Brazil in Global Economic Governance: Between Opposition and Integration

Morten Ougaard
Department of Business and Politics
Copenhagen Business School
Mo.dbp@cbs.dk

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[This really is a first draft. It is the first effort to summarize, synthesize, and theoretically contextualize information gathered on a field trip to Brazil may 3rd to June 9, 2014.]
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**Introduction**

A paradoxical symptom of the current economic situation is that while observers point to “a prolonged corporate investment strike” (Sakoui 2014; Financial Times 2014), a major emerging economy, Brazil, whose economic potential few observers doubt, is actively seeking investment from abroad (Apex-Brazil N.d.; MDIC 2013). Idle capital co-exists with large investment opportunities, and the two don’t meet. One reason for this and similar paradoxes is that companies are faced with too much uncertainty concerning the political and regulatory environment for long term investments, in this in turn has to do with the fact that the current crisis is not only economic but also political. It is a crisis of global political leadership or hegemony, as I have argued elsewhere (in Danish) (Ougaard 2013, 3-20).

The core of the argument is that the financial crisis ushered in a crisis of hegemony in the transnational power bloc (or the global elite if you prefer), and that a new hegemonic project is still in the making. The three main lines of conflict *within* the power bloc (there are also a range of conflicts between the bloc and subordinate classes and social forces) are between finance and productive capital (the “real economy”), between “green” and “black” capital, and between the emerging economies and the old economic powers. The main contours of a new hegemonic project will be shaped by the political battles along these three lines, taking place nationally, internationally, and transnationally in the politics of the regulation of finance, climate change and environmental regulation, and the various economic issues (trade, investment, intellectual property rights and more), where new and old economic powers have conflicting interests.

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1 I owe a large debt of gratitude to the many people who helped my research for this paper. I want to thank heartily the persons in Brazilian government institutions and the private sector who found time in their busy schedules to talk to me. The information and inspiration provided in these talks have been essential. I apologize for any misunderstandings or misrepresentations of their contributions and I remain of course, alone responsible for the information and interpretations presented here. I am also very grateful for the assistance provided by the Danish Ambassador to Brazil, Svend Roed Nielsen and his deputy, Counselor Frederik Petersen as well as Lauritz Stræde Hansen at the Danish Consulate General in São Paulo. Without this help the project had not been possible. Thanks also for invaluable assistance to Peter Kingstone, Maria Lins, Luigi Manzetti, and George Marques, to officials from the EU and UNDP delegations to Brazil, and to Renata Brunner for research assistance.
It is worth noting that the previous such international hegemonic crisis, in the 1970s, lasted about a decade before a new model – later dubbed neoliberalism – was firmly established politically and began to unfold its dynamic. Thus it is not surprising that the situation is still unsettled now, at the time of writing (June 2014), a little more than half a decade after the onset of the crisis.

A core tenet of this reasoning is that a period of fairly stable capitalist expansion requires a beneficial fairly stable and predictable political and regulatory environment. Large companies, particularly large TNCs that are the dominant force in the global economy, have long investment horizons and therefore political uncertainty is in itself a damping factor on economic growth. This argument is made with some variations by the “Social Structure of accumulation” (Wolfson and Kotz 2010; McDonough 2010), the regulation (Boyer and Saillard 2002), and the hegemonic project literature (Jessop 2002). The relevance for today is indicated by an OECD analysis’ comment on the investment strike: “In an environment of weak sales growth and high uncertainty, companies (particularly in Anglo-Saxon countries) are keeping their capital expenditure contained” (Blundell-Wignall and Roulet 2013, 1-16).

In this paper I focus on only one dimension of the crisis of hegemony, namely the conflict between old and new economic powers, and I examine only one of these, namely Brazil. Specifically, the purpose is to assess where Brazil’s current foreign economic policy is positioned in relation to a global economic governance system still dominated by the old economic powers, henceforth labeled the global North. Hence the question: Brazil between opposition and integration?

