US-Brazil Relations: A New Beginning?

How to Strengthen the Bilateral Agenda

By Ricardo Sennes
The Atlantic Council’s Adrienne Arsht Latin America Center is dedicated to broadening awareness of the transformational political, economic, and social changes throughout Latin America. It is focused on bringing in new political, corporate, civil society, and academic leaders to change the fundamental nature of discussions on Latin America and to develop new ideas and innovative policy recommendations that highlight the region’s potential as a strategic and economic partner for Europe, the United States, and beyond. The nonpartisan Arsht Center began operations in October 2013.

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By Ricardo Sennes
Brazilian President Dilma Rousseff’s official visit to the United States on June 30 comes as Brazil is at an inflection point. The economic boom of a few years ago is a memory. Today, Brazilians are preoccupied about their future amid a languishing economy and corruption scandals that are rocking the highest echelons of the country’s political and business elite.

Public disenchantment with the political leadership is at a fever pitch, with millions marching across Brazil earlier this year. The honeymoon period of a second, four-year term came to a jarring end before it even started.

But opportunities exist. 2015 is a promising year for reigniting the US-Brazil bilateral agenda. After a period of necessary distancing from the United States in the wake of the National Security Agency (NSA) spying scandal, Dilma’s rapprochement with the United States may just be one of the few good news stories for her this year.

Dilma is pragmatic. Her US strategy is based on finding clear wins that can provide direct economic—and political—benefits back home. The reset of relations between the United States and the region at the Summit of the Americas (thanks to President Barack Obama’s executive actions on Cuba) has only made this easier for Dilma.

For the United States, with troubles piling up across the world, peaceful and democratic countries like Brazil, with a growing middle class, should be an attractive foreign policy opportunity. This is important as non-regional players—like China—have gained ground in the region.

The strength of the US-Brazil relationship has important economic and political implications for the United States. Brazil is the second largest economy in the Western Hemisphere, and the seventh largest in the world, closely trailing the United Kingdom. With two hundred million people and a land mass that borders all but two South American countries, it can play a critical role in the region’s future.

The problem is that US-Brazilian ties have never lived up to expectations, and the disappointments reverberate across the hemisphere. After all, Brazil was among those that derided the idea of a Free Trade Area of the Americas two decades ago. But we believe adversity presents opportunity and the agenda can be moved forward by focusing on specific, pragmatic areas of cooperation. Despite Brazil’s current woes, we remain bullish about the future of Brazil and its continued rise in global importance.

The Adrienne Arsht Latin America Center is committed to highlighting Brazil’s strategic place in global affairs, and to strengthening the ties between two dynamic, Western countries with similar histories and values. President Rousseff’s visit to Washington, DC, coupled with the significant transformations in US-Latin American relations and in Brazilian politics, means that we may be on the cusp of a breakthrough. Missing so far has been the political will to make it happen. Could both parties be ready?

Whether in innovation, goods and services trade, investment, or education, the US-Brazil agenda may in fact be a welcome oasis in the desert of bad news confronting Brazil. We present here, with our esteemed Nonresident Senior Brazil Fellow Ricardo Sennes, concrete proposals that the United States and Brazil can take to advance cooperation in each area. It will not be easy, but with galvanized political leadership, it just may be possible.

Peter Schechter  
*Director*  
Adrienne Arsht Latin America Center

Jason Marczak  
*Deputy Director*  
Adrienne Arsht Latin America Center
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Executive Summary

Brazil and the United States have maintained formal diplomatic relations since 1824. This relationship deepened significantly in the 1950s during the Cold War, and became even more intense after the 1980s. Economic, social, and cultural relations continue to gain momentum, but political and diplomatic relations have not kept pace.

The two countries share many values, and have few major disagreements, yet they have one of the least structured bilateral relationships. Despite many dialogues and issue-specific agreements, Brazil has no comprehensive accord with the United States in an area of joint strategic importance.

The United States has numerous and significant disagreements with China, yet Sino-American relations are deep and well-structured. The difference in Brazil comes from something far more fundamental: a deep-seated fear that Brazilian national interests are not served by an improved relationship with the United States. The current distancing between the United States and Brazil is damaging to both parties, but it is particularly damaging to Brazil.

Brazilian President Dilma Rousseff’s June 30 visit to Washington, DC, presents a unique opportunity to set in motion a deepening of the US-Brazil relationship in five key areas: investment competitiveness, trade in goods and services, technology and innovation, education, and a bedrock political agreement.

Brazil is one of the most important countries in US investment portfolios. Brazilian companies, in contrast, are gaining ground but still have yet to maximize their full potential to invest abroad. Boosting two-way, long-term foreign investment will give both countries enormous incentives to solidify and improve relations in all spheres.

Expanding bilateral trade in goods and services is another means to deepen the bilateral
relationship. Despite its obvious importance as a destination for exports, Brazil does not have any preferential trade agreements with the United States. Meanwhile, the United States has hundreds of such agreements with other countries, including members of the BRICS (Brazil, Russia, India, China, and South Africa).

Technology and innovation—a high priority for both countries—likely holds the greatest promise for collaboration, since it aligns domestic and international agendas. The United States is widely recognized as having the most advanced institutional environment for research and innovation; Brazil is a growing hub for both technology and innovation. International cooperation is one of the most important factors in advancing cutting-edge research in Brazil.

Significant opportunities exist to expand education cooperation. A starting point is to drive new investments in education, support the establishment of US university branches in Brazil, and bolster technology cooperation in higher education.

The bilateral agenda still lacks a basic political agreement that would serve as the foundation for other, more specific agreements to more easily move forward. Despite the many forums and channels of dialogue, no bedrock agreement exists to provide a framework for the overall relationship. Many issues could serve as a foundation for such an accord. Climate change is one. Others include regional security issues, drug trafficking, or the fight against terrorism—all of which presently align in working together to prevent further crisis in Venezuela. Though, at least in the short term, it is a long road ahead to aligning such policies.

The time is now to finally solidify concrete, far-reaching initiatives that reignite the bilateral agenda. The proposals that follow will each have detractors, but represent achievable paths to bringing about a new beginning in the bilateral relationship.
A New Beginning

After the NSA spying scandal derailed US-Brazil relations in 2013, the two countries are now ready to resume deeper bilateral cooperation. On March 13, US Vice President Joseph Biden invited President Rousseff for either a state visit in 2016, or a less formal official visit in 2015. Given the importance of reigniting the relationship—and the political and economic situation in Brazil—Rousseff wisely opted for the earlier trip, taking place on June 30.

