable to the Europeans because they feel that there is this—the countries are gravitating together more.

On the contrary, the prevailing view in the region is that the U.S., because of the lack of fast track is unable or unwilling to actually begin the process from—advance the process.

Now, again, at the end of the day, one may not get an FTAA. One may get 50 percent of the FTAA, or whatever. But unless we have the vehicle by which we can begin this process, then everybody is basically going to be standing around and looking at each other and saying, "Well, what do we do now?" The Europeans aren't.

They are going to be going in, like they have been. I am afraid that it is going to cost the U.S. not only jobs and exports, but I think it is going to affect the U.S. in being able to be taken seriously as an ally and to be able to work with the countries of the region on noncommercial issues, whether we are talking about the promotion of democracy, whether it be in Peru or Colombia or East Timor.

I think that the U.S. has to be projected as somebody who is willing to invest effort and time and energy in this. The Congress can play a very large role in that regard.

Ambassador BARBOSA. You have two questions here. Not only FTAA, the Congress will have to address also the question of the multilateral negotiations that I don't think will have the opportunity to be launched this year. But from next year on, there is this problem.

As far as the FTAA is concerned, as I said, in the case of Brazil we don't think fast track is necessary now. But it will be necessary when we discuss trade preferences, and then it is inevitable. This is not only our position. This is the general position of all countries in the area.

We can only negotiate if we know exactly what will be the limits of the U.S. negotiators. So we don't expect a serious discussion this year, but in the next administration, at some point, this will have to be addressed.

Mr. SMITH. I think I would probably agree with you that if we threw the fast track bill out there right now, it would—yes, it wouldn't have such a great future.

But I think there needs to be a convergence of—or an aligning of certain stars for these things to happen, both in terms of a president that has a strong commitment to getting a clean fast track bill—you have to have an objective that people can buy into. I would hazard to say that Brazil is an objective worth buying into, and the FTAA is an objective worth buying into.

Then, you have to have, from the grass-roots level, a perception that these things are something that would be good. That may be something that—I think those first two factors may be easier to exist within the next—perhaps the early part of next year. Who knows? But there is also a whole lot of education in terms of the benefits of trade that needs to be done.

Certainly, the benefits of NAFTA are, we think, quite clear. But in the U.S. public perception, they have been quite muddied. So that is a debate that really needs to be clarified, I think, before there is clear consensus that these things are a good idea.

Mr. DAVIS. One last question. Mr. Ambassador, I understood the concern you expressed earlier about—in response to Representative Ackerman's question about the fact that you have issues involving labor and the environment that are far broader than trade. Having said that, what would be your position about a fast track legislation that provided for enforcement in the core agreement of labor and environmental issues that were trade-related?

Ambassador BARBOSA. I think it would be negative. I think that these would make negotiation of multilateral agreements, a new round in Geneva very complicated, and the negotiations in the FTAA also.

Mr. DAVIS. Can you elaborate a little bit on why?

Ambassador BARBOSA. I was in Seattle in December last, and I followed all of the areas, all of the debates in the working group there. It is not the Brazilian concern. As I said, we have a much better situation in terms of social situation, in terms of labor than many other countries. This is not a domestic problem.

We had a difficulty in principle. We think, as I said, that it would be easy for the developed countries to use labor standards as a protectionist measure. For instance, a concrete example—we have a minimum wage in Brazil, less than $100. This could be taken by a developed country which could say, look, we cannot accept Brazilian products because you are dumping us. Our minimum wage is $600, and they are paying $100. So it would be considered a dumping mechanism.

So it is very complicated to include these subjects. We accept that rules should be defined in the ILO; we accept that. We are complying. We accepted and signed most of the resolutions there, and we are trying to improve the social conditions in Brazil. But to link this with trade, as far as Brazil is concerned, the present administration is concerned in Brazil, we will resist to that.

Mr. DAVIS. Thank you.

Mr. BALLENGER. I think if you would check with the Mexicans, you did sign the paper but you don't have to do anything about it. They have——

I would like to just ask you one thing. I have got a quotation here that you said. "We need a fresh Washington perspective on South America, a new way of thinking about Brazil." What is necessary to persuade you that such changes are underway, and what do you think Brazil is looking for?

Ambassador BARBOSA. I don't know. This is an internal matter, and the foreign Ambassador to speak about domestic——

Mr. BALLENGER. You are safe with——

Ambassador BARBOSA. But since you invited me, I think that the problem that South America faces, and Brazil faces in particular, is a natural consequence of the approach that is prevailing in the U.S. foreign policy and economic foreign policy.

Today, 10 years after the Cold War, we are still concerned about national security issues. There is a debate in this country, if you read the "Foreign Affairs" articles by Democrats, by Republicans,

by scholars here in this country debating this problem—and if you think in terms of national interest, not in terms of national security interest, the approach would be different.

A country like Brazil, that doesn't pose any threat to you. South America is not a threat in any way to the United States. As one of your colleagues said, Brazil is not in your RADAR's here, is not in the RADAR, because we are not a threat to you. As I tried to point out in my paper, there is a number of examples.

The stakes that exist to the United States and Brazil are bigger, are much important to you here, to your companies here, than in other big countries, in Russia, China, and India, much higher. But the focus is not on South America, not on Brazil. It is on countries that are perceived by you here as a threat, in any way, political, economic, military, or whatever.

So this is a point, and a fresh approach that I have been discussing here, speaking when I am invited, is that in the future, in the coming years, a differentiation should be made by the decision makers here. I mean, you have already a policy toward North America. You have NAFTA to the Central and Caribbean—Central America and Caribbean, you have CBI. You approved here recently a new form of CBI.

