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## A NEW AGENDA FOR U.S.—BRAZILIAN RELATIONS

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On December 10, President George W. Bush will meet with the president-elect of Brazil, Luis Inacio Lula da Silva, a populist who has professed admiration for Cuban dictator Fidel Castro and Venezuela's authoritarian president Hugo Chávez. During his campaign, Lula blamed free-market reforms for Brazil's economic slump, condemned the proposed Free Trade Area of the Americas (FTAA) as a plan to annex Latin America to the United States, and suggested that Brazil might abandon the Nuclear Non-Proliferation Treaty, which it signed in 1998. After his landslide win on October 26, however, Lula backed off on reviving Brazil's nuclear weapons program and said he would work with the United States on trade. These contradictions in Lula's post-electoral conciliatory stance and his anti-American and anti-free market campaign rhetoric suggest the need to engage him with caution.

President Bush's agenda for the upcoming meeting with Lula should focus on what would be considered an unwarranted return to nuclear weapons development, Brazil's potential support for non-democratic regimes in the region, the need to continue internal reforms, its needed participation in counterterrorism and counterdrug operations, and mutual efforts to lower barriers to bilateral and hemispheric trade.

**A Nation at a Crossroads.** Brazil, which rivals the United States in geographic size, has Latin America's largest economy, with a gross domestic product (GDP) of \$800 billion. After ending mili-

tary rule 17 years ago, Brazil began opening its markets and expanded its exports from primarily coffee to cars and aircraft. However, it also shielded businesses from competition and created a large public sector, which in 2001 consumed 20 percent of GDP.

Brazil aspires to be a regional power but is suffering from slow growth and mounting debt that now approximates one-third of GDP. It has received three loans from the International Monetary Fund (IMF) in the past four years, including a \$30 billion bailout approved last September 9. By comparison, Mexico grew out of its last debt crisis in 1995 through trade, even paying off loans early. Its economy—half as big as Brazil's—now exports twice as much as Brazil's does. Lula must make similar pro-market choices to secure Brazil's footing as an economic leader in the 21st century.

**Lula's Appeal.** The former union organizer, who tried three times to win Brazil's presidency, finally did so this year by appealing to growing numbers of

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poor (46 million out of 170 million Brazilians) and blaming economic stagnation on outgoing President Fernando Henrique Cardoso's tentative steps to embrace capitalism. Lula promised to create 10 million new jobs through public-private partnerships and to double the minimum wage of \$53 a month. To appeal to the armed forces and to restore Brazil's flagging self-esteem, he also suggested that abandoning Brazil's secret nuclear weapons development program in the mid-1990s was a mistake and promised to build up Brazil's military and technological prowess.

Lula favors strengthening the four-country Southern Cone Common Market known as MERCOSUR (*MERCOSUL* in Portuguese)—which Brazil dominates—through a subregional parliament and common monetary policies, rather than pursuing the U.S.-backed hemispheric FTAA. But if his approach is enacted, it would pile on more debt, divert attention from the real threats of crime and terrorism, and discourage trade with external markets, not just for Brazil but for MERCOSUR members Argentina, Paraguay, and Uruguay as well.

**Rays of Hope.** Current economic and political realities leave Lula little room to impose a radical agenda. Lula had to choose a moderate running mate and tone down his anti-free market campaign rhetoric after it caused Brazil's currency to devalue by some 30 percent. The other MERCOSUR partners, with their own economic troubles, are not likely to agree to a regional parliament run by Brazil. Nor would an alliance of all of Brazil's leftist parties provide enough votes to pass huge public spending programs in either house of congress.

Despite its roots on the left, the Workers' Party (*Partido dos Trabalhadores*, or PT) that Lula helped found 22 years ago has pursued a reform agenda of its own. In the states and municipalities where the PT has been in control, it has combined a concern for the poor with grassroots decision-making, leading to more open, accountable, and democratic governance.

**Toward Commonsense Relations.** Although Lula's campaign rhetoric may be part bluster, he should still be engaged with caution. He is untested in high office, and his lingering admiration for Castro and Chávez could portend aid to those regimes. To keep Brazil's ship of state afloat, he should be encouraged to continue his predecessor's market-oriented reforms. In his upcoming meeting with Lula, President Bush should promote U.S. interests and good relations with Brazil by making clear that the United States will:

- **Condition continued U.S. support for emergency assistance to Brazil**, such as IMF loans, on its adherence to the Nuclear Non-Proliferation Treaty; restraint from directly aiding non-democratic or authoritarian regimes, such as those in Cuba or Venezuela; and continued progress on efforts to establish the rule of law and open its markets;
- **Support Brazil's leadership on regional security priorities** if it forgoes nuclear pretensions to help the region's democracies counter the threats of international crime, drug trafficking, and terrorism; and
- **Work with Brazil to lower global trade barriers** as well as to develop a common position before the World Trade Organization (WTO) on steel and agricultural products, to establish a mutually beneficial bilateral trade accord, and to advance the FTAA.

**Conclusion.** "Order and Progress" has been Brazil's motto since 1889. Order is helpful only when it promotes free choice, and progress is possible only when opportunity is available to all. President Bush should encourage President-elect Lula to uplift Brazilians and make Brazil a hemispheric power through free markets and less burdensome government while working with other nations in the region to defeat their common threats.

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