Her visit has the potential to move forward agenda items that have been waiting on the back burner. While the political difficulties in Brazil may be a warning sign that relations with the United States will only improve slowly, both sides stand to benefit from a renewed relationship, though in different ways.

On the Brazilian side, the Petrobras corruption scandal coupled with an economy in recession leaves President Rousseff with diminished political capital just months into her second, four-year term. This gives her plenty of incentives to seek a positive foreign policy agenda that delivers economic benefits at home. Other motivations for improving US ties include:

• Preventing further loss of political and economic influence in the United States to other nations;
• Gaining better access to strategic resources of interest to Brazil, such as technology, investments, markets, and human capital; and
• Enhancing Brazil’s presence on the global stage by showing its leadership among developed nations in addition to the Global South.

On the US side, President Barack Obama has shown a clear willingness to take bold international initiatives in his last term as President, and Brazil should be next on the priority list. Four other factors should drive US action:

• Improving relations could further unlock access to Brazil’s $2.2 trillion economy;
• Avoiding the loss of political and economic influence in Brazil—particularly to European countries and China;
• Laying the seeds for Brazil to be a better partner in working with countries of mutual interest in Latin America, especially Venezuela, Haiti, and Argentina, thus reducing the burden of dealing with these issues alone; and
• Providing new momentum for Brazil to better cooperate with the United States in global topics of mutual interest, such as terrorism, money laundering, peacekeeping operations, Internet governance, espionage, and drug trafficking.

The time is right, but first a legacy of distance must be overcome.
The commonalities between the United States and Brazil are numerous and well-known. Both are among the world’s seven largest economies and among the five largest countries in terms of land mass and population. Vast quantities of natural resources and energy reserves are found in each country, and they are among the world’s top-three producers and exporters of agricultural products. Socially and culturally, the United States and Brazil share strong European and Judeo-Christian roots as well as a common worldview based on democratic principles, individual freedoms, human rights, and religious and cultural diversity.

Brazil is one of the largest recipients of foreign investment in the world—especially from Europe and the United States—in addition to being a major US trading partner, both in goods and services. The United States and Brazil are founding members of major international organizations, including the United Nations and the World Trade Organization (WTO), formerly the General Agreement on Tariffs and Trade (GATT). Although international agendas are not closely aligned, Brazil and the United States are rarely on opposite sides of broad global issues. Neither is a strategic competitor in any significant arena. The political systems are also similar; in both, states wield significant power.

Trade between Brazil and the United States totaled approximately $72 billion in goods in 2013 and $31 billion in services in 2012. US exports to Brazil grew 210 percent over the past decade. Brazil is the United States’ ninth largest trading partner, while the United States is Brazil’s second largest. In marked contrast to Brazil’s exports to Latin American and Asian countries, US-bound exports are a mix of low, middle, and high value-added goods. US exports to Brazil are largely middle and high value-added goods and services, especially telecommunications.

Tourism ties are strong as well. In 2013, only the United Kingdom and Japan sent more tourists to the United States than Brazil. The 2.1 million Brazilian visitors (of 70 million foreign tourists overall) spent about $12 billion (of $168 billion in tourism revenues overall). In 2012, 14 percent of US-Brazil tourism was business-related.

**Much in Common, Few Disputes, But Political Distance**

Brazil and the United States have one of the least structured relationships, with the fewest number of agreements among the world’s major countries.

Nothing separates these two countries more than the asymmetry of power that characterizes their relationship. While the United States emerged as a world power in the late nineteenth to mid-twentieth century, Brazil came to occupy a more prominent role in the global political scene only in the late 1990s and early 2000s.

The asymmetry of political power, and particularly military power, is significant. Brazil has ambitions for greater international influence and recognition, but the resources available are not commensurate with the desire. The priority of expanding Brazil’s
presence on the global stage vacillates between Brazilian presidents. Luiz Inácio Lula da Silva (2003–2010) had grand ambitions while Dilma prefers a toned-down international profile.

While the United States is the leader of the largest military alliance in the world (NATO) and maintains a permanent political and military presence around the globe, Brazil is part of a peace zone that bans nuclear weapons in South America and has no military ambitions outside of UN peacekeeping operations.

**Where’s the Beef?**

Given the many similarities and the important, but not jarring differences, Brazil and the United States have the potential to share one of the world’s strongest, most dynamic bilateral relationships—similar to those the United States maintains with Germany, Australia, or Japan. But that is not the case. Brazil and the United States have one of the least structured relationships, with the fewest number of agreements among the world’s major countries.

This lack of depth has nothing to do with disagreements. The United States has numerous, significant disagreements with China, yet it maintains a deep, well-structured relationship. The difference in Brazil comes from something far more fundamental: a deep-seated fear that the country’s fundamental national interests are not served by an improved relationship with the United States.

This point of view is commonly found in Itamaraty (the Brazilian Foreign Ministry), the armed forces, and general public opinion, both on the left and right. Among elites, this perception is less pronounced. Forty-four percent of the upper class—13 percent more than among the general population—have confidence in the United States.

The result is a lack of robust political and economic agreements. Brazil has many one-off agreements, but no comprehensive one with the United States in the economic, security, or political fields.

A backwards step was actually taken in trade and defense cooperation. The Generalized System of Preferences (GSP) program with Brazil was not renewed in 2013, making for even fewer bilateral trade agreements. The Defense Cooperation Agreement and the General Security of Military Information Agreement signed in 2010 were only recently submitted to the Brazilian Senate for ratification, after the announcement of Rousseff’s visit to Washington. This pattern is also reflected in other areas of bilateral relations.
The Costs of Distance

Some Brazilian policymakers—the traditionalists both from Itamaraty and from other political groups—believe that Brazil’s interest is in keeping the United States at a distance. A cost-benefit analysis proves this wrong, and, thankfully, this is changing among the next generation.

The costs of the paucity of far-reaching agreements between the United States and Brazil are borne overwhelmingly by the Brazilian side. The United States has many more resources and capabilities that would help Brazil’s development than the reverse. Without expanded access to the US market and its know-how, Brazil will be left in the lurch. China, India, and other emerging powers may seem like enticing partners, but they do not have all the answers. For the United States, unlocking Brazil is of marginal utility in the grander global, and domestic, picture.