While the wider purpose of this paper is systemic: the development of the global economic order, the immediate focus is on foreign policy, and this in turn calls for a focus also on domestic matters. That foreign policy has domestic roots is increasingly accepted in the literature (Hudson 2007; Smith, Hadfield, and Dunne 2012; Schirm 2013, 685-706) and is also in line with critical state theory as argued elsewhere. More precisely but still summarily the argument is that foreign policy is the pursuit of the extra-societal aspects of the dominant domestic interests as enabled and constrained by the international environment. My purpose in this paper, then, is to identify key economic interests pursued internationally by the Brazilian state and to link these to the interests of the dominant social forces in Brazil, in other words to see Brazilian foreign economic policy as an external projection of the domestic Brazilian hegemonic project.
Business and the state in Brazil

Coming from a long history of a highly interventionist and protectionist import substituting model of industrialization (ISI), Brazil through the 1980s and 1990s went through a period of reform, adopting parts of the neo-liberal agenda, esp. anti-inflation, fiscal discipline, deregulation, and privatization of some state-owned enterprises (SOEs), but maintaining elements and instruments of the old policy model (Weyland 2002; Evans 1979). Around the turn of the millennium, however, the country embarked on a new phase, by observers labeled i.a. state-led capitalism or neo-developmentalism, marked by active industrial policies combined with a more inclusive growth model that has lifted scores of millions of people out of absolute poverty. This neo-developmentalism has been marked by a series of comprehensive programs for strengthening Brazilian industry: Política Industrial, Tecnológica e de Comércio Exterior, (PITCE) (2003-2007), Política de Desenvolvimento Produtivo (PDP) (2008-2010), and most recently Plano Brasil Maior (PBM), covering the period 2011-2014, Dilma Rousseff’s first period as president (ABDI N.d.; Ban 2013, 298-331; Pedersen 2008; Bernal-Meza and Christensen 2012, 16-35; Armijo 2013; Christensen 2013, 271-286).

The Brazilian business community that such programs purport to strengthen is very diverse, very resource full and very well organized. In a classic analysis of Brazil’s political economy, Peter Evans summarized the Brazilian model of “dependent development” as based on “The Alliance of Multinational, State, and Local Capital” (Evans 1979). Much has changed since then: the economy has grown and diversified, state owned enterprises have been privatized, some companies have emerged as major exporters and leading global players in their fields, Brazil now have its own transnational companies engaged in direct investment abroad. At the same time, major and impressive gains have been made in developing welfare and reducing inequality.

As a result of these developments, there are now the following elements the Brazilian business community:

- a large presence of foreign TNCs, mainly producing for the national (and regional) market (da Silva 2013, 47-81).
- a Brazilian owned manufacturing sector, to a large degree oriented towards the domestic market, consisting both of large companies and conglomerates and many small and medium sized enterprises
- large Brazilian companies who cater both to the domestic market but also are major exporters, some of them among the largest in the world, mainly in agribusiness and mining, but also aircraft and other manufactured products.
- some of which have become TNCs themselves,
- a financial sector dominated by a few large private domestic banks and the state owned development bank,
- remaining SOEs, esp. Petrobras, one of the largest companies in the world, and the BNDES, the Brazilian development bank.

In addition to being very diverse, this business sector is also very well organized. Just to indicate this, the *Federacão das Indústrias do Estado de São Paulo* (FIESP) is a federation of 131 business associations divided into 23 industrial sectors (chemicals, paper, automotive, pharmaceuticals etc.) together representing approximately 150,000 companies of all sizes. Similar associations exist in other Brazilians states but FIESP is by far the most important of these because the state of São Paulo (SP) accounts for about 40% of industrial output in the country and if the affiliates in other states of SP based companies are included the figure is closer to 60% (Interview 2014d). At the national level, all industrial associations are united in the *Confederacão Nacionaonal de Indústria* (CNI) (CNI N.d.b). In the agro-business area *Associação Brasileira do Agronegócio* (ABAG) has both large companies and various associations as members (ABAG N.d.). The CNI hosts the secretariat of the *The Brazilian Business Coalition* which has been formed to represent business in relation to international issues, particularly trade negotiations (CNI N.d.a).

Furthermore, Brazilian business has close and institutionalized links to the state, both through this dense network of business associations and through direct contacts between large companies and government institutions. This feature as amply documented in the literature (Evans 1979; Evans 1995; Kingstone 1999; Nölke 2012; Nölke N.d.) and in the current context it can be illustrated by business participation in the 19 “Competitiveness Councils” set up to develop and implement the Plano Brasil
Maior (MDIC N.d.b). These councils are organized along sectorial lines, covering automotive, chemical, oil and gas, agro business and so on, to a large extent mirroring the sectorial division of FIESP, and each with company and government representatives. This is a flexible system that brings the state in close contacts with all major business interests.