But in terms of South America, there is no policy because we are not in the RADAR's here. This is the idea.

If I may just to complement—some of you asked about the loan to Brazil—the $41 billion loan that we borrowed in 1998. Just for your information, we draw only around $20 billion out of this $41 billion. We repaid our $20 billion, $10 billion from the IMF and $10 billion from the G–7 countries, and we paid everything back with the exception of $1.8 billion to the IMF. So everything that we draw we paid back already.

Mr. BALLENGER. Mr. Smith, you had your hand up.

Mr. SMITH. I think that, as you may know, the Brazil-U.S. Business Council has been in the process of supporting a Brazil caucus chaired by Representative Colby. As a part of our recruitment process, we have been going around to offices throughout both—on both sides of the aisle. What we have found is that people are very happy to meet with us, very excited to talk about Brazil. But there is a feeling that Brazil hasn't done the kind of marketing effort that a Chile or a Mexico has done here in the United States.

I think it is quite notable that, we have been talking about Chile. Certainly, it is a success story in terms of opening its market. But in terms of overall size of U.S. business with Chile compared to overall size of our business with Brazil, it is, not even the size of the state of Sao Paolo.

I think there is two sides of this whole picture. First, the Brazilian government, and certainly Ambassador Barbosa, has been extremely active in that, and we think this is a great, great trend. But there has been, over the past several years, not as much of an effort as some of the other more effective countries, in terms of increasing their profile in Washington, have done.

Also, I think it is the business—and that is myself—and the people that we represent, we are really beginning to mobilize ourselves, and I think that we have identified that as a real strategic challenge for ourselves as well and look forward to working with

the Members of this Subcommittee and others to make that more of a reality. But we have our work cut out for us, and it really requires a partnership on the sides of both key elements here in the U.S. that care about Brazil and the Brazilian government.

Mr. BALLENGER. Let me just apologize to Ambassador Barbosa, because I met with Jim Colby and the Ambassador. Jim said, "Cass, how about you getting involved with Brazil?" But I would hope you recognize there is an election going on, and Brazil right now is not quite as important as North Carolina.

Anyhow, I would like to thank you gentlemen for attending. I think it has been a very constructive meeting.

Without objection, I would like to submit, for the record, a statement from Congressman Menendez, if that is satisfactory with you all.

The Committee is adjourned.[The statement of Mr. Menendez appears in the appendix.]

[Whereupon, at 3:29 p.m., the Subcommittee was adjourned.]

A P P E N D I X

JULY 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 military rule ended, is doing relatively okay. Another may be linguistic – Latin Americanists in this country speak Spanish but too few speak Portuguese, and Brazil may get short shrift as a result.

A more interesting reason may be that when we look at Brazil, we are looking in the mirror to some extent – and sometimes looking at one's reflection can be uncomfortable. Brazil is of very similar size to the United States; each country counts roughly 10 cities with populations of more than a million inhabitants. Like the U.S., Brazil has a large and, despite last year's crisis, growing economy. Brazil is heterogeneous, a country of immigrants with a now minority native American population.

Like the U.S., Brazil is an imperfect democracy. Though Brazil's difficulties are certainly more acute, we in the U.S. are not strangers here to the problems of racial discrimination, violent crime, incidents of police brutality, and growing economic gaps between the rich and poor.
What sustains the U.S. as a democracy and a nation in which a vast majority of its residents believes it lives better here than elsewhere, is its ability to rectify wrong.

I am encouraged by the increasing efforts in Brazil to consolidate democracy and to build a political-economic system that will be strong on rule of law and free from corruption. President Cardoso over the past six years has worked to promote human rights, engage civil society in democratic decision making, and consolidate democracy. His establishment of the national Secretariat of Human Rights, in particular, should be commended.

As a legislator, tasked with oversight of the spending of taxpayers' money, I also support the work of the Brazilian congressional committees that have conducted roving hearings around the country in an effort to root out corruption in Brazil. These courageous actions are welcomed by Brazil's citizens and should be vigorously applauded by all.

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. Brazil's rich bio-diversity, including the extensive resources of the Amazon, makes it a vital participant in efforts to protect our global environment. In fact, there is almost no global or hemispheric issue today that can be addressed without Brazil's participation.

U.S. policy recognizes Brazil's increasing hemispheric and global significance, and U.S.-Brazilian bilateral relations are currently better than at any time since Brazil sent 25,000 men to fight with the Allies in Europe during WW II. On foreign policy issues, President Cardoso's modernizing, internationalist vision has combined with our active engagement with Latin America to broaden and deepen bilateral cooperation in a wide range of sectors. In fact, the level of exchange between our governments has never been higher. Similarly, President Cardoso's efforts to modernize Brazil's economy--based on macroeconomic stabilization, privatization, deregulation and trade liberalization—have greatly enhanced bilateral trade and investment ties. U.S. exports to Brazil were $13.2 billion in 1999, with the stock of U.S. direct investment exceeding $35 billion.

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 elections and successfully weathered the impeachment and resignation of its first directly 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, unemployment and the poor quality of public services—but no significant political actor in Brazil advocates a break with democratic governance.