Look beyond just the two countries and the current situation becomes even more harmful to Brazilian interests. Its competitors gain access to US markets on privileged terms, displacing Brazilian products and businesses. Indian companies routinely do this in the information technology (IT) sector and Mexican firms consistently outpace Brazil in a number of export-led investments. These countries’ access to certain US technologies, particularly IT, biotechnology, and space technologies, places Brazil at a disadvantage.

The absence of double taxation agreements further reduces the competitiveness of Brazilian companies. Firms operating in the United States pay higher taxes than their competitors, owing income taxes to both the United States and the Brazilian governments. All other BRICS and G20 countries (with the exception of Argentina and Saudi Arabia) already have taxation agreements.

Yet again, this is an example where Brazil loses out more than the United States. Even without a double taxation agreement, US companies operate in Brazil under conditions similar to their competitors.

Trade on the Back Burner

For Brazil, the biggest cost of the weak relationship comes in the trade arena. The United States has established a deep network of trade agreements with eleven Latin American countries over the past twenty years that cover areas ranging from goods and services to government procurement. The result: a reversal of the privileged access Brazil had in these markets through agreements under the Latin American Integration Association (LAIA) umbrella.

The Brazilian strategy is to continue to be largely inward looking. It precariously defends access to the markets of Argentina and its smaller Mercosur partners with a recent focus on expanding the agreement to Venezuela and Bolivia. This strategy may have seemed successful in years past, but Brazil’s inability to build a feasible alternative to the failed Free Trade Area of the Americas (FTAA) resulted in a slow and permanent loss of commercial influence across the hemisphere. Yet again, the United States has clearly come out the winner.

Brazil must explore new ways to revive its sluggish economy, especially in boosting its international competitiveness. The policies of the last decade have run their course. This is why now is the moment to put aside past differences, seriously reassess the cost-benefit of US-Brazil relations, and focus on the low hanging fruit—and the more difficult, longer term goals—that can be achieved by working closer together.
How to Strengthen the Bilateral Agenda

The United States and Brazil have no shortage of common interests, but they must dismantle the (mainly political) barriers responsible for the current paralysis in relations. This is the moment to focus on the top-five ways to improve cooperation: support investment competitiveness, boost goods and services trade, foster collaboration in technology and innovation, enhance education cooperation, and strike a comprehensive political agreement.

Despite the many forums and channels of dialogue through which the two governments can strengthen the relationship, no formal, far-reaching agreements exist. At least twenty-two forums regularly occur at the assistant secretary level and up, with half involving the US State Department and Brazil’s Foreign Ministry [see figure 1, p. 10].11 Four presidential level dialogues also exist: the Global Partnership Dialogue, the Economic and Financial Dialogue, the Strategic Energy Dialogue, and the Defense Cooperation Dialogue.

Since 2003, more than forty agreements and memoranda of understanding have been signed in the various forums.12 Today, the Global Partnership Dialogue is the best setting to engage in more comprehensive political discussions. But both countries still lack far-reaching agreements in a number of sectors that would galvanize the joint relationship.

1 SUPPORT INVESTMENT COMPETITIVENESS

The long tradition of investments by US companies in Brazil shows the strength of economic ties. After a century of investments, Brazil remains one of the most important countries in US portfolios. Better linking the US and Brazilian private sectors is one area ripe for extending cooperation.

Taking Stock

Brazil occupies an important position in the portfolio of many US companies. US investments in Brazil totaled $80 billion in 2013 (compared to $45 billion in 2003)—well below the United Kingdom ($550 billion), but higher than South Korea ($33 billion) and India ($24 billion). Brazil ranks among countries such as Germany ($120 billion), Mexico ($100 billion), France ($80 billion), and China ($61 billion).13

As figure 2 (p. 11) shows, Brazil is among many countries that have steadily captured more US foreign direct investment (FDI) over the past fifteen years. And Brazil’s importance as a destination for US FDI continues to be on the rise, outstripping Companies are increasingly trading on both the Bovespa stock exchange (pictured here) and the New York Stock Exchange.
the mature economies of France and Germany, or emerging ones like Mexico and South Korea. In recent years Brazil is among the top destinations of global FDI, following only the United States and China. Since 2010, approximately $60 billion of FDI has flowed into Brazil, on average, each year.

According to the Brazilian Society of Transnational Business and Globalized Economy Studies (SOBEET), Brazil is the world’s most internationalized emerging country. It ranks fifth in the number of offices of Fortune 500 companies, behind the United States, United Kingdom, Canada, and Belgium. Companies like IBM, Siemens, General Electric, General Motors, Bank of America, and Citibank have been in Brazil for more than one hundred years. AES Corporation, Google, Uber, Biogen,

### FIGURE 1. Select US-Brazil Forums for Dialogue

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>FORUM</th>
<th>PARTICIPANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic cooperation, nonproliferation, space security, political-military affairs, transnational crime, social inclusion and human rights, and hemispheric issues</td>
<td>Global Partnership Dialogue</td>
<td>Presidential level</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Consultative Committee on Agriculture</td>
<td>Brazilian Ministry of Agriculture, Livestock, and Food Supply; US Department of Agriculture</td>
</tr>
<tr>
<td>Business and trade</td>
<td>US-Brazil CEO Forum</td>
<td>US Secretary of Commerce, Deputy Assistant to the President, Deputy National Security Adviser for International Economic Affairs; Brazilian Presidential Chief of Staff (Casa Civil), Minister of Development, Industry, and Foreign Trade; twelve Brazilian CEOs, twelve US CEOs</td>
</tr>
<tr>
<td></td>
<td>Economic Partnership Dialogue</td>
<td>US Department of State; Brazilian Ministry of Foreign Relations</td>
</tr>
<tr>
<td>Defense</td>
<td>Defense Cooperation Dialogue</td>
<td>Presidential level</td>
</tr>
<tr>
<td></td>
<td>Defense Bilateral Working Group</td>
<td>Brazilian Ministry of Defense; US Department of Defense</td>
</tr>
<tr>
<td>Energy</td>
<td>Memorandum of Understanding Between the United States and Brazil to Advance Cooperation on Biofuels</td>
<td>Under Secretary of Economic, Energy, and Agricultural Affairs, US Department of State; Under Secretary General for Political Affairs, Ministry of External Relations of Brazil</td>
</tr>
<tr>
<td></td>
<td>US-Brazil Strategic Energy Dialogue</td>
<td>Brazilian Ministry of Mines and Energy; US Department of Energy</td>
</tr>
<tr>
<td>Environment</td>
<td>Common Agenda on Environment (CAE) Working groups from both countries</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>US-Brazil Group for Growth</td>
<td>Brazilian Ministry of Finance; US Department of Treasury</td>
</tr>
<tr>
<td>Social issues</td>
<td>US-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality</td>
<td>Steering groups from both countries</td>
</tr>
<tr>
<td>Technology</td>
<td>Joint Commission Meeting on Science and Technology</td>
<td>US Director of the White House Office of Science and Technology Policy; Brazilian Ministry for Science, Technology and Innovation</td>
</tr>
<tr>
<td>Trade agreements</td>
<td>Bilateral Consultative Mechanism</td>
<td>Brazilian Ministry of External Relations; US Trade Representative</td>
</tr>
<tr>
<td>Trade promotion</td>
<td>US-Brazil Commercial Dialogue</td>
<td>Brazilian Ministry of Industry and Trade; US Department of Commerce</td>
</tr>
</tbody>
</table>

