ECONOMICS/ INTERNATIONAL STUDIES 620

Allegheny College
Meadville, Pennsylvania
16335

Why have Brazil and the United States not pursued a Free Trade Agreement? A Brazilian Perspective



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04/06/2016

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Date: 03/11/2016

I hereby recognize and pledge to fulfill my responsibilities as defined in the Honor Code and to maintain the integrity of both myself and the College as a whole.

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Acknowledgements

I would like to express my deep gratitude to Professor Baskan and Professor Mattiace, my first readers, for their guidance, encouragement and useful critiques of this research work. Advice given by Professor Dantan, my foreign language reader, was greatly appreciated. I would also like to thank Professor Golden and Professor Haywood, my advisors for their guidance throughout my college career and helping me achieve my goals. I take this opportunity to express gratitude to all of the Economics Department and International Studies Department faculty members for their help and support.

Finally, I want to offer my special thanks to my friends and family. Dad, your work and life achievements are my biggest inspiration. Your work in establishing the Colombia-United States FTA motivated me to write my senior project. Mom, I deeply appreciate your unconditional love and support. I do not know what I would have done without you these past years. To my siblings, Alfonso and Isabella, thank you for always believing in me and cheering me up. To my friends, Allyson, Katie and Laura, thank you for making me laugh and supporting me. To Jake, Tyler, Peter and Paul, thank you for four years of friendship and for always having my back.

Table of Contents

	Page number
List of Figures	iv
List of Tables	v
Abstract	vi
Introduction	1
1. Literature Review	9
2. Theory of International Trade	19
3. Empirical Analysis	29
4. Political, Economic, and Historic Context	36
i. From the Brazilian Economic Crisis in the1980s to the 1990s, The Reform Era	37
ii. The Rise of Labor Party and "South- South" Foreign Policy Approach	44
iii. Brazil and the United States, Problems in the Bilateral Relation	49
Conclusion	55
Summary in Spanish	64
Bibliography	77

List of Figures

Page number

Figure 2.1 H-O Theorem 23

Figure 3.1 Productions of Refined Oil and Raw Sugar 31

List of Tables

Page number

Table 1.1 U.S. Trade in Goods with Latin American Countries 4

Table 3.1 U.S. Trade in Goods with Brazil 29

Table 3.2 Raw Sugar Production per country 30

Table 3.3 Refined Oil (gasoline) Production per country 30

Table 3.4 Cost of Producing Raw Sugar per Country 32

Table 3.5 Cost of Producing Refined Petroleum (gasoline) per Country 32

Table 3.6 Price of Raw Sugar per ton for each Country 33

Table 3.7 Price of Refined Oil (gasoline) per Liter for each Country 33

Abstract

Free trade is a topic that is more relevant now than ever. With globalization, the current trend among nations is to engage in free trade discussions and agreements. Brazil and the United States are large trading partners and both countries are major economic and political world leaders. Brazil is the most important economy in Latin America, and the United States is the most important trading partner to the region. Then, why does Brazil not have a free trade agreement (FTA) with the United States? The relationship between Brazil and the United States, two major global powers and Western Hemispheric leaders has consisted of a long history of cooperation and competition. Following a Heckscher–Ohlin trade model, from an economic standpoint, both countries appear to have complementary economies. Also, since they are already major trade partners, removing trade barriers and promoting the free movement of goods would seem beneficial to both. However, the governments of Brazil and the United States in numerous occasions have never been able to agree on trade negations and have not engaged in FTA discussions. The political disagreements between them, as well as both countries' sense of manifest destiny in the Latin American region, have prevented them from pursuing closer economic ties.

Introduction

This paper seeks to examine why two major regional Western Hemisphere powers, Brazil and the United States, have not pursued closer economic ties. Specifically, this paper focuses on the perspective of the Brazilian government regarding this issue. Brazil is a fast growing economy that has been establishing free trade agreements (FTAs) with other major powers. However, why has Brazil not established an FTA with the United States? To answer this question, this paper will examine several factors. These factors include: the loss and benefits that FTAs provide to the countries who engage in them, Brazil's political and economic situation over the last three decades, and the role of both, Brazil and the United States within the Latin American region.