There are diverging interests and conflicts within this business community, and there are also other interests impacting state policies, none the least labor, but as pointed out by Leslie Armijo, “partisan differences within the post-1990 consensus, although they exist, look more important from within the country than from without” (Armijo 2013).

The Business agenda

Several background factors contributed to the latest evolution of the business agenda. One is the realization that Brazil is among the least internationalized of the major economies combined with the rise of China as a formidable exporter, also as a competitor to Brazil in markets where Brazilian companies have had strong positions. Another is the stalemate in the Doha-round of trade talks, combined with the rise of bilateral or regional free trade arrangements, whether completed or underway. In 2010, the CNI published the pamphlet “Industry and Brazil – an agenda to grow more and better” which in the words of the CNI President Armando Monteiro Neto “presents the industry’s aspirations and its vision for Brazil over the next four years.” This publication, according to Neto, “reaffirms a tradition, initiated back in 1998, of industry establishing a dialogue with candidates for the Presidency of the Republic on an agenda for the country.” He points out that the matter is urgent because “lingering uncertainties in the international environment and the emergence of new competitor countries reinforce the need” for a new agenda, and that in this agenda “addressing competitiveness problems is the best means” (CNI 2010 p. 8).

Another indication of this perception of serious new challenges is the report A Multiplicação dos Acordos Preferenciais de Comércio e o Isolamento do Brasil (The multiplication of preferential trade agreements and the isolation of Brazil) (Thorstensen et al. 2013 p.2), written for the private think tank IEDI, founded in 1989 by 40 large corporations (IEDI 2002). The report warned that only by engaging in such deals can Brazil secure its position as a rule maker and not only a rule-taker: “Apenas assim o
Brasil poderá de garantir sua posição como um *rule maker* e não um *rule taker* na governança do comércio internacional”) (Thorstensen et al. 2013 p.2).

CNI’s paper was mainly focused on domestic reform as a means to ensure competitiveness, cutting red-tape, reforming the tax code, education, research, infrastructure and more, but the international dimension is present throughout in that the purpose is to become competitive internationally and to internationalize the economy. This point is even clearer in the 2013 policy paper *Strategic Map of Industry 2013-2022* (CNI 2013).

FIESP has developed the dual strategy even further, issuing a comprehensive agenda for domestic reform (FIESP 2013a) and a complementary strategy for external integration. On the links between the two legs FIESP notes that “The implementation of domestic policies to promote competitiveness is a priority for FIESP. Complementarily, the proposed **External Integration Agenda** aims to increase Brazil’s competitiveness through the economic integration of Brazil with the world” (FIESP 2013b). A June 2014 position paper reiterates that “Our foreign agenda should be seen as an integral part of our economic development, in that it contributes to the increase of our exports and investment and improves our competitiveness through access to technology, know-how and innovation of international standard” (FIESP 2014 p. 30).

Recalling the diversity of Brazilian businesses in terms of their extant relations to the international economy: Brazilian TNCs, highly successful exporters particularly in extractive industries, and producers for a somewhat protected home market, in terms of ownership: foreign or Brazilian owned, and in terms of size from very large companies with dominant market positions to a large number of small and medium sized companies, there must be major differences in their ability to and interest in following this agenda. But the business associations has identified a unifying theme that can serve as the common interest for all these groupings under conditions of deeper international integration, namely the growth and profitability of industrial capitalism on Brazilian territory. Hitching on to recent developments in thinking in international organizations (Gereffi 2014, 9-37), this is described as the growth of *manufacturing value-added in Brazil*. Thus it is an explicit CNI ambition to increase manufactured value added and, significantly, also to increase Brazil’s share of global value added from
1.7% in 2012 to 2.2% in 2022 (CNI 2013 p. 32). CNI’s proposal is an “agenda to grow more and better” (CNI 2010p. 7).