Sources: Various, compiled by the author.
Laureate Education, and Starbucks are among those with an increasingly strong presence. In 2013, of Brazil’s $64 billion in new FDI, the United States had the highest stock (about 20 percent).15

Brazilian companies, in contrast, appear to have much less enthusiasm for investing abroad. Figure 3 (p. 12) shows how Brazil is much less successful in internationalizing its companies than other countries of the same size and level of development. Until the mid-2000s Brazil’s relative position was comparable to similar countries, however, it has not kept pace. According to United Nations Conference on Trade and Development (UNCTAD), Brazilian FDI reached $11 billion by 2010, but by 2013 it had decreased significantly, posting divestments totaling $3.5 billion.16

South America is a prominent destination for Brazilian investments regardless of whether it is the construction, energy and logistics, building materials, textiles and footwear, steel, technology, IT, or banking industries.

For high and medium technology industries, the most important factor for extra-regional investments—where the United States seems to be a major destination—is the need to be near major global clients to better compete and collaborate with companies in developed or emerging countries. Also, a presence in developed countries allows access to centers of innovation, new technologies, and cutting-edge trends.17 Here again, the United States has strategic importance for Brazilian companies, particularly in manufacturing, aircraft, auto parts, and capital goods.

But technology is not the only critical sector. The United States is a critical destination for investments in the beef,
poultry, and paper industries. In these cases, investment is part of a larger plan to gain better access to US markets.

Among emerging countries, Brazil has five of the one hundred most important multinational companies: Vale, JBS, Petrobras, Gerdau, and Embraer. Of these, only Vale has no direct foreign investment in the United States. Still, the United States has been particularly attractive to small and high-tech companies, be it in IT or in the biotech or electronics industries. This growth can be further tapped through the appropriate incentivizing policies.

Proposal: How to Boost Bilateral Foreign Investment

The focus for a foreign investment agenda should be supporting the competitiveness of business investments in both countries—the so-called horizontal agenda. This will affect all businesses, regardless of the sector. Boosting two-way, long-term foreign investment will give both countries enormous incentives to solidify and improve relations in all spheres.

1/Implement a double taxation agreement. The US and Brazilian private sectors have long called for a double taxation treaty to facilitate business. An agreement would establish common accounting standards and rules for each country’s tax revenue services, to avoid double taxation. The United States has sixty-five double taxation treaties, while Brazil only has twenty-eight.18

OBSTACLES: National taxation agencies apply their own tax concepts, have different tax structures, and resist any attempts at accepting agreements that could result in loss of tax revenues. The end result is that companies that operate in both countries are penalized by paying taxes twice, which, in turn, discourages new investment and becomes an obstacle to new jobs, trade, and output. Another challenge is that Brazil has not adopted some of the Organization for Economic Cooperation and Development (OECD) frameworks that govern transfer pricing, withholding rates, and tax dispute resolution.

GOVERNMENT STAKEHOLDERS: A decision to enter into such an agreement is political and requires decisions by heads of state. The finance ministers, as well as ministers of...
industry and trade, are also important stakeholders. Brazilian Finance Minister Joaquim Levy has not shown much enthusiasm for such an agreement, which is an unfortunate signal to both countries’ private sectors. **PRIVATE STAKEHOLDERS** Conselho Empresarial Brasil-Estados Unidos Seção Brasileira (CEBEU) and the Brazil-US Business Council are the main business organizations that have mobilized around such an agreement. Still, organizations such as Confederação Nacional da Indústria (CNI) and Federação das Indústrias do Estado de São Paulo (FIESP) in Brazil, and the National Association of Manufacturers (NAM) in the United States should be increasingly leading the charge for an agreement.

2 **BOOST GOODS AND SERVICES TRADE**

Trade in goods and services is essential to any bilateral relationship. For Brazil, the past few years are marked by a reversal in its trend of trade surpluses. US exports toward Brazil have grown steadily since 2004, while, since 2008, Brazil’s US-bound exports have remained stagnant [see figure 4].

There are various explanations. For one, the value of the real versus the dollar. Second, internal Brazilian costs have eroded product competitiveness in the international market. But the deceleration of the Brazilian economy in 2014 and 2015, along with the accelerated devaluation of the real (about 12

![FIGURE 4. US Goods & Services Trade with Brazil](image)
percent since January 2015), is beginning to open space for an increase in Brazilian exports.

New trade agreements with the United States would generate important market opportunities for Brazil. But, with the exception of the removal of tariffs on Brazilian ethanol, none have been signed. The key sticking point is removal of non-tariff barriers such as regulatory convergence, mutual recognition of certifications, technical frameworks, sanitary laws, and insurance issues. Significant progress would give a boost to commerce in medium and high technology areas as well as the service sectors.

Even though China is Brazil’s top trading partner, the United States remains its second largest market for exports and imports. The situation is quite different, though, when focusing on just medium and high value-added products. Here, the United States is the main destination for Brazil’s exports, while China’s share is miniscule. Asia—namely China—accounts for a marginal share of Brazil’s manufactured goods exports: 42 percent go to Latin America, 17 percent to the United States and to the European Union each, while China accounts for only 2 percent [see figure 5].