The United States and Brazil are both major world economic and political leaders. According to the World Bank, in 2013 Brazil had a GDP of USD$2.246 trillion ("Brazil Data") and the United States had a total GDP of USD$16.77 trillion ("United States Data"). This data places the United States as the largest economy in the world and Brazil as the 7th largest in the world and 1st largest in Latin America. The economic growth between both countries has led to increased trade ties between both nations. The United States Trade Representative Office (USTR) stated that Brazil was the 7th largest export partner to the United States and 16th largest import partner in 2013. Also, the United States was Brazil's 2nd largest export partner and 2nd largest import partner in the same year, with 11% of Brazil's exports going to the United States and 14% of imports in Brazil coming from the North American country ("Brazil"). In addition to having a key role in the world economy, the United States and Brazil are also key players in each other's trade sector.

The United States and Brazil have established several cooperative agreements and belong to groups and organizations that aim to improve relations between them. Examples of this include: the Economic Partnership Dialogue, the Commission on Economic and Trade Relations, the Economic and Financial Dialogue, the Strategic Energy Dialogue, the Consultative Committee on Agriculture, the Consultative Committee on Agriculture, the CEO Forum, the Partnership for the Development of Aviation Biofuels, and the Joint Standing Committee on Nuclear Energy (Duran, 2014). These cooperative agreements depict the climate of cooperation that exists between both nations. Additionally, the United States and Brazil are both members of the World Trade Organization (WTO), an institution that seeks to reduce trade barriers and promote free trade negotiations. As WTO members both countries have played an active role in Doha round negotiations since 2001. Their active roles reveal the objectives of both governments of liberalizing their economies, increasing multilateral economic trade ties and overall exerting a major influence among the international community (Meyer, p. 12). Therefore, since the United States and Brazil are already major trade partners and share multiple cooperative agreements, why have they not established or entered into a FTA discussion?

To answer this question, it is important to first take a look at Brazil's political and economic history for the last three decades. For 20 years, Brazil endured a bureaucratic authoritarian regime. In order to better understand what this implied, scholar Guillermo O'Donnell (1978) describe this type of regimes with the following characteristics:

> "a) higher government positions usually are occupied by persons who come [from] the armed forces, public bureaucracy and large private firms; b) political exclusion, in that it aims at closing channels of political access to the popular sector…but also through the imposition of vertical (corporatist) controls by the state on such organizations as labor unions; c)economic exclusion, in that it reduces or postpones indefinitely the aspiration to economic participation of the popular sectors" (p.6) .

Because of the policies implemented by this government, after the bureaucratic authoritarian regime was out of power in 1985, the country was facing a major economic crisis. Through stabilizations plans, the new democratic governments tried to tackle the crisis. First, under president José Sarney, the government implemented a shock therapy approach that even though successful at first, left the Brazilian economy with hyperinflation and socioeconomic turmoil. After Sarney, the presidents to follow at the end of the 20th century, Fernando Collor de Mello, and Fernando Enrique Cardoso, implemented neoliberal economic policies such as privatizing state-owed companies, opening the country to foreign markets and reducing public spending (Baumann, p.152). These policies managed to stabilize the Brazilian economy, however they also contributed to augmenting social inequality in the country (Skidmore, p.234). These events led to the popular support of Brazil's Workers Party. In 2002, the Workers Party candidate, Luiz Ignacio Lula Da Silva, ran with a platform aiming to help the lower socioeconomic classes in Brazil and to reduce the gap between the rich and poor. In contrast to the governments of Collar and Cardoso, Lula, and his successor, Dilma Roussef, have supported protectionist policies (Yeon, p.3). Understanding the economic history is very important to understand the current Brazilian government's view to trade and opening of the country's economy.

Another aspect that is necessary to comprehend is that despite historical cooperation, as two major powers, the United States and Brazil have also experienced rivalry. This rivalry has roots in their aspirations to become Western Hemisphere leaders. Both countries exert major influence over the Americas. Traditionally, Brazil as the largest Latin American economy has been a role model for the majority of the countries in the region. Nonetheless, since the beginning of the 20th century the United States has acted as a "Big Brother" to Latin American nations. Brazil fears an increasing U.S. dominance over its region. The North American country

has already established regional and bilateral agreements with Latin American countries such as: Mexico, Dominican Republic, Costa Rica, El Salvador, Nicaragua, Guatemala, Honduras, Chile, Colombia, Panama and Peru ("Trade"). As well, the United States in 1994 tried to establish a Free Trade Area of the Americas (FTAA) to increase its economic influence over the region. However, after failed negotiations, particularly with Brazil, this free trade bloc was not created ("Free Trade Area of the Americas"). The North American economic presence in Latin America is evident. Chart 1.2 displays the strong trade ties that exist between the United States and the region. The Brazilian government fears that entering into a FTA with the United States could imply that Brazil is renouncing its aspirations for regional leadership.