Although competitiveness is frequently stressed in these policy papers, and by business representatives in interviews conducted for this research (Interview 2014c; Interview 2014d), this does not mean leaving things to competition in the market place alone. The business agenda emphasizes both domestic reforms and continued state support for the private sector. More on this below. In this sense there is continuity with the old ISI pattern of development: the state plays an important role in developing the territorial Brazilian economy, but whereas the old model strived towards self-centeredness and self-sufficiency, the Brazilian neo-developmentalism sees globalization and deep international integration as inescapable conditions for “growing more and better”.

However, reflecting the diversity of Brazilian business, the articulation of this overall unifying theme envisions different pathways to integration, upgrading, competitiveness, and value-added growth. My tentative summary of these pathways, based on CNI and FIESP position papers (CNI 2010; CNI 2013; FIESP 2013a) as well as the interviews mentioned, is as follows:

- continued expansion of the already competitive export industries through better market access abroad,
- continued growth of outward FDI by Brazilian TNCs,
- making producers for home market competitive with imports,
- developing (some) home market producers into competitive exporters,
- inducing domestic companies without their own export potential to insert themselves into global value chains, i.e. become suppliers to transnationals,
- and attract FDI, but in higher value-added activities oriented towards both the home market and export.

Both FIESP and CNI emphasize the need for domestic reforms to achieve this. In addition to an oft repeated call for macro-economic stability, they call for simplification, rationalization, reduction of red tape, removal of disincentives to export in the tax system and more, as well as investments in infrastructure, education and research. But they do not call for an abolition of the major instruments used by the state to ensure that as much production as possible is localized in Brazil and at higher
levels of value added and technological sophistication. Therefore I now turn to selected aspects of the policies of the Brazilian state.

[A section on the different voices within business is to be inserted here, focusing on ABAG and IEDI]

**Innovate to compete – compete to grow: The New Developmentalism**

The above phrase is the motto of the *Plano Brasil Maior* (PBM), Plan for a greater Brazil. Important questions can be raised about the status of this and similar plans such as the predecessors PITCE and PDP: are they in reality effective guides for government policies, are they mainly written to legitimize policies, are they glossing over major policy disagreements or business as usual or policies that would have been pursued anyway? I will not engage with such questions here but proceed on the assumption that at minimum the PBM and associated activities is indicative of the overall direction of government policy.

Based on official presentations (MDIC N.d.d; MDIC N.d.c; ABDI N.d.), the overall goals of the plan can be summarized as enhancing growth through strengthening competitiveness and lifting domestic industry towards higher value-added activities with deeper integration in the international economy, all in a way that expands both the domestic and foreign markets for products made in Brazil, while also ensuring socially inclusive and environmentally sustainable growth. Not surprisingly this has much resemblance to the agenda proposed by the private sector, and is overall probably not much different from what can be found in many contemporary “competition states”. What may be different is the comprehensiveness of the approach and the instruments applied which on paper amounts to a blueprint for a thorough transformation of the Brazilian economy.

The plan defines a large number of programs and priority topics with a wide range of sub-goals, measures, and instruments, which cannot be summarized briefly. The plan is organized in two main dimensions: sectorial and systemic. The Sectorial dimension sets guidelines for programs in 19 industrial sectors (Oil & gas, chemistry, agribusiness etc.) and for each of these sectors, policy measures is developed according to five general guidelines (“Strengthening Production Chains” etc., see figure 1). Thus the policy measure are tailored to the specific conditions in each of the 19 sectors,
and to facilitate this, a “competitiveness council” with private sector representation is established for each of them (ABDI 2013).

[Figure 1 here]

The systemic dimension addresses a series of cross-sectional and general issues, as also evident from Figure 1 and also here a closer look reveals a large number policy measures to be pursued. These cannot be discussed in any detail here, but in summary they can be said to include

i) Increased investment in infrastructure, education, and research, both by the state (implying more public investment relative to consumption) and private investors, including accepting foreign capital in infrastructure investments.

ii) Regulatory reform including a range of measures to reduce what is known as the “Custo Brasil”, i.e. the extra cost of doing business in Brazil. This involves simplification of regulations and procedures, cutting of red tape, and simplification and removal of inconsistencies from the tax code, including removing tax disincentives to export. This is expected to both make the country more attractive to foreign investors and make Brazilian companies more competitive.

iii) The sectorial policies, involving, in sector-specific ways, elements of the above mentioned instruments as well as sector specific ones.