The Brazil-China trade profile is even worse than Brazil’s colonial relationship with Portugal. Brazil today exports to China mainly soy and iron ore, which represent more than 90 percent of exports. (In colonial times, Brazil exported wood and sugar.) Imports from China include manufactured and high-tech goods.


**EXPORTS**
- Latin America $36.6 billion (42%)
- United States $14.7 billion (17%)
- European Union $14.7 billion (22%)
- China $1.6 billion (2%)
- Others $18.6 billion (17%)

**IMPORTS**
- Latin America $23.5 billion (17%)
- China $36.6 billion (19%)
- United States $32.5 billion (24%)
- European Union $45.9 billion (28%)
- Others $53.2 billion (24%)

The quantity of services trade merits special attention—it is a key to the future. When it comes to trade and the service industry, Brazil’s relationship to the international market is unique. Brazilian service exports have grown consistently in recent years. From 2008 to 2012, a $10 billion increase was seen, reaching $38.1 billion, making Brazil the 29th largest services exporter. Service exports are growing at rates higher than that of international trade—clearly an opportunity for further growth.

However, a significant deficit remains in Brazil’s services account. Its main service imports are tourism, transportation, equipment rentals, and technical services, which account for almost 80 percent of imports. Almost half of Brazilian service imports originated from the EU; the United States accounted for 31.4 percent, and Mercosur 3.7 percent [see figure 6].

The main service export items are engineering and construction, office rental and staffing, and professional services. The United States represents almost 50 percent of Brazil’s service exports, while the European Union stands at 26 percent, and Latin America only 7 percent [see figure 6]. This trade profile is very different from the traditional flow of manufactured goods exports from Brazil, where the main focus has been Latin America, with the United States only a secondary priority. Such a dynamic indicates that the United States can play a useful role in facilitating Brazil’s international integration in services exports.

Even though updated statistics are often unavailable, the service sector is clearly a new area for growth in Brazil. The biggest opportunity is in the IT
industry—including the creation and development of software, games, applications, 3D environment solutions, and digital audiovisual tools—and in the creative economy, including in the film, advertising, marketing, and animation industries. Tourism (including medical tourism) and financial sectors are also poised for growth.

These sectors remain unexplored in current US-Brazil agreements, thus an important component of any new bilateral agenda. Both countries would benefit from some type of initial trade agreement. For Brazil, it would open a new market, and for the United States, it would reduce the relatively high tariffs still imposed in Brazil.

**Proposals: How to Move Forward an Agenda for Trade in Goods**

**1/ Open negotiations to eliminate trade barriers.** The two countries should address longstanding barriers, with an immediate focus on lifting technical, sanitary and phytosanitary, import license, and customs barriers. Negotiations should tackle the lack of consistency in trade rules from both sides. It is well known that Brazil has several hidden barriers to trade, from the local licensing and registration requirement to local content laws (especially in the service areas of oil and gas) and preferences for products in public bids.

From the US side, the problem lies in high tariffs on Brazilian products such as shoes, steel, ethanol, and other sanitary and/or technical barriers. For example, the Brazilian meat industry has been demanding the end of sanitary restrictions for many years, while the textiles and shoes industries clamor for the end of exceptionally high tariffs in their industries.

**OBSTACLES**> Various US and Brazilian stakeholders oppose opening negotiations to eliminate trade barriers. Opponents are primarily in sectors that benefit from protectionist barriers, especially the agricultural sector in the United States, and industries with low technological content in Brazil.

As a result, specific interest groups stalled progress. The decision to move forward a bilateral US-Brazil agenda requires the political will to overcome an active lobbying campaign by those that fear losing out with closer bilateral relations.

**GOVERNMENT STAKEHOLDERS**> Trade negotiations in the United States are the responsibility of the US Trade Representative (USTR), while in Brazil the function is divided between the Foreign Ministry and the Ministry of Development, Industry, and Trade (MDIC). At the moment, the Brazilian Ministry of the Economy is a key promoter of this agenda and could unleash new forces inside the Brazilian government in favor of a new, liberal trade and investment agenda.

A welcome turn of course: President Rousseff selected Joaquim Levy as her new finance minister, who visited Washington, DC, in April 2015.
Traditional business associations in both countries, as well as trade unions, tend to be opposed to trade agreements. It is recommended that the general dialogue involve organizations that have more strategic agendas and are less focused on defending specific industry interests, such as think tanks like IEDI in Brazil and the US Chamber of Commerce.

2/ Collaborate on clean energy technology trade. Sustainability and clean energy are public policy priorities in both countries, making clean technology trade an important goal. This technology should be fully exempted from tariffs, incentive programs should be put in place to increase cooperation between public- and private-sector players, and exports to other countries should be encouraged. The 2015 US-India agreement on solar energy can serve as a model.

Obstacles> No significant resistance should be expected, other than minor opposition by the electrical equipment industry in Brazil. Large energy companies need to become involved in the decision-making process to suppress their opposition.

Government Stakeholders> Relevant parties are the same as in the first proposal with the addition of the Brazilian Ministry of Mines and Energy.

Private Stakeholders> Various sectors can be mobilized around this agenda, both in the business arena as well as environmental organizations. Various NGOs that operate in both nations could become supporters of this agenda.
Proposals: How to Advance an Agenda for Trade in Services

1/ Open negotiations to facilitate trade in services. A special round of service negotiations should prioritize the sector’s largest and fastest-growing industries, which are poised to generate positive returns in the short and medium term. Focus industries should include civil aviation, educational tourism, health tourism, business services, innovation services, education, health, transportation, insurance, and financial services. The United States is already the principal export market of Brazilian services, and Brazil is one of the most important markets for the United States. What is needed now is to consolidate and give services greater predictability and ease in order to grow in importance.

OBSTACLES> Resistance to negotiations in the services arena has been consistent in Brazil, particularly within government spheres. Actors like Itamaraty and the Ministry of Industry and Commerce...
tend to be against this agenda. Forward movement requires strong political will by both presidents and must be included in the competitive agenda in both countries. Without the political will to include services, opponents could create an inertia that is insurmountable.