Table 0.1 U.S. Trade in Goods with Latin American Countries

2014	184,018.7	150,691.2
2013	184,359.6	158,518.1
2012	183,184.0	171,791.3
2011	169,012.3	174,290.9
2010	138,576.8	131,424.8
2009	109,548.8	108,099.1

Source: United States Census Bureau

Brazil's foreign trade policy has been historically focused on pursuing protectionist economic objectives particularly towards developed nations. The country has high import tariffs and high transportation costs which inhibit economic growth in the trade sector. Additionally, Brazil's stance on trade tends to support a "south-south" policy that focuses on engaging in trade with developing nations (Yeon, p.2). This was particularly true when Brazil undertook an active

role in the formation of the regional trade agreement, the Common Market of the South (MERCOSUR) with the purpose of integrating the South American economies. In addition to having a trade view focused in South America, Brazil also has a trade view that favors integration with other developing nations. An example of this view is the creation of the block BRICS, term coined by Jim O'Neill from Goldman Sachs in 2011. The member countries of this block are the world's largest economies that are not members of the Organization for Economic Co-operation and Development (OECD) (Sharma, 2012).

Taking into account the Brazilian "pro-developing countries" mentality, it is not surprising that Brazil, in addition to pursuing trade agreements with Latin American countries, has preferred to enter in free trade discussions with China. Brazil and China have had success in their bilateral trade relations because they have complementary economic structures (Whalley & Medianu, p.708). Nevertheless, despite China's and Brazil's growing economic ties, the United States continues to be play a major trade role in Brazil. Because of this, Brazil cannot forget that the North American country is an important economic partner. The relationship between China and Brazil provides an important insight. Brazil does not feel threatened with China's increasing world influence. Even though China, similar to the United States, is also a major large world economy, Brazil will never worry about Chinese influence in the Latin American region. The reason why this observation matters in discussing free trade is because this insight reveals that there are non-economic factors that are preventing Brazil from pursuing an FTA with the United States. These factors include political tensions and the rivalry between both countries to become leaders in the Western Hemisphere.

Another critical aspect to look at is at the political tensions that have risen between both nations during the recent years. There are two particular issues that have affected the bilateral

relation; the election of the center-left Workers Party, Ignacio Lula Da Silva in 2003, and the election of President Dilma Roussef in 2011. The Brazilian government under the leadership of these two presidents has had an anti-U.S. sentiment. The center-left government has had close ties with the other socialist-inclined governments in South America, including Venezuela and Bolivia. Additionally, they have expressed opposition in the U.N. Security Council and other international organizations to the United States military interventions in countries such as Iran, Libya and Syria (Meyer, p.10). The second political tension that has risen was the discovery of the wikileak revelations. This discovery augmented the anti-U.S. sentiment that already existed within the Brazilian's Worker's Party. The political tensions that came from this international incident negatively affected the bilateral relation. The success of negotiating a FTA and of establishing one relies on the ability of the countries' governments to reach an agreement. When there are political conflicts between governments, as it is in the case of Brazil and the United States, reaching this agreement becomes more difficult.

The goal of my research is to provide a Brazilian perspective on the issues that are preventing FTA negotiations with the United States. First, it is necessary to realize that Brazil has a twofold position towards free trade. On one hand, the country searches for international and regional trade agreements including the its membership in the WTO, its growing trade relations with BRIC countries, particularly with China, and its role as a founder and member of MERCOSUR. But on the other hand, despite its strong economic ties with the United States, the Brazilian government has been highly reluctant to strengthen its economic ties through free trade. Based on the benefits that FTAs generate to countries who engage in them, and based on the current and past trade flows that have occurred between both nations it seems that the creation of a bilateral FTA would benefit Brazil the most. Then, the question comes up, is

Brazil's aspiration for regional leadership and the Brazilian traditional protectionist and "anti-developed countries" mentality, preventing the country from pursuing a possible beneficial FTA with the United States?