The *Real* Devaluation and Economic Recovery

Brazil's economic crisis in late 1998, which was triggered by the Russian default and Brazil's failure to curb its large fiscal deficits, underscored the importance of a sound Brazilian economy to global and hemispheric prosperity. During the fall of 1998, senior IMF and administration officials warned that the collapse of the Brazilian

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, heavy U.S. investment in Brazil's services sector--and the resulting introduction of new technologies and business practices--has increased the need for greater certainty and coordination on tax issues. Our ability to help U.S. firms deal with these issues has been hampered, however, by the lack of basic bilateral commercial agreements that we have with many other countries. In this vein, we are encouraged by the Treasury Department's goal of expanding the United States' network of bilateral income tax treaties in Latin America, and support efforts to conclude a tax treaty that would provide benefits to U.S. and Brazilian taxpayers.

Enhanced Bilateral Institutional Links

Our enhanced economic relationship mirrors our increasingly close cooperation on a wide range of foreign policy, security, environmental, educational and other multilateral issues. Presidents Cardoso and Clinton have met on several occasions over the last five years, and we have developed a variety of formal and semi-formal structures to help manage issues of mutual concern -- including an annual Common Agenda for the

Environment meeting, annual meetings of the U.S.-Brazil Education Partnership, annual Bilateral Law Enforcement talks, annual Bilateral Working Group for Defense meeting, and biannual foreign policy consultations at the Under Secretary level. We are also 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.

Cooperation on Regional Issues

In the Hemisphere, Brazil and the U.S. share a common interest in promoting stability and democracy. In the past, citing principles of national sovereignty and non-interference the internal affairs of nations, Brazil was in our view overly reluctant to speak out forcefully when hemispheric countries violated their citizen's basic human or political rights. We have welcomed greater Brazilian activism under the Cardoso administration in promoting the tenets of democracy internationally. For example, Brazil advocated the inclusion of a "democracy clause" in Mercosur. Under this provision, any Mercosur member that abandons democratic rule will lose its trade privileges in the group. The first-ever summit of South American Presidents, which Brazil has called for in late August, will focus on democracy, as well as on the threat posed by narcotics trafficking and other transnational criminal activities. These welcome initiatives aimed a creating mechanisms for mutual support among democracies must, in our view, be complemented by meaningful measures when countries retreat from democratic norms.

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 democracy in other countries experiencing political turmoil. During the attempted military coup in Ecuador in early January, Brazil issued a strong statement stressing that Ecuador should resolve its problems with strict observance of democracy and constitutional order. It was instrumental in drafting a Mercosur communique on the situation, and helped craft an OAS declaration supporting constitutional rule. In Venezuela, Brazil has encouraged Venezuelans to deal with difficult economic and

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 DMA in Manaus in October. The ministerial will focus on hemispheric security, mutual confidence building measures and the link between defense and development.

Multilateral Cooperation

Beyond the Hemisphere, Brazil has worked successfully with the United States on a range of multilateral matters including international peacekeeping operations and nonproliferation. That said, there is an element of ambiguity in Brazil's cooperation with us. On the one hand, we are working together on a broader variety of issues than ever before. On the other hand, Brazil has a strong commitment to maintaining its traditional

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 peaceful uses of nuclear energy went into effect. A tangible benefit of our cooperation on nonproliferation is the Technical Safeguards Agreement which will permit U.S. satellites to be launched from the Alcantara space port once it is ratified by the Brazilian Congress.

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 role model by virtue of its status as a state which chose to forgo nuclear weapons rather 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 have led to enhanced bilateral military ties. The U.S. relationship with the Brazilian military, which had been very close immediately before and after World War II, deteriorated during Brazil's military government from 1964-85. With the return of civilian rule, increasing contacts between the Brazilian and U.S. militaries produced a steady improvement in relations. The first visit to Washington by a Brazilian Defense Minister, a post created only a year ago, in late June provided an opportunity to deepen the level of military-to-military cooperation. Similarly, the conclusion of a Section 505 Assurances agreement on June 2 is a concrete example of increased mutual trust and will result in closer ties once it is ratified by the Brazilian Congress. Still, despite these positive steps, some elements within the Brazilian military remain wary of our intentions.

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.

PREPARED STATEMENT OF AMBASSADOR H. E. RUBENS BARBOSA

I would like to thank Representative Elton Gallegly, Chairman of the Western Hemisphere Subcommittee, for this invitation to exchange views on recent developments and future trends in the relationship between Brazil and the United States. It is a honor for me, both personally and as the Brazilian Ambassador to the United States, to address the distinguished members of the House Committee on International Relations to examine the long history of shared values and close cooperation between our countries and to assess the opportunities and challenges which lie ahead.

Since the birth of our two nations, Brazil and the United States have shared a common history of peaceful relations, political and ideological affinity, and productive trade and financial interactions. For almost two centuries, our countries have been writing a success story of ever-growing diplomatic ties, underscored by an unprecedented degree of cooperation over the last decade, during which several old differences were resolved and new common initiatives, such as the FTAA, were launched. In order to build our future bilateral relationship on the past and present successes, we need to look ahead, analyzing the nature of the new challenges and priorities facing our countries.

As Representative Gallegly requested, I will divide my presentation into five parts: 1) current economic and political conditions in Brazil; 2) Brazil's priorities and challenges ahead; 3) the role the United States could or should play in helping Brazil address its priorities and challenges; 4) Brazil's view of the Hemisphere; 5) how Brazil and the United States can work together in addressing the challenges of the Hemisphere. I will conclude these remarks by answering the question proposed in the title of this hearing; whether Brazil and the U.S. are strategic partners or regional competitors.

CURRENT ECONOMIC AND POLITICAL CONDITIONS IN BRAZIL

If someone were to summarize what has happened in Brazil over the last ten years, two significant trends would stand out: economic modernization and the strengthening of democracy. A strong commitment to macroenomic stabilization and reform of our economy, along with growing participation by civil society and consolidation of our democratic institutions, with regular and free elections, have characterized our recent history.