**GOVERNMENT STAKEHOLDERS>** This is under the purview of the same government agencies that deal with trade in goods, primarily the Foreign Ministry and MDIC in Brazil and USTR. Engagement with the Brazilian Ministry of the Economy is also vital to produce a positive agenda.

**PRIVATE STAKEHOLDERS>** The services sector in the United States is mobilized for this type of negotiation, but not in Brazil. Still, CNI has recently begun to include liberalization of services on its list of what needs to be done to improve competitiveness. It is essential to recruit the public support of industries that could benefit.

**2/ Build a bilateral development and trade program in information and communications technology (ICT).** An agreement is long overdue that would enhance digital infrastructure, enact e-governance and e-services, and expand the use of ICT as a tool to improve economic opportunity. A bilateral ICT program could also boost productivity, create jobs, empower citizens, lead to new public-sector innovation policies, facilitate the flow of data across borders, and foster the Internet’s potential as a platform for economic growth.

**OBSTACLES>** The program should generate little resistance in the United States and Brazil.

**GOVERNMENT STAKEHOLDERS>** Progress could advance at the presidential level and be operationalized by the respective ministries of development and trade.

**PRIVATE STAKEHOLDERS>** The ICT industry in both countries, as well as industries that are major users of ICT, are stakeholders. The US-India Agreement, Digital India, and Make in India programs can serve as models for this agenda.

**3/ Develop a bilateral program focused on Internet governance.** The 2014 Internet Law in Brazil (*Marco Civil da Internet*) is often considered the most advanced and balanced in the world. It guarantees access to the web and neutrality while laying down strict requirements of what type of information can be collected. The law is in line with—and, in fact, more advanced than—the Internet management model championed by the United States. The two countries can jointly promote its multilateral adaptation.

**OBSTACLES>** The program should generate little resistance in the United States and Brazil.

**GOVERNMENT STAKEHOLDERS>** This could be a presidential level initiative operationalized by the respective ministries of development and trade.

**PRIVATE STAKEHOLDERS>** A large number of stakeholders should be mobilized on this agenda: Internet services companies, NGOs, and users tend to be the main parties with an interest. In Brazil, the Committee on Internet Operations (CGI) is an important player to add legitimacy and expand the base of support. In the United States, the Internet

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**INNOVATION IN FOCUS: THE GENOME PROJECT**

In 1990, the Human Genome Project ambitiously set out to map the entire genetic make-up of human beings. Declared complete in 2003, the project’s success was due to close collaboration between researchers across the globe. Possibly the most successful international scientific project ever, it ended up generating several start-up companies. It was a milestone in Brazilian science that had positive effects both within and outside academia. The Brazilian part of this project was financed principally by FINEP and FAPESP (the principal development agencies of the federal government and the state of Sao Paulo).
Corporation for Assigned Names and Numbers (ICANN) is the key entity to engage.

Foster Collaboration in Technology and Innovation

Technology and innovation—high priorities for both countries—likely hold the greatest promise for collaboration, since they align domestic and international agendas. The United States is widely recognized as having the most-advanced institutional environment for research and innovation. Recent advances in the areas of renewable energy, biotech, and IT demonstrate this. In relative terms, the United States is among the top investors in innovation, along with South Korea, Japan and Germany. Annual investments range from about 3 percent to 3.5 percent of GDP, and more than two-thirds comes from the private sector.

“Brazilicon” Valley?

Brazil is also seeking to become an innovation powerhouse. It adopted the Innovation Act of 2003, which defines conditions and incentives for companies to increase investments in research and development (R&D) and attempts to create stronger ties among the private sector, universities, and research centers. The law was conceived at the end of the administration of Fernando Henrique Cardoso, approved at the beginning of Luiz Inácio Lula da Silva’s mandate, and has since been complemented by several other programs and initiatives. The result is a significant increase in innovation investments. In 2013, investments reached $2.65 billion, or 1.3 percent of Brazil’s GDP.

Ten years earlier, the figure only reached 0.2 percent of GDP.

Progress in innovation, while significant, is still well below what the economy needs to advance. In Brazil, two-thirds of R&D spending come from the government, with only one-third coming from the private sector—the opposite of what is seen in the most developed countries. Efficient use of this money is also a concern. In 2013, the United States registered 910 patent applications per million inhabitants; Brazil registered only twenty-five.

When South American researchers were surveyed by Nature magazine about what type of international assistance would bring the greatest results, their overwhelming response was opening the doors of laboratories in other continents to South American students as well as more visits from foreign scientists to South American laboratories. Clearly, international cooperation is one of the most important factors in advancing cutting-edge research in Brazil.

Open for Business?

At the same time, four hundred and ninety of the five hundred largest companies in the world have a presence in Brazil. Some of the most innovative are among them. This is a significant platform for attracting some of these companies’ R&D budgets to Brazil. Meanwhile, many Brazilian companies are engaged in highly innovative research. Among the most prominent internationally are Petrobras, Vale, Embraer Gerdau, Totvs, Eletrobras, Natura, Weg, Tigre, Boticário, and Grendene.
The strong base of innovative global companies already operating in Brazil opens the door for exploring the many possibilities to advance technology, innovation, and cutting-edge science. Linking research centers to companies will bring about concrete results in the medium and long range.

Part of this agenda relates to dual-use technology (technology that can be used for both military and peaceful purposes). For example, both the United States and Brazil have projects in the space industry (satellites and launchers), remote monitoring systems, military aviation, nuclear submarines, and cyber warfare. Brazil recently revived programs stalled since the 1980s and 1990s.

Several Brazilian companies have acquired or opened businesses in the United States with an eye toward developing or purchasing new technology. According to a 2014 European Information Technology Observatory report, Brazil, one of the world’s top-eight IT markets, was actually the fastest growing IT country.30

Brazil’s market expansion is partly a reflection of partnerships with US companies. Cooperation has occurred almost exclusively within the private sector, with minimal government participation. In many ways, this collaboration comes despite government. This puts pressure on governments to support initiatives the private sector is already pursuing.

Recent attempts to work together in innovation have had some ups and downs. A high point is SIVAM, the Amazon Surveillance System, which began in the late 1990s and is up and running. This project is led by a US company and had major funding from the US Export-Import Bank. SIVAM still needs broad maintenance support before it can become fully operational, but a significant potential exists for expansion and improvement.