This paper will examine the reasons that have prevented the United States and Brazil from pursuing an FTA while focusing on the implications that the establishment of such agreement would have on Brazil's hegemony in Latin America. To achieve this, first I will explain the theory of trade and why international trade is relevant to-date. As well I will examine the benefits that FTAs brings to nations who engage in them- focusing on the effects that trade agreements have had in Latin American countries, particularly when they involve the United States. Second, I will provide a context of the Brazilian economic crisis that the country faced after the end of the bureaucratic authoritarian regime in the 1980s and the economic policies of the Brazilian government during the 1990s. This will provide an insight into why the current government is reluctant to open the Brazilian economy to trade. Then, I will analyze the recent history of political and economic relations between both countries to better understand their bilateral relation and their challenges. This will highlight the existing political tensions that are inhibiting FTAs talks. Third, I will conduct an empirical analysis by following the **Heckscher–Ohlin (H-O) model to see if opening up to trade would benefit Brazil and the United States.** With the empirical analysis, I will be able to determine if from an economic stand point, establishing a bilateral FTA would provide gains and/or losses for both countries. After analyzing my results, I will have two possible conclusions. First, if trade provides more benefits to countries, I will conclude that despite the economic benefits of a bilateral trade agreement, political conflicts are preventing the Brazilian government from seeking a U.S.-Brazil FTA. Second, if opening up to trade does not provide economic benefits for either country, then even

though politics play a role in FTAs, economic factors are preventing Brazil from signing an FTA with the U.S.

1. Literature Review

Several scholars have discussed the growing importance and the benefit that establishing free trade among countries. Ever since the creation of the WTO in 1995, trade among nations has experienced growth. Mordechai E. Kreinin and Don P. Clark (2013) in their textbook *International Economics: "A Policy Approach,"* talk about three types approaches to trade. The first is the International Approach. The WTO is the prime example of this approach as it is an organization that seeks to promote trade by removing trade barriers among member nations, reducing trade discrimination, promoting trade transparency, encouraging competition, helping developing economies in joining international trade, and protecting the environment. The WTO serves the role of a forum for government representatives to negotiate free trade agreements, settle trade disputes and establish trade rules (Understanding the WTO). Through policies such as the unconditional Most Favored Nation Principle (MFN), countries cannot discriminate against other countries in international trade (Kreinin & Clark, p.167, 2013). Nevertheless, despite the goal of the WTO to remove all barriers to trade among member countries, negotiations in the WTO have not always been successful. Reaching an agreement between all member states has been a challenge. Because of this, there are other forms of free trade that have been pursued by nations so that countries are able to engage in free trade without requiring the consent of WTO members.

The second approach to trade by Kreinin and Clark is the Regional Approach. World regions have utilized this approach in order to strengthen economic ties within their regions, stabilize their economies, and increase their economic strength among the international community (Krenin and Clark, p.167, 2013). Both, Brazil and the United States have been active leaders within their regions in pursuing these agreements. Examples of this approach include the

European Union (EU), the Common Market of the South (MERCOSUR), and the North American Free Trade Agreement (NAFTA).

One of the most known case examples of a regional trade agreement keeps on having a growing popularity is NAFTA. NAFTA was implemented in 1994 by the governments of the United States, Mexico and Canada. The agreement included provisions to remove trade barriers and liberalize trade service (Fergusson and Villareal, p.5). On removing trade barriers, NAFTA removed all duties on textile and apparel goods among the three countries. In addition, regarding the automotive industry, the agreement removed the restrictive auto decree from Mexico and eliminated the United States' import tariffs from Mexican and Canadian automotive products. On free trade on agriculture, the agreement establishes one including the three member countries and another one just including Mexico and the United States. The United States and Canada enjoy complete removal of tariffs on agricultural goods and most of agricultural products between Mexico and the United States are removed or reduced (Fergusson and Villareal, p.6). Regarding service trade liberalization, NAFTA included the following provisions: "nondiscriminatory treatment, cross-border sales and entry, investment, and access to information" (Fergusson and Villareal, p.7). Nevertheless, despite the integration between the three countries, each of them had exclusions on trade service liberalizations. The United States kept the maritime shipping service industry from integration, Canada withheld the film and publishing service, and Mexico kept oil and gas drilling (Ferguson and Villareal, p.7). In addition to these provisions, the three countries also agreed on the following: removing foreign investment barriers, protecting intellectual property rights, and opening government procurement (Fergusson and Villareal, p.8). Also, because of the growing importance of labor and environmental issues, and the influence that domestic politics has on free trade, after the