Both the Brazilian government and society have worked very hard to achieve these positive results. We have pressed and continue to press for domestic structural reforms in order to consolidate the "Real Plan", the stabilization program, and to create conditions for further improvements in our social indicators. We have already liberalized trade rules and have been successfully carrying out one of the largest privatization programs ever undertaken, probably the largest in the entire history of capitalism. We are pursuing new reforms in several areas, such as social security, the tax system, the laws governing fiscal accountability. Brazil's most important domestic goal is to maintain economic stability in order to promote a more balanced, just, equitable and democratic society.

Over the last three years we have faced serious challenges as a result of the international turbulence that arose out of the Asian and the Russian crises. As a major emerging economy, Brazil was not immune to the worldwide economic effects of the Asian financial turmoil in 1997 and the Russian insolvency in 1998. The Brazilian government reacted energetically, adopting restrictive policies aimed at achieving fiscal austerity and macroeconomic stability. To preserve the conquests derived from the stabilization program, the Government was able to rely on firm support from Congress, of a vigilant and active press and the approval of the Brazilian population as a whole. The way Brazil has overcome recent economic crisis shows how active our civil society has been and how mature our democracy has become.

The doomsday scenario that was predicted by some never materialized. The government adopted a two-part strategy comprised of: (a) a severe tightening on the fiscal front and the adoption of a multi-year fiscal adjustment program and (b) the negotiation of an international agreement involving multilateral financial organizations and most of the developed countries.

In January of 1999, the Brazilian Government was forced to devalue the Real and adopt a floating exchange rate currency regime. At the time, it was widely thought that the impact of such a devaluation would unleash inflation rates, leading to the return of the so-called "hyperinflation" and to a deep recession in 1999.

What actually happened over the course of 1999 was completely different, due mainly to the sound fundamentals of the Brazilian economy. Brazil not only avoided a GDP contraction but is now clearly on the road to a strong economic recovery. Instead of recession, final figures for 1999 indicated a positive growth rate of 0.82%,

fueled by the impressive recovery in the last quarter at a rate of 3.1%. Contrary to pessimistic prophecies, inflation remained well within the government's 6–10% forecast, at around 8%. The Government has also been able to meet, and even to exceed, the public sector primary surplus target agreed to with the IMF. Moreover, the new exchange rate regime has opened new opportunities for the export sector, by helping Brazilian products to compete in both domestic and international markets.

The overall economic outlook for Brazil in 2000 and the years ahead is very positive. GDP growth this year is expected to reach between 3% and 4%, as a result of declining interest rates, among other factors. Inflation forecast is around 6%. The main sign of the confidence in the Brazilian economy has been the continued high level of foreign direct investment flowing into the country. In 1999, FDI inflows reached a record US$31 billion, ranking Brazil as the fourth highest investment destination in the world, after the U.S., the U.K. and China. This positive trend is expected to continue this year, boosted by economic recovery and renewed privatization.

BRAZIL'S PRIORITIES AND CHALLENGES AHEAD

From the perspective of the Brazilian Government, there is no contradiction between austere macroeconomic policies, social progress and democratic consolidation. Stabilization creates conditions for improving standards of living and strengthening democracy. We pursue economic success in the name of social justice and increasing political participation.

One cannot deny that the difficulties experienced over the last three years due to the international financial turbulence have made social progress more difficult. The prevailing trend, however, is unquestionable: the Brazilian people are benefiting greatly from economic stability and will benefit even more substantially in the future.

Statistics show that social progress in Brazil has been considerable in recent years. The most important achievements have been in housing, access to services, infant mortality rates and particularly in education. Education is one of our main challenges and first priorities. The Brazilian Government's emphasis on education, especially for elementary education, in a focused nationwide effort to bring every child into a school, has resulted in remarkable progress. From 1993 to 1999, the number of children aged from 7 to 14 in school increased from 88.5% to 94.7%, and will continue to grow. As for other social achievements, the infant mortality rate during the nineties continued its 30 year downward trend in Brazil, decreasing from 48 deaths per thousand in 1990 to an estimated 35 deaths in 2000. Brazil spends 21% of its GDP on programs and activities related to the improvement of social conditions.

Also impressive has been the growing consumption of other goods and services, such as television sets, radios and telephones, by vast sectors of the Brazilian population, especially poor Brazilians. This has been one of the most important results of the "Real Plan", which, according to statistics published last week, has contributed to a more balanced income distribution in Brazil. That is why macroeconomic stability, control of inflation and sustained growth continue to be our main challenges and priorities.

As for the priorities and challenges for Brazil's foreign policy, the Government of President Fernando Henrique Cardoso has reinforced the long-standing principles and goals of our diplomacy, which has always been an unwavering dedication to fostering development and promoting peace and international cooperation.

Consistent with more than a century of peaceful and cooperative relations with its neighbors, and inspired by shared values and common purposes, Brazil's most important diplomatic priority is to strengthen our cooperation with South American countries in order to increase economic integration and to preserve political stability in the region. Toward this end, the strengthening of Mercosul and the consolidation of the dialogue with all other South American countries are paramount in Brazil's foreign affairs agenda.

Mercosul, which includes Brazil, Argentina, Paraguay and Uruguay, is the third largest trading pact in the world, and the most significant trade group in Latin America, noteworthy both for its institutional framework and its rapid and continuous growth. Trade between Brazil, Argentina, Paraguay and Uruguay increased more than 400% from 1990 and 1998, when it reached a total of more than US$ 20 billion. In 1999, there was a decline in trade between the four countries, due to economic difficulties faced by all. In 2000, however, Mercosul has resumed its historical pattern of increasing flows of trade and investments and growing interdependence.