Cutting across these elements, however, are three main policy instruments, that on one hand contribute significantly to the “Custo Brasil” or in other ways are seen as problematic and therefore need to be reformed, but on the other hand have played and still play a major role in implementing the development strategy. They are BNDES, the National Development Bank, tax incentives and disincentives, and public procurement.

Although BNDES to some extent has an autonomous mandate and functions as a bank, it also has special programs where it gives credit on beneficial terms according to priorities set by the government. Thus it can favor certain sectors over others, and, importantly, it has local content requirements built into some of these schemes. In the same manner, the tax code favors certain sectors over others and has
some inbuilt preferences for local production. Public procurement naturally targets specific sectors (construction, pharmaceuticals for the health sector etc.), and also here local content requirements, i.e. a preference for locally produced products and services are widely used.

In other words: local content requirement requirements has been and still is an important element in Brazil’s development strategy and in addition to BNDES, tax, and public procurement, they are also found in import tariffs (For a recent overview see Hufbauer and others 2013). The question is to what extent Brazil will continue using them. There is clearly criticism of the cumbersome bureaucracy and economic inefficiencies following from this policy, both in government and business circles and the issue is contentious in domestic politics (Interview 2014e). Still, few seem to want an outright abolition of the tool, the question rather is how much it should be scaled back and reformed. Thus many could probably agree to CNI’s stated preference, namely to “improve local content policies with the aim of ensuring greater added value and enhanced competitiveness” (CNI 2013 p. 33) while disagreeing on how radical this improvement should be.

BNDES’ role is also subject to serious criticism, in particular concerning its expansion in recent years (which to some extent is the result of its being used as a countercyclical tool in the financial crisis). Strong voices are calling for a significant scaling back, and voices in BNDES seem to accept that this is inevitable (Interview 2014b). But still, nobody seems to suggest that it should be abolished or reduced to insignificance. Rather it is still seen as an important policy tool, providing credit for developmental purposes, and because of its size, also exerting pressure on private banks to provide credit on reasonable terms to industry. This, at least, is CNI’s position and this organizations’ agenda explicitly includes the item “Develop programs for BNDES funding programs” (CNI 2013 Figure 11 p. 41).

In the same manner, there seems to be no doubt that Brazil will continue to use public procurement as a development tool, promoting domestic production through preference for national firms and local content requirements.

This summary discussion of the Brazilian state’s strategy, ambitions and main policy instruments raises several questions. One is how realistic the PBM is. There are several reasons to question this. There are enormously complex coordination issues across policy areas involving many government institutions with the inevitable interagency rivalries. Secondly, there are diverging interests, or at least
differing priorities, in the business community, along with contestation from other social forces in the
country, indicating that there may well be a level of politicization in the concretization and
implementation of the plan that can result in an implementation that diverges from stated intentions. An
thirdly, even if the plan – and similar policies are implemented as intended, i.e. the desired incentives
and disincentives are created, services delivered and so on, it depends on the agency of companies in
the targeted private sectors to actually deliver, i.e. to transform themselves into competitive producers
at higher levels of value added.

These questions are not pursued here. Instead I turn to another question, namely the implications for
Brazil’s position in international economic governance, as the next step in addressing the overall
question of this research: Brazil between opposition and integration.

**International policy implications**

*Trade*

The general thrust of Brazil’s trade policy is clear enough and unsurprising; it is about gaining market
access abroad while ensuring that domestic producers survive and thrive. This involves a classical
trade-off because increased market access abroad must be bought with reduction of barriers to the
home market. One can say that the strong focus on competitiveness in national policies, as articulated
both by state and business and described above, is about preparing Brazilian industry for this bargain.
This trade-off is also probably the most important source of potential tension and conflict within the
Brazilian power bloc between the highly successful exporters, especially in the commodities sector,
and the producers for the home market who stand to lose protection.