implementation of NAFTA, government leaders also implemented regulations to protect labor rights and the environment. Under the leadership of President Clinton, the North American Agreement on Labor Cooperation (NAALC) and the North American Agreement on Environmental Cooperation (NAAEC), entered into effect the same day as NAFTA did. This act was very significant as it was the first time labor and environmental provisions were included in a free trade agreement (Fergusson and Villareal, p.8). Ever since the establishment of NAFTA, trade between the three countries has more than tripled, in 2013 trade between them equaled $1.1 trillion. (Fergusson and Villareal, p.10).

The third approach to free trade that the authors discuss is the establishment of bilateral agreements, also known as FTAs. The two countries that engage in FTAs agree to remove all tariffs from the goods and services that they trade between each other (Kreinen & Clark, p.168-169, 20-13). Through this type of agreement the two nations involved abolish trade restrictions and foment stronger economic ties. To-date, with the rapid growth of globalization, the majority of countries seek opportunities to establish Free Trade Agreements (FTA). These agreements favor countries as they reduce barriers to imports and exports. As well, they allow countries to specialize on the production of goods and services based on the principle of comparative advantage. This facilitates trade and strengthens bilateral economic relations.

An example of a successful bilateral trade agreement between the United States and a Latin American country is the case of the FTA between the United States and Chile. In December of 2000, both countries engaged in trade negotiations and later in 2002, the two of them signed their FTA. In the agreement, 85 percent of consumer and industrial products became tariff free right after the agreement was enforced, and most remaining tariffs were eliminated four years after ("U.S. Chile Free Trade Agreement," p.696). Also, 75 percent of farm goods

became tariff free within those same four years and by 2014, all remaining tariffs of farm goods were removed. This FTA additionally gives bilateral access of service industries including: banks, insurance and telecommunications companies, express-delivery companies, and professional firms. However, what this FTA shows is that these bilateral agreements not only include economic conditions, but labor and security conditions as well. The United States and Chile FTA also contained protection and obligations for nondiscrimination and property rights. Regarding labor issues, both countries agreed to enforce labor and environmental laws, "the agreement created a system for monetary assessments as a means of enforcing the parties' labor and environmental obligations" ("U.S. Chile Free Trade Agreement," p.697). Additionally, to encourage FDI and create a favorable climate for investors the FTA included provisions that prohibited expropriation or nationalization of any investments made by investors from the other country ("U.S. Chile Free Trade Agreement," p.698). The FTA between Chile and the United States was the first FTA established between the United States and a South American country. The model of the FTA depicts that in addition to having provisions on economic issues, bilateral trade agreements are also composed of political and social factors.

Sanjeev Goyal Sumit Joshi, examine in their article "Bilateralism and Free Trade," the incentives that countries have to establish bilateral FTAs. Goyal and Joshi argue that bilateral trade agreements, which eliminate tariffs, have a positive overall effect for domestic producers of both nations involved as well as for consumers. They argue that there are three main effects that occur when countries engage in bilateral trade agreements. Goyal and Joshi state: "First, the domestic firm is faced with greater competition from a foreign firm. Second, the domestic firm gets greater access to the foreign market. Third, domestic consumers benefit from greater competition, in terms of lower prices" (p.750). The two authors argue that removing tariffs has

an overall positive effect in the countries' economies as it increases both domestic and international competition (Goyal and Joshi, p.751). As FTAs increase competition, they also provide domestic firms access to foreign markets and ultimately raise profits for domestic producers (Goyal and Joshi, p.757).