Integration between the four countries is not a goal in itself. Brazil and its partners do not intend to prevent foreign competition. To the contrary, Mercosul is a mechanism for promoting better integration into the international economy. The twin objectives of domestic strengthening and outward integration are complementary. The more the four Mercosul countries deepen their economic, political, social and cultural integration, the more they will be able to proceed towards an increased and sustained exposure to foreign competition. Integration is an instrument for more far-reaching goals: it not only creates favorable conditions for economic development and political stability in our countries, but also enables them to seize the opportunities, and to avoid the risks, of an increasingly open and unstable international economy.

This is why the international agenda of Mercosul is so multifaceted and comprehensive. First, in 1996, it established free trade area agreements with the two "associated" countries, Chile and Bolivia. Chile has just requested full accession to Mercosul. The bloc is also currently negotiating with the other Andean countries the establishment of a free trade area. Taking into account the economic and political importance of the countries of Mercosul and the Andean Pact, the signature of a free trade agreement would represent a landmark on the path towards an increasingly integrated South America. Mercosul also negotiates free trade agreements within the Western Hemisphere (the Free Trade Area of the Americas), the European Union and South Africa.

This outward-looking approach and wide array of international negotiations indicate that Mercosul is an example of "open regionalism". From the Brazilian perspective, open regionalism, combined with other cardinal principles of our economic diplomacy, such as the strengthening of the multilateral trading system, converges on Brazil's fundamental interest in preserving the balanced and evenly distributed trade and financial ties that we have with the various regions and countries of the world. Brazil's main trading partners in 1999 were the European Union (28%), the United States (22%) and South America (20%), reflecting a more balanced distribution of trade than is true of most countries.

In brief, the Brazilian foreign policy has been based on a two-pronged strategy. On the one hand, Brazil's permanent commitment to peaceful coexistence and the negotiated settlement of disputes has provided the framework for a diplomacy dedicated to international disarmament, non-proliferation and the defense of shared values, such as respect for human rights and promotion of sustainable development. On the other hand, and consistent with these foreign policy principles, Brazil's quest for economic and social development has guided our approach aimed at promoting an increasignly integrated neighborhood of countries, along with a growing exposure to the global economy.

THE ROLE THE U.S. COULD OR SHOULD PLAY IN HELPING BRAZIL TO ADDRESS ITS PRIORITIES AND CHALLENGES

Few other moments in the history of Brazil-US relations have witnessed the degree of cooperation and convergence of values and interests that our countries share today. A mature dialogue and mutual trust currently characterize our bilateral relationship, which has greatly benefited from convergent positions on a wide variety of subjects, including the promotion of interamerican cooperation, respect for human rights, protection of the environment, support for democracy, consolidation of the multilateral trading system and defense of non-proliferation, to mention just a few. Together with a growing U.S. awareness of the importance of the Brazilian economy and society, this common perspective has enabled our governments to develop a very special relationship, confirmed by the fact that Brazil is listed among the 10 U.S. strategic partners.

Brazil is currently the 11th market for U.S. products. The United States is the main individual trading partner and foreign investor in Brazil. The stock of U.S. investments in the Brazilian economy amounts to US $ 40 billion, greater than American investments in any other emerging market, including China, Russia, India or even Mexico. Brazil is currently one of the few countries with which the United States has a trade surplus, reflecting Brazil's wholehearted dedication to trade openness and liberalization. The U.S. trade surplus with Brazil reached US$ 5 billion in 1998, the fourth largest in the world, and was nearly US$ 1.5 billion in 1999.

Despite the importance of these economic ties, Brazil is underrated in the United States. I am confident that the more Brazil is studied here and the more the U.S. Congress is informed about U.S. stakes in Brazil, the more decision-makers will learn to differentiate a country which, while facing serious challenges, is making steady progress on the road towards economic and social development, entering the new century as an important player in the Hemisphere and on the world stage. The

history of our country has been marked not only by peaceful relations with our neighbors, but also by our tradition of cultural diversity and tolerance, as well as an impressive penchant for economic growth.

Recent developments have demonstrated the great potential for improved cooperation between Brazil and the United States. Over the last three months, two important decisions have been made by our governments. First, we have agreed to institutionalize our relationship by establishing a framework for regular meetings of senior foreign officials. This will tend to free our bilateral relationship from the personal inclinations of the senior officials in office, making governmental contacts more predictable and regular. Second, Brazil and the U. S. have reached a historic and much-sought agreement allowing for the participation of American companies in the space launch activities at the Alc–ntara launch site. This constitutes a breakthrough on the Brazilian path towards both technological progress and commercial competitiveness in several highly sophisticated technological sectors. It also underscores the growing mutual trust between our countries in the areas of sensitive and advanced technologies.

The United States has also been very supportive of Brazil in our efforts to safeguard and consolidate our program of macroeconomic stabilization. Washington took the lead among the industrialized countries in supporting the agreement signed by Brazil and the IMF. This was a very important step in consolidating economic stability in Brazil, although we are still concerned with the current "volatility" of the international financial markets. The Brazilian government continues to support a more continuous and close monitoring and assessment of the nature and mobility of short-term capital, as well as multilateral efforts aimed at improving the capacity of national governments and multilateral institutions to foresee and prevent financial crises. We need a more stable, transparent and predictable international financial structure, as the Brazilian President Fernando Henrique Cardoso remarked in a meeting in Florence last November with Presidents Clinton and D'Alema, and Prime Ministers Blair, Jospin and Schr der.