A low point is the negotiations to permit US use of the Alcântara Launch Center, a satellite launch base run by the Brazilian Space Agency, in exchange for financial payments and scientific cooperation. Negotiated by the executive branch, the agreement was vetoed by the Brazilian Congress amid allegations that it would represent a loss of the country’s sovereignty. Opponents also said the deal favored the United States.

Proposals: How to Move Forward the Bilateral IT Agenda

1/Incentivize dual-use technologies. A high-level committee involving government and private-sector representatives could jump-start stalled dual-use technology talks. The resumption of negotiations regarding use of the Alcântara Launch Center, as well as more structured cooperation in other sensitive projects, should be an initial focus.

OBSTACLES> Talks may generate resistance in the United States and...
Brazil in the diplomatic or the military spheres of both countries.

**Government Stakeholders**> Negotiations would require leadership by the heads of states and the involvement of defense ministers.

**Private Stakeholders**> Those most interested parties in this agenda are the space technology industry in Brazil and US private companies active in the industry.

2/ **Support scientific cooperation.**

The United States and Brazil should prioritize public-private programs that foster collaboration in biotechnology, nanotechnology, and material science. Both countries have various public and private laboratories in these areas, not to mention various startups that are leaders in the new sciences. A program to accelerate joint investments and partnerships could be an excellent way to cement greater scientific cooperation.

**Obstacles**> There are no political obstacles.

**Government Stakeholders**> The main stakeholders are development or financing foundations, both on the federal and state levels, as well as the principal technological development agencies of both countries, such as NASA and the National Institutes of Health (NIH) in the United States, and the space research institute (INPE) and EMBRAPA in Brazil, among others.

**Private Stakeholders**> The space technology, biotech, and new materials sectors in Brazil and the United States as well as leaders of important research institutes and laboratories.
4 ENHANCE EDUCATION COOPERATION

Both the United States and Brazil view education as a top priority. Although Brazil’s problems are numerous, the country spends above the average of OECD countries in education—about 6 percent of GDP, compared to an average of 5 percent. In the early phases of Brazil’s democratic reforms, the amount was 3 percent of GDP. The Cardoso administration increased it to 4.5 percent, and in the Lula and Rousseff administrations spending rose to 6 percent. The federal government alone spends around $243 billion annually. Today, about 95 percent of Brazilian children are enrolled in primary school.31

This, however, does not change several worrisome facts. One is the low quality of education. According to the Program for International Student Assessment (PISA), Brazil ranks fifty-second out of fifty-five countries when assessing the competencies of fifteen-year-olds in reading, mathematics, and science. Another problem is that spending is disproportionately focused on higher education at the expense of primary education. On average, four times more is spent on university students than on the other grade levels combined. The country has 7.4 million university students, 73 percent of whom are enrolled in private universities.32

Significant opportunities exist to expand education cooperation. US companies such as Laureate, and private universities such as Harvard, already have a presence in Brazil. Meanwhile, several Brazilian educational groups have expressed an interest in investing in the United States.

Proposals: How to Unleash a New Era of Education Cooperation

1/ Drive new investments in education.
The United States and Brazil should foster investments in education and support the establishment of US university branches in Brazil. Potential opportunities for collaboration also exist in the areas of distance learning programs and special technology courses. Here, the two countries could develop distance and e-learning language training programs in Portuguese, Spanish, and English.

Obstacles> Resistance could come from public education institutions in Brazil, as well as the teachers’ unions.

Government Stakeholders> Ministries of education in the two countries are critical to this discussion.

Private Stakeholders> Public and private educational institutions.

2/ Bolster technology cooperation in higher education.
Student and faculty exchanges are a direct and nonpolitical mechanism for enhancing bilateral cooperation, with great potential for catalyzing innovation. Brazilian research grant agencies such as the National Research and Technology Council (CNPq) and the Coordination for the Improvement of Higher Education Personnel (CAPES) should better coordinate work with US science agencies such as the National Science Foundation. Brazilian and US leaders should build on the efforts of existing
exchange programs, such as Brazil’s Science Without Borders program and the United States’ Fulbright Scholar program.

**OBSTACLES** Associations of public university professors may negatively react to further cooperation over fears that it could encroach upon their vested interests.

**GOVERNMENT STAKEHOLDERS** The respective development and financing agencies, both at the federal and state levels, as well as the ministry of education and university rectors.

**PRIVATE STAKEHOLDERS** Institutions of higher learning and basic research in the United States and Brazil.

5 **STRIKE A COMPREHENSIVE POLITICAL AGREEMENT**

All of this cannot be done in a far-reaching, revolutionary way without a political agreement to serve as the bedrock of the relationship. The June 30 official visit will only be successful if it sets in motion pieces of the machinery to eventually strike a comprehensive agreement. There is not a single case in which a significant bilateral agreement involving the United States was signed in absence of a “political anchor” agreement.

Agreements with other countries are an example of robust political accords with the United States. Recent examples show that these agreements could take place around issues of global governance, national security, or other strategic issues important for the United States. In the lead-up to the UN Climate Change Conference in December, a major environmental accord could also provide the foundation for a deeper relationship.

Without a strategic grounding, it is highly improbable that US-Brazilian negotiations would advance much further than the agreements already in effect today. The US seems to value political foundation in its negotiations with emerging powers. These political agreements seem to be the necessary carrot to justify the mobilization of the US political machinery. The North American Free Trade Agreement (NAFTA) with Mexico, nuclear cooperation with India, and Plan Colombia with Bogotá are all good examples of this argument.

It is striking that Brazil and the United States draw out the standstill when it comes to defining a broad framework for their relationship, in stark contrast to what the United States has achieved with other major countries—or smaller countries, for that matter—with which the United States has disputes.

When it comes to more binding agreements, Brazil is a glaring exception to the pattern of relationships established by the United States with other emerging countries. Unlike many of these other countries, Brazil has not signed any significant agreement with the United States in the military, political, or economic spheres.

The key is to find big wins where US strategic interests converge with those of Brazil. This could happen in a few different areas:

- Regional security issues
- Drug trafficking
- Fight against terrorism
While the future of the region revolves around economic issues, the challenge is that the whole of the US government can still only principally rally around issues that concern the defense establishment.