With the growing importance of FTAs there is an ongoing discussion among several scholars over the past decades on the effects, both positive and negative that these bilateral have had in specific regions. Scholar Peter Hakim, in his article "Western Hemisphere Free Trade: Why Should Latin America Be Interested?" argues that pursuing free trade with the United States makes a positive contribution to the economies of countries in Latin America. Hakim (1993) argues that there are five specific areas that benefit from free trade: "(1) the direct gains, that is, the increase in export earning resulting from lowered trade barriers without considering probable subsequent changes in investment and production patterns; (2) the insurance effects, as a result of reducing future risk and uncertainty by locking in certain policies; (3) greater investment inflows; (4) improved economic coordination between free trade partners; and (5) the possible strengthening of political cooperation" (p. 126). In addition, Hakim highlights the importance of creating a sense of community among the Americas region through economic integration. He argues that the Latin American countries who would receive the most direct economic gains by pursuing an FTA with the United States are those countries who: export the most to the north American country, currently face the highest import barriers from the United States and whose exports account for a large part of their GDP (Hakim, p.127-129). Following Hakim's first criteria, since the United States is Brazil's second largest export partner, as shown in Table 1.1 ("Brazil"), Brazil would benefit from engaging in a bilateral trade agreement. Also, table 1.2 shows how Brazil is the South American country with the highest import tariffs from

the United States. Following Hakim's second criteria, Brazil would benefit from an FTA. Exports only account for 11.5 percent of Brazil's GDP (World Bank). Compared to other Latin American countries, as displayed in table 1.3, Brazil's exports are a low percent of its GDP. Therefore, following Hakim's third criteria, Brazil would not be one of the countries that would benefit the most.

Table 1.1 Brazil's Top Export Destinations

Country	US Billion Dollars
China	46.1
United States	25.2
Argentina	19.3
The Netherlands	16.3
Japan	8.58

Source: OEC

Table 1.2 U.S. General Import Charges to All Commodities in 2014

Argentina	210,667
Bolivia	8,425
Brazil	1,070,576
Ecuador	439,894
Paraguay	13,205
Uruguay	20,742

Source: United States International Trade Commission

Table 1.3 Exports of Goods and Services (Percent of GDP) in 2014

Argentina	14.8
Bolivia	43.3
Brazil	11.5
Chile	33.8
Colombia	16.0
Ecuador	28.6
Paraguay	46.8
Peru	22.4
Uruguay	23.4
Venezuela	24.8

Source: The World Bank

Other scholars have also supported the benefits that result from the creation of bilateral trade agreements in the Americas region. Francisco Giraldo Isaza, from the Pedagogic University in Colombia, conducted a study to observe what would be the possible benefits of establishing an FTA between the United States and Colombia. In his study, Giraldo Isaza found empirical evidence that FTAs do contribute to a country's economy as Ricardo had previously argued (Giraldo Isaza, p. 103-104). Giraldo Isaza concluded that FTAs provide the most benefits to the less developed country engaged in them. When a country engages in free trade, Giraldo Isaza found that: the prices of goods and services decrease, domestic production of the goods that the country has comparative advantage in increase, the less developed country gets access to advanced technology which increase production efficiency, competition of domestic exported

products increase, and foreign direct investment in the developing country increase. These effects, according to Giraldo Isaza, improve the quality of life of consumers in the country as they reduce poverty levels, generate employment and overall encourage economic development (Giraldo Isaza, p. 107). Giraldo Isaza's Colombia's case study provides empirical evidence that FTAs are worth pursuing.

However, other scholars have further explored the consequences of free trade. For example, Christopher Alessi, from the Council on Foreign Relations, argues that in the United States there has been a growing opposition towards free trade (p.1). Alessi (2012) states that: "there has been growing resentment in some quarters about failure to adequately address free trade's losers- those working in the U.S. sectors like manufacturing, which have lost out to more efficient producers abroad" (p.2). As well, he addresses the issue of labor movements who oppose FTAs because it encourages the outsourcing of employment (Alessi p. 3). Alessi provides insights on the negative consequences that FTAs can generate. Giraldo Isaza's study on the benefits that FTAs provide developing countries shows how in these nations, FTAs encourage foreign companies to open factories abroad, due to lower labor wages and lower costs of production. However, Alessi points out that this presents a problem for developed countries as some industries lose since they cannot compete with foreign markets that hold comparative advantage. Additionally, he also points out that jobs are sent abroad which is a major cause of concern for labor movements in developed countries.