Notwithstanding the excellent relations between Brazil and the U.S., some important challenges lie ahead. They arise not from incompatible worldviews, values or principles, but from concrete and naturally divergent interests. The most evident example is how to foster bilateral trade, currently well below the potential of the two largest economies of the Americas. Several of the most competitive Brazilian products, such as steel, ethanol, sugar, shoes, textiles, orange juice, tobacco, and meat, face considerable trade barriers in the U.S. market, including tariff peaks, retaliatory threats, antidumping and countervailing measures, quotas, safeguards, voluntary restriction agreements, restrictive technical norms, sanitary and phytosanitary measures and increasing domestic subsidies. Moreover, labor standards and environmental considerations may be used to legitimize disguised protectionist measures against exports from developing countries.

Studies currently being carried out both in Brazil and by the Brazilian Embassy in Washington indicate that U.S. trade barriers significantly affect as many as 80 major Brazilian export products. These barriers go a long way towards explaining the unbalanced bilateral trade flows over the past decade. Despite the fact that the U.S. economy is open to most imports, having the largest trade deficit in the world, many of Brazil's most important export products face insurmountable trade barriers that severely limit, or even prevent, their entry into the American market.

Brazil has reiterated its concerns about protectionist pressures in the United States and, specifically, about measures against Brazilian exports. Recent antidumping and anti-subsidies measures have been arbitrarily applied against Brazilian steel products, without any genuine evidence of improper practices.The continued existence of such non-tariff import barriers is not consistent with the importance that the American Government claims to give to its relationship with Brazil, nor with the stated goal of both countries to increase bilateral trade exchanges.

BRAZIL'S VIEWS OF THE HEMISPHERE

The Western Hemisphere enters the 21st century with a new economic geography. For all practical purposes, in economic and financial terms, it is already perceived by the business community as being composed of three different groups of countries: North America, Central America and the Caribbean, and South America. I will concentrate most of my remarks on that last of those three areas, which is the least known in the United States.

Today the countries of South America are engaged in an extraordinary move towards integration. This move is reshaping the economies of the region in very visible and powerful ways, even though its various manifestations may occasionally appear to be spontaneous and uncoordinated. Roughly 340 million people live in South

America, generating a GDP of about US$ 1.5 trillion, making the region a fast-growing destination for international trade and investment.

Throughout most of South America, regional integration has acquired great impetus since the early 1990s, due in large part to the consolidation of democratic institutions and the adoption of converging policies in the areas of economic discipline and trade liberalization. Different sub-regional mechanisms—especially Mercosul—play a key role in providing a framework for advancing integration, but the process may also benefit from a series of apparently unrelated bilateral initiatives. In fact, one of the most significant aspects of the current trend in South America has been the strengthening of actual physical infrastructure links, especially in energy, transportation and telecommunications. Conversely, the region is self-sufficient in energy and its abundant oil, gas, coal and water resources have all become precious commodities that are bound to expand trade further within and beyond South America. With improved infrastructure facilitating increased trade flows, the nations of South America are becoming increasingly interconnected. As never before, national borders bring neighbors together instead of separating them.

In such auspicious circumstances, and in the spirit of friendship among neighbors, Brazilian President Fernando Henrique Cardoso has decided to bring together the Heads of State of the twelve South American countries for a discussion on common endeavors and matters of mutual interest. This South American Summit, a historical first, will take place in Bras[lia, on August 31st and September 1st, 2000. The agenda will include only a few essential items, so that the meeting can be as focused and action-oriented as possible: (a) the strengthening of democracy, (b) the expansion of trade, (c) improving infrastructure integration, (d) drug trafficking and related crimes, and (e) science and technology.

The countries of South America share more than geography and history. They share common values and a commitment to build a better future for our citizens, through the consolidation of democratic institutions, sustained economic growth and the struggle to overcome social injustice. They know that by working together they can enhance their individual and collective abilities to attain those goals. They know that together they stand a better chance of achieving a successful integration into the globalized economy.

The Brasília summit will provide the perfect opportunity for an in-depth discussion on the future of South America. The region, as a whole, should benefit. This is particularly true because the presidents will look into special measures, with the backing of multilateral financial institutions. Hopefully this meeting will also provide a clear road map for the future of regional integration.

Brazil appreciates the fact that the U.S. government has taken a very constructive view on this summit meeting, and has made public its support for the Brazilian initiative.

This is an especially promising moment, rich in opportunities for foreign investors. In order for American entrepreneurs to make the most out of it, however, a very important question must be addressed: the urgent need for policymakers in this country to tear down the veil of worn-out clichés about the region. It is high time for decision-makers beyond those who focus on "Hispanic" constituencies, and for analysts beyond those who specialize in the region, to realize that, yes indeed, there are major differences between individual countries south of the Rio Grande.

When it comes to Latin America, it is not unusual for those of us who work in the region to be confronted in the United States by a tendency to accept and spread simplistic generalizations, as if they were simply common wisdom. All too often, problems that affect any one country (or a given group of countries) are perceived as "regional" and extrapolated accordingly.

Just to mention a few examples: if the armed forces do not behave as they should in a particular country, suddenly the ghost of military regimes is viewed as haunting the region again; if major political changes sweep another country, suddenly the dangers of populism threaten to overtake the whole region; if drugs are a matter of life and death in some countries, the same is somehow deemed true for all the others countries in the region; if the economic outlook appears less than promising in one country, the achievements of the last decade are at imminent risk everywhere else; if people are somewhat disappointed with the performance of democratically-elected governments, suddenly there is talk of a widespread "democracy-fatigue", and so on, seemingly without end.