But while the overall logic is simple, the actual politics are complex for at least two sets of reasons in
addition to the potential for internal conflict. One is that “trade” actually is becoming a misnomer
because trade negotiations increasingly include “beyond the border issues”, covering non-tariff
barriers, standards and other regulatory issues, investment related issues, special rules services, public
procurement, and more. This is seen, for instance, in the scope of the ongoing negotiations for a
“Transatlantic Trade and Investment Partnership”, but also in the range of different agreements and negotiations centered on the WTO such as the TRIPS agreement, the GATS agreement in services which Brazil has joined but without signing on to all the accompanying protocols, and the plurilateral Government Procurement Agreement which Brazil has not joined. In short: trade talks can involve many of the policy instruments used by Brazilian authorities to pursue the development agenda.

A second major source of complexity is the proliferation, after the stalling of the Doha Round in the WTO, of bilateral, regional and inter-regional trade agreements and negotiations for such agreements. Important among them are, from a Brazilian perspective, TPP, the Trans-Pacific Partnership, involving the US, countries in East Asia and the Pacific, and, significantly, Peru and Chile; bilateral talks between the US and individual Latin American countries; fairly dormant but not dead talks about a Free Trade Area of the Americas; and the TTIP between EU and the US. Other talks are also feeding a Brazilian concern with being left out, such as EU negotiations with India and more. It seems to be the general understanding, both in business and government circles, that Brazil must enter this game effectively. Thus FIESP has put much effort into identifying the most important partners to engage with (FIESP 2011).

On this background Brazil has re-activated its interest in an EU-Mercosul trade agreement and is pursuing it actively with full support from business (FIESP 2014 p. 17). Negotiations are about to enter the stage of hard bargaining with first exchange of offers now expected in August 2014 (which makes it unlikely that a deal will concluded before the end of the year, as had been the ambition).

Complicating matters, however, are developments in South America. Although being the leading power in Mercosul, Brazil’s possibilities depend also on the cohesion of this regional bloc and its possible expansion within the region and on the EU’s willingness to differentiate between Mercosul members. Thus Brazil is playing a two dimensional game here: intra-Mercosul and Mercosul-EU, while at the same time it has to follow and engage with other regional developments, in particular those centered on US initiatives. All this in a situation where playing for time can be risky, because the Trans-Pacific and Trans-Atlantic agreements may result in standards with which Brazil afterwards will have to acquiesce, becoming “a rule taker and not a rule maker” (“um rule maker e não um rule taker
na governança do comércio internacional”) as a group of respected Brazilian economists warned in a study for the think tank IEDI (Thorstensen et al. 2013 p. 2).

This implies a strong drive towards integration in the existing and evolving system of global economic governance. But as the last quote suggests, it also means that Brazil has its own agendas to pursue as a “rule maker”, i.e. as an influential player in global economic governance. The next question therefore, is to what extent these agenda items are likely to become serious issues of contention with the old economic powers from the global North, and to what extent the interests are reasonably compatible. To answers this, I have grouped some salient issues into an area of convergence and less contestation, and an area on contestation. The issues grouped here cut across the institutional borders of the global economic systems: some belong in separate realms; some can appear in different guises in different institutional settings. (This is becoming a general pattern in a time of forum shifting in regime complexes).

**Areas of convergence**

**Capital controls** – the regulation of cross-border financial flows – was a major bone of contention between IMF and other IOs and several developing countries in the heyday of neo-liberalism. Brazil did de-regulate its capital account but maintained the right and ability to re-introduce such regulations. And Brazil actually did use this policy tool (imposing a tax on financial inflows) to soften some of the destabilizing consequences of the financial crisis. The IMF, chastened by the crisis, IMF has modified its “institutional thinking” on this matter and is now accepting that such controls can be useful in certain situations. This is, in other words, a case where a global institution dominated by the North has moved towards the Brazilian position.

There is a somewhat similar situation concerning regulation of the financial sector. Via the G20, Brazil takes part in the evolution of new regulatory standards (Basel III. Macro-prudential regulation etc.), and a Brazilian perception is that this also shows the world moving in the direction of Brazil. Brazil can claim to have Basel III+ standards, and that the country already internally had systems for macro-prudential regulation of the financial sector. One cannot, though, rule out the possibility that a heavier regulatory hand in Brazil in the future will be subject to criticism and pressure from abroad. And the
question of financial regulation is quite likely to turn up in international negotiations about trade in services. More on this below.

Taxation is also an area where international cooperation is sought by Brazil and where serious international policy disagreements are less likely. Both government and business in Brazil accepts the need for reform of the domestic tax code, as also advocated by the OECD (No Reference Selected), and cooperation with this organization is found useful (Interview 2014f; Interview 2014g). At the same time it is recognized that “the domestic politics” of tax reform can be difficult.