Each of these issues could involve a number of countries in the future, but all are connected with the present situation in Venezuela. The Venezuelan state is increasingly poised for an earth-shattering descent with security, drug, and terrorism issues all wrapped up in its decline. If the United States and Brazil were to strike a political agreement that would allow them to jointly prevent further crisis in Venezuela, this would be a major milestone for the relationship. Though unlikely to occur in the short term, it would be a boost for the individual interests of each country.

This will not be politically easy, either within or outside the respective governments. But all are important enough, however, to elevate bilateral relations to a new level. Direct engagement by heads of state, their core teams, and if possible the diplomatic corps, would be essential to progress. However, if that support is not forthcoming, examples exist, both in the United States and Brazil, of direct action by presidential advisers to achieve agreements that diplomatic formality sometimes makes unfeasible.
Conclusions

Economic, social, and cultural relations between Brazil and the United States continue to gain momentum, but political and diplomatic relations have not kept pace. The absence of benchmark agreements in investment, trade in services, sensitive technologies, and other areas, means opportunities are being lost.

To bring relations between Brazil and the United States to a new level, it is essential to find a common strategic alignment that will allow for better overall policy alignment. Beyond climate change, a comprehensive political agreement is unlikely in June, but the visit can at least begin to further build the trust for an eventual accord. While a likely climate change agreement would be significant, neither country should rest on the laurels of this breakthrough. After December, the issue will be inevitably move to the bilateral back burner.

There is no shortage of existing bilateral initiatives between Brazil and the United States. With few exceptions, though, the agendas launched (or re-launched) in recent years lack depth. The proposals coming out of new forums may be relevant, but only if political barriers can be overcome.

The current environments in Brazil and the US—the loss of political power in the Rousseff administration, economic stagnation in Brazil, and the end of the Obama administration—do not, at first glance, suggest that a bold bilateral agenda is feasible at the moment.

But this may in fact be just the moment for a shot in the arm in the bilateral relationship. Indeed, it can solidify Obama’s reputation as the US president who did most to deepen relations with regional neighbors and could be a way for Dilma to begin to regain her footing. However, before that happens, some important political adjustments are required.

The more directly a new bilateral agenda is connected to urgent internal agendas in the Rousseff administration, the more likely it will advance. President Rousseff only includes international issues among her administration’s priorities when directly tied to high-priority domestic issues. This means the timing could not be more perfect, as she continues to lose political power at home.

For the US, agenda items must be within the realm of political possibility for Obama. Each would have to be approved by the end of his term, and, preferably, must not depend on complex negotiations with the US Congress. The deepening crisis in Venezuela or Argentina can put Brazil and the United States on a collision course and derail bilateral momentum.

Many scenarios are possible where both governments decide to move forward more aggressively on a bilateral agenda. President Obama has taken bold initiatives in the international arena in recent months, with Cuba a prime example. Therefore, it is conceivable that he might be interested in announcing a new agenda on Brazil, leaving one more positive legacy for his administration.

While Finance Minister Joaquim Levy was Secretary of Treasury between 2003 and 2005, he led major initiatives with the US Treasury Department. Today, in a position of even greater power and prominence, he could be a key partner in advancing a bolder agenda.

If both countries were to conclude that there is room to announce a bold new bilateral agenda, then the below proposals (all detailed in this paper) may prove to be only the beginning. Some even more far-reaching initiatives and programs could become part of a dynamic agenda.

The time is now, and the sky is the limit. The only thing missing is the transformational political leadership to lay the foundation for a fruitful bilateral agenda.
1. Implement a double taxation agreement.
2. Open negotiations to eliminate trade barriers.
3. Collaborate on clean energy technology trade.
4. Open negotiations to facilitate trade in services.
5. Build a bilateral development and trade program in information and communications technology (ICT).
6. Develop a bilateral program focused on Internet governance.
7. Incentivize dual-use technologies.
8. Support scientific cooperation.
10. Bolster technology cooperation in higher education.
Endnotes


7 Brazil ranks between tenth and thirteenth in the world in terms of military spending. According to the Stockholm International Peace Research Institute, the US spends 2.5 percent of GDP per year in this category, about $1.7 trillion, and Brazil spends about 1.5 percent or $33 billion per year. Since military spending is primarily related to wages and current expenditures on troops, it does not reflect the operational military capacity of the country. See Stockholm International Peace Research Institute, “Data by Country (current $US),” http://www.sipri.org/research/armaments/milex/milex_database.


10 The Southern Common Market is a sub-regional bloc comprising Argentina, Brazil, Paraguay, Uruguay, and Venezuela.


12 It is worth noting that in 2012, the Tax Information Exchange Agreement (TIEA) went into effect (signed in 2007). This agreement may be an important milestone in Brazil-US cooperation with regard to tax evasion, money laundering, and corruption investigations. The agreement is already affecting the ongoing Petrobras corruption investigation, known as Lava-a-Jato (Operation Car Wash).


19 Ministério do Desenvolvimento, Indústria e Comércio Exterior.


21 Ibid.


23 Ibid., p. 51.


About the Author

**Ricardo Ubiraci Sennes**, the Adrienne Arsht Latin America Center Nonresident Senior Fellow on Brazil, is a Partner Director at Prospectiva, a consulting firm on public policies and international business, as well as the General Coordinator of the Group of International Analysis (GACINT) at University of São Paulo (USP).

A Brazil native, Sennes has been engaged in projects related to South America regional integration, energy and infrastructural market and regulation, the aerospace and defense industry, international trade, and political and economic developments in Brazil and throughout Latin America.

Sennes is an editorial member of the *Foreign Affairs Latin America* (EUA – Mexico), of the *Política Externa Journal* (Brazil), and a member of the Strategic Studies Council of the São Paulo State Industry Federation (FIESP). In São Paulo, he was the Coordinator of the Brazilian Center for International Relations (CEBRI) and was Co-coordinator of the International Section of the Brazilian Scenarios Project (Brasil 3 Tempo 2022 project), managed by the federal government.

Sennes holds a PhD in international relations, an MA in political science from the University of São Paulo (USP), and a bachelor’s degree in economics from the Pontifícia Universidade Católica de São Paulo. He also conducted research for the International Relations Center at USP, for the Woodrow Wilson Institute in Washington, and for the Iberian and Latin American Studies Center at the University of California, San Diego. His first publication for the Atlantic Council, “Will Brazil Get What it Expects from the World Cup?” was released in June 2014.
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