It is high time for a fresh approach, one that fully takes into account the various sub-regions and the individual characteristics of countries within them. Unfortunately, South America, as an American congressman eloquently put it some months ago in a congressional hearing on U.S. foreign policy: "is simply not on Washington's radar screen".

Too bad for the region, some may argue. But this also constitutes a missed opportunity for the United States, since economic prosperity, sustained growth and political stability in the whole Hemisphere coincide with America's national interest. A fresh Washington perspective on South America is long overdue, and its natural corollary ought to be a new and comprehensive way of thinking about Brazil. Given its continental dimensions and the strength of its economy, Brazil should be seen as both the engine for growth and a magnet for foreign investment in South America.

Among the countries of the world, Brazil ranks fifth in population and size. Few Americans realize that it is larger than the continental United States. It also has one of the ten largest economies of the world—ranking in eighth, ninth or tenth place, depending on the source and criteria used. Moreover, Brazil is the most industrialized and economically diversified country in the Southern Hemisphere.

Brazil has enjoyed peace with its neighbors for over 130 years, and shares with the United States the western values that are at the very core of both nations: freedom, justice, democracy, tolerance and the rule of law. Brazil is a racially and ethnically diverse and integrated country, enriched by the contributions of people from every corner of the world. We are keenly aware that this is the central feature of our nationhood, the major source of our strength. Brazil has a sense of national purpose and a vision of a better future, which we are striving to reach sooner rather than later.

It is crucial that the United States deal with Brazil on its own merits within the region, in a differentiated way. Our bilateral relations must reflect the relative weight of our two countries.

Brazil is ready to take on the responsibilities that arise from its importance in the region.

HOW BRAZIL AND THE US CAN WORK TOGETHER IN ADDRESSING THE CHALLENGES OF THE HEMISPHERE

During the last decade or so, the Hemisphere has witnessed unprecedented changes, mostly for the better. This is true in the North, where the outstanding economic performance of the United States has put to rest any possible doubts about American preeminence on the world stage. It is also true in the South, where democracy is now virtually universal and economic disarray and inflation have given way to stability and a strong drive towards integration.

Yet many serious problems remain to be solved in the Hemisphere: economic, political and especially social problems. But our region is on the move, in the right direction, and will certainly emerge stronger after overcoming our current challenges. As sustained economic growth picks up and countries in the region continue to tackle their respective problems with greater confidence and a renewed sense of regional solidarity, the conditions are now in place for an era of achievement and prosperity, during which social justice can at long last be attained.

Brazil and the United States share the fundamental values that must be at the very core of any meaningful integration process in the Hemisphere: democracy, promotion of human rights, protection of the environment and fighting against poverty, discrimination and organized crime in their many forms. Brazil and the United States are vital players as the Hemisphere continues to move forward in the integration process that will hopefully provide the basis for a future of progress and sustained growth for all countries in the region.

Two of the basic tenets of such an endeavor are the consolidation of democratic institutions throughout the region and the fight against organized crime.

Democracy is the very cornerstone of the positive changes we have seen in the Hemisphere in recent years and its consolidation must be at the top of the regional agenda. Sometimes this may prove challenging, but we must all see to it that firm political support from our countries is readily available whenever there is a real threat to the democratic order in the region. In view of some recent events, Brazil and the United States have often consulted each other on this issue and the results have been very positive. Such consultations are beneficial to the strengthening of democracy throughout the region and should continue.

Organized crime, especially drug trafficking and related crimes, has become a transnational phenomenon that does not respect political or moral boundaries. To increase our likelihood of success in the fight against it, we must all strive to increase regional cooperation and coordination, including information sharing. This is yet another area in which Brazil and the United States have much to gain from maintaining open the channels of communication and carrying out a continuous and frank dialogue.

Again, there may be times when our views do not necessarily coincide, but this should be seen as an extra incentive for our two countries to consult closely and seek a better understanding of our respective positions.

Brazil has always had an unwavering commitment to regional integration and has been an active player in the ongoing negotiations aimed at the establishment of a Free Trade Area of the Americas (FTAA). The Brazilian Government has engaged in these negotiations in earnest since the very inception of the initiative and we share the will to have them successfully concluded in 2005.

In the nine negotiating groups that have been established for the FTAA process, we have worked hard to meet the challenges and achieve the goal of having a preliminary draft agreement ready for the ministerial meeting scheduled for April 2001, in Buenos Aires, as decided by the 34 countries of the hemisphere in Toronto, in November 1999.

Not surprisingly, Brazil's positions in these negotiations are dictated by the need to safeguard its national interests. They are also based on a few fundamental principles, which include reciprocity, decision-making by consensus, a single undertaking (i.e. nothing is agreed until everything is agreed) and market access for all sectors. Those are the principles approved by the Heads of State of the Americas.

Brazil believes that if the FTAA is to become a reality, it is imperative that it be perceived as a two-way street by all the countries of the hemisphere, large and small, developed and developing (i.e. give some, take some, so that all emerge better off at the end of the day). This must be a win-win negotiation. A win-lose approach would mean the kiss of death for the dream of a free trade area ranging "from Alaska to Tierra del Fuego".

The FTAA and Mercosul should maintain distinct, mutually supportive dynamics, as has been the case so far. On the one hand, Mercosul has been strengthened by its participation, as a unit, in the discussions on the FTAA. On the other hand, progress towards the FTAA has been aided by Mercosul's contributions and proposals.