In international tax policy there is a tension between catering to business interests in avoiding double taxation and state concerns about tax evasion by TNCs. Such issues are traditionally addressed in bilateral tax agreements and in OECD’s ongoing work on the “Model Tax Convention” that serves as a reference point for these. In recent years, however, there has been in global regulatory circles a growing concern with tax evasion, leading to the so-called BEPS project – Base Erosion and Profit Shifting – underway as a joint effort between the G20 and the OECD (No Reference Selected). These issues are not inter-state conflicts, but rather transnational business-state conflicts, in which many states share the goal of defending their revenue base. Brazil is an active participant in these efforts, having joined the OECD’s Committee of Fiscal Affairs and its Forum on Harmful Tax Practices and contributing to the work in these bodies (Interview 2014g; Interview 2014f). Generally, Brazil’s position in this work can be described as one of sharing the goals, but not agreeing on all the means, because “developing countries need simpler tools” in this highly technical area (Interview 2014g).

Areas of contestation

Local content (LC) requirements are as explained above a central tool for the Brazilian state, and while not illegal per se under global trade rules, they can easily be discriminatory (or constructed as such) and therefore be subject to critique and contestation. They can be embodied in government procurement and procurement by state owned enterprises (the LC requirements to suppliers to Petrobras, in particular the large off-shore development of the ‘pre-salt’ oil field is a major current example), in import tariff schedules, in tax exemptions, and in the allocation of credits by BNDES (which does not itself has a LC policy but in certain programs have to follow government priorities
which imply LC clauses (Interview 2014b). Thus this is an area where Brazil, in defending its national policy space, is likely to meet contestation internationally.

The *protection of international investment* is another such area. The goal of creating a more open and secure legal environment for foreign investment has been pursued for decades, especially by the US and the EU. Showing again the importance of regime complexes and forum shifting, this has been pursued in the TRIMs agreement in the WTO, and then, when this was found disappointing in the MAI negotiations which eventually failed, and then also in a large number of bilateral investment treaties (BITs), and it is now on the agenda in the TTIP and TTP. Among the contentious issues is the so-called ISDS principle, investor-state dispute settlement, which means that investors can take states to a private dispute settlement mechanism and demand compensation for losses attributed to changes in legislation or regulation. This principle is seen as a serious limitation of national policy space to the benefit of foreign investors. ISDS clauses have been included in several BITS signed over the last decade or so (No Reference Selected).

In the 1990s Brazil went along with this wave, eventually concluding and signing 14 BITs with various countries. But beginning around the year 2000, an intense national discussion evolved on their desirability and necessity, with the consequence that none of them were ratified (Lemos and Campello 2013; Interview 2014g). Major elements in the Brazilian critique is precisely the ISDS principle which is found unacceptable, and the question of compensation for “indirect expropriation”, referring to losses a business incur as a result of changes in domestic regulation (No Reference Selected).

Still, the rise of Brazilian TNCs has created a political demand for international agreements to protect investment abroad. This has led the government to work for an alternative model for investment protection that does not include the unwanted principles and maintains the capacity to pursue regulation in the public interest (MDIC N.d.a; Interview 2014g). The resulting model for *Agreements for Investment Cooperation and Facilitation* is still a work in progress, being developed in negotiations with several African countries about such agreements. One difference from the model preferred by Northern countries, according to a source not directly involved in the process, is that disputes between investors and host countries are to be settled by government appointed mediators (labelled
‘ombudsmen’), one from each side, and that the two governments would be somehow involved in the background (Interview 2014d).

Thus there is here a source of potential conflict between Brazil and the North in whichever forum investment issues may be brought up.

*Trade in services* is also an area of contestation, particularly concerning *financial services*. The Brazilian government find the OECD approach somewhat “dogmatic” (Interview 2014f), and although Brazil is open to foreign banks and other financial institutions, it is criticized for requiring their Brazilian establishment to be “stand alone operations” (Interview 2014a). The ongoing efforts in the WTO to develop a new *Trade in Services Agreements* (TISA) seem to include the principle of “prior consultation.” This principle makes it *mandatory* for governments to consult “all interested parties”, i.e. also foreign financial companies on proposed new regulations *before* they are enacted. Brazil is against this principle, not because such consultations necessarily are to be avoided, but because making them mandatory is an unwanted and unnecessary infringement on national policy-making sovereignty (No Reference Selected).