Hemispheric integration must not become a destabilizing factor for national economies, due to excessive and sudden exposure to new and increased levels of foreign competition. Gradualism and respect for distinctive national conditions are two fundamental principles that must guide negotiations. The future of the FTAA depends on its capacity to offer balanced results, with equal benefits for all. Reciprocity is the name of the game. That is why we hope to see concrete and substantial advances concerning our demands for improved access to highly protected sectors of the U.S. economy. Progress must be achieved not only by reducing tariffs, but also by tackling the urgent and fundamental question of non-tariff barriers, such as anti-dumping duties, subsidies and quotas.

The road leading to the creation of the FTAA is not yet free from obstacles, despite the overall genuine level of commitment in the region to make it smooth and successful. By 2003, Brazil and the United States will co-chair the Trade Negotiating Committee of the FTAA. The two countries will play a decisive role in coordinating the negotiation process as they jointly take over the steering wheel during what will hopefully be the final leg of this journey.

CONCLUSION: STRATEGIC PARTNERS IN THE REGION

In this yet-to-be-properly-named "post cold war era," we are witnessing a great deal of debate in the Unites States on the definition of "national interest." Discussions are being held within, among and outside governments, major publications have opened their pages to foster this debate and the issue has also become an important topic in the current presidential campaign.

Opinions may vary, but everyone seems to agree that the moment is ripe for a fresh assessment of what should be considered the "national interest". Underlying this proposition is a widespread recognition that the previous definition is no longer suitable.

Why is that so?

I would venture to say that it is because the current definition is based too heavily on "national security" considerations, which means that U.S. priorities are determined primarily by risks and threats, rather than by opportunities. In other words, some countries are placed at the top of the U.S. foreign affairs agenda because they are perceived to pose a direct threat to U.S. national security interests.

For the only superpower in the global arena, it is natural that such national security issues remain very high on the agenda, but there should also be room at the top for other kinds of considerations. One way of achieving this would be by broadening the concept of "security" to encompass not only defense matters but also everything from the economy to the environment, from trade to immigration.

Another way, however, would be to place a higher priority on non-security national interests, more in line with the changes brought about by globalization and the information revolution.

The advantage of basing policies on a broader conception of the national interest, as opposed to the somewhat more negative concept of national security interest, is especially evident in terms of U.S.-South America relations.

There are no imminent military threats originating in South America. There are, however, vital American interests at stake—especially in terms of investments, trade and finance—and the goal of strengthening relations with the countries of the region deserves all the attention it can get.

Why Brazil? How does Brazil fit in this picture? Some basic facts and figures can be helpful in answering these questions.

In terms of GDP, Brazil is larger than Russia and India combined. Using the purchasing power parity concept, Brazil's GDP in 1999 was about US$ 1.4 trillion, which represents a per capita income of US$ 6,350.

American companies, quick to realize where the most promising opportunities are, invest far more in Brazil than in China, Russia, India or even Mexico. Of the 500 largest U.S. companies listed in Fortune magazine, about 420 currently operate in Brazil.

As for trade, the United States exports more to Brazil than to China, Russia or India and Brazil has been identified by the U.S. Commerce Department as one of the ten "strategic partners" of the United States in this new century.

Brazil is also ready for the "new economy." About 7 million people in Brazil have access to the Internet, which places us in 7th place worldwide (after the U.S., Japan, the United Kingdom, Canada, Germany and Australia). Brazil is already the third largest purchasing market for Amazon.com. Today, about 80% of the e-commerce in Latin America is concentrated in Brazil. The number of new Brazilian subscribers to ISPs is growing exponentially, at one of the highest rates in the world.

For all those reasons, Brazil—as a strategic partner—is a natural choice for inclusion in the short list of U.S. foreign policy priorities.

The traditional U.S. foreign policy thinking in terms of the "Big Ones", which has previously been based primarily on national security considerations, should now be broadened to include Brazil for reasons that are based on opportunities, rather than threats, on U.S. national interests, rather than on international security concerns.

Brazil and the United States are the two major countries of this Hemisphere. They share the desire, and the commitment, to see this entire region prosper and consolidate its democratic institutions. They share a vision of a common future with fewer inequities and more social justice for all the peoples of the Americas, North and South. They share a determination to see this Hemisphere free from drug trafficking and other forms of organized transnational crime. They can and must work together in order to advance our shared goals.

The respective national interests of Brazil and the U.S. may not always coincide—even though more often than not they do—and it is only natural that as their bilateral relationship becomes more comprehensive and more complex new problems and occasional differences of opinion may arise.

Partners do not necessarily agree on everything. The important thing is to intensify their bilateral dialogue, keeping it open and straightforward, while dealing with occasional differences of opinion in a constructive, honest and transparent fashion, so as to avoid the pitfalls of a past that has often been, in the words of Congressman David Bonior, "more patronizing than respectful."

The Brazil-U.S. relationship is so broad, close and ripe with potential for additional growth that it is only natural that it should acquire an importance that goes beyond what is merely regional.

If one considers "regional competition" in the narrow sense of the term, as in a "zero-sum game," I would not hesitate to say that this is not an appropriate way to describe the relations between our two countries.

Partnership should really be the key word here.

A real and effective partnership between Brazil and the United States would both serve the national interests of the two countries and provide concrete benefits to all the countries of the Americas.

This partnership is already in the making.

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
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Brazil - MERCOSUL Project
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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
House Committee on International Relations
July 26, 2000

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.