*Government procurement* also belongs in this list. It was mentioned above in the context of local content requirements, but more generally the Brazilian state’s use of procurement as a development tool to favor national producers in this and other ways can be a bone of contention – for instance if pressure is exerted on the country to join the plurilateral GPA or to include similar provisions in other trade agreements.

Finally it should be mentioned that when Brazil engages in international trade and cooperation negotiations as well as talks in other global governance arrangements, a host of other regulatory issues not discussed here is likely to be contentious. Regulatory product and process standards is an obvious example. Negotiations over these can be both difficult and important as is well know from previous and ongoing negotiations, but this is in a sense the normal stuff of economic diplomacy and on the opposition versus integration dimension, the willingness to engage in bargaining over such issues is actually to only way of becoming integrated on more equal terms.
Conclusion

Since this is the first effort to synthesize and contextualize theoretically information recently gathered from a variety of sources, and since there are lacunae in the argumentation and documentation, the conclusion can only be provisional.

I have argued i) that a fairly united Brazilian business community has developed a vision and strategy for Brazil’s engagement with the international economy and with major aspects of global economic governance; ii) that this is compatible with a theoretically derived understanding of the interest of Brazilian business, or the Brazilian power bloc if you like; iii) that a unifying theme in this is the ambition to develop, upgrade and expand industrial capitalism on Brazilian territory so that the Brazilian share of global value-added grows, a larger share of a growing global pie, in other words; and iv) that the “new developmentalism” pursued by the Brazilian state, expressed among other things in the Plano Brasil Maior, largely corresponds to this strategy.

Furthermore I have argued that this Brazilian strategy in many ways is compatible with extant global governance arrangements and the interest of the old industrial powers, but that there also are hard cores of policy differences. Overall, the Brazilian strategy is one of integration with the existing global economic order, but there are elements of opposition.

Concerning the ultimate “dependent variable” of this study, the prospects for the establishment of a new global “post-neoliberal” growth model that can facilitate global growth, these elements of opposition can turn out to be obstacles. Unless, that is, the business interests of the global North and the politicians and policymakers that represent them become more accommodating towards Brazilian positions. Which, in my opinion, they should do, especially if they also will be serious about moving towards a more inclusive growth model.
Source: (MDIC N.d.c)
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Acronyms

ABAG: Associação Brasileira do Agronegócio,
ABDI: Agência Brasileira de Desenvolvimento Industrial
Apex-Brazil: Agência Brasileira de Promoção de Exportações e Investimentos (Apex-Brasil)
BIT: Bilateral Investment Treaty
BNDES: Banco Nacional de Desenvolvimento Econômico e Social
CNI: Confederação Nacionaonal de Indústria.
FIESP: Federação das Indústrias do Estado de São Paulo.
GATS: General Agreement on Trade in Services
GPA: Agreement on Government Procurement
IEDI: Instituto de Estudos para o Desenvolvimento IndustrialInterview.
IMF: The International Monetary Fund
ISDS: Investor State Dispute Settlement
ISI: Import Substituting Industrialization
LC: Local Content
MAI: Multilateral Agreement on Investment
MDIC: Ministério do Desenvolvimento, Indústria, e Comércio Exterior
NTB: Non-Tariff Barriers
OECD: Organisation for Economic Cooperation and Development
PBM: Plano Brasil Maior,
PDP: Política de Desenvolvimento Produtivo
PITCE: Política Industrial, Tecnológica e de Comércio Exterior
SOE: State Owned Enterprise
SP: São Paulo
TISA: Trade in Services Agreements
TNC: Transnational Corporation
TRIMs: Agreement on Trade Related Investment Measures
TRIPS: Agreement on Trade-Related Aspects of Intellectual Property Rights
TTIP: Transatlantic Trade and Investment Partnership
TTP: The Trans-Pacific Partnership
WTO: World Trade Organization

Itamaraty: the commonly used name for Ministério das Relacões Exteriores, the Ministry of Foreign Affairs