An important conversation that has been popular among scholars who examine U.S.-Latin American relations is the failure of the Free Trade Area of the Americas (FTAA). Despite the criticisms of FTAs in the United States, the United States government attempted to enter into a regional free trade dialogue with South American countries to create the FTAA. The principal

players in these conversations were the United States, and MERCOSUR, in particular Brazil as a major regional power. Scholars such as Lorenzo Fernando and Marcel Vaillant, conducted a study to observe the benefits that both the United States and MERCOSUR countries would have obtained from creating the FTAA. To achieve this, Fernando and Vaillant analyzed the losses and gains for both, the United States and MERCOSUR. After conducting their study, the scholars concluded that MERCOSUR's agricultural producers would benefit from this agreement because of the comparative advantage that MERCOSUR countries have on agriculture over the United States (Fernando & Vaillant, p.15). However, in the United States, producers from the agricultural sectors would lose, as they would face difficulties competing with MERCOSUR's agricultural goods (Fernando & Vaillant, p. 16). Fernando and Valliant also concluded that producers of machinery industries, capital goods, and transport materials of MERCOSUR nations would lose because of the greater efficiency and technology that the United States has over capital-intensive industries (Fernando & Vaillant, p. 17). Nevertheless, they conclude that in both, the United States and South American countries, consumers would gain from the FTAA (Fernando & Vaillant, p.18). Fernando and Vaillant's research is significant in the discussion of Brazil-U.S. relations because through empirical evidence, they demonstrate that free trade between North and South America would ultimately bring gains to both regions.

Despite the economic benefits the FTAA could provide, the agreement failed. Scholars form the Woodrow Wilson Center Masi and Wise argue that regionalism free trade agreements in the Americas emerged as a response of the lack of efficiency and effectiveness of the WTO in reaching free trade agreements (Masi & Wise, p. 308-309). However, these two scholars also discuss that one of the most important causes of the failure of this agreement, was the Brazil's fear of U.S. dominance in the region. They state, "Brazilian-led MERCOSUR shunned the

notion of US hegemony and preferred to act as an independent sub regional trading bloc" (Masi & Wise, p.312). In addition, Masi and Wise emphasize how issues domestic politics in both countries have impeded FTA talks. In the United States, the traditional sectors, including agriculture, textiles and steel expressed oppositions to lower price imports from Latin America. In Brazil, the new trade sectors such as: services, investments, and high-tech, feared competition with U.S. firms (Masi & Wise, p.340).

Besides struggling to reach an agreement to establish the FTAA, the United States and Brazil have also had major disagreements in the WTO Doha rounds. Peter Meyer, Analyst in Latin American Affairs from the Congressional Research Service, discusses the major issues that both countries have been having in negotiating trade agreements. At the Doha rounds, Brazil challenged the United States' government's agricultural protectionist policies, particularly in the cotton industry, as they were against the provisions of the WTO. Since then, at the Doha rounds the two countries have not been able to agree on common agricultural policies to advance negotiations at the Doha rounds (Meyer, p.15). Other scholars have discussed the effect that this has had on Brazil. David Rothkopf, CEO of Foreign Policy magazine, argues that the lack of ability of both nations to agree on the agricultural trade provisions have negatively impacted their bilateral relationship (Rothkopf, p. 14). This brings up an interesting point, if they cannot agree on multilateral negotiations, would it be even possible for them to agree on a bilateral agreement?

Despite the failure of the FTAA and disagreements in the WTO Doha rounds, the United States and some Latin American countries do have regional agreements and FTAs. These include the NAFTA, the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), and bilateral FTAs with Colombia, Chile, Panama, and Peru. J.F. Hornbeck,

specialist in International Trade and Finance, discusses the rationale that has permitted the success of these agreements. First, Hornbeck (2011) argues that "FTAs with Latin America...support U.S. foreign policy, which has historically viewed much of the region as a strategic 'backyard'" (p. 1). For the United States, FTAs help Latin American countries develop and economies to grow by promoting stability through trade. This, according to Hornbeck allows the United States to secure its regional security goals because it permits the United States to use economic ties to influence politics in countries in the region (Hornbeck, p.1). Also, Latin American countries also receive benefits from FTAs. These include: access to advanced technologies which make production more efficient, access to the U.S. market for domestic producers to increase exports, and gains for consumers as the price of U.S. imported goods decreases (Hornbeck, p.2). Hornbeck's insight shows how some Latin American countries do not fear U.S. dominance in the region, but instead, they openly welcome it. Despite their awareness of the political goals of the United States, they still pursue FTAs because they benefit their countries' economies and their governments agree to establish strong political ties with the United States. This is particularly true in the case of Central American countries who are not only closer in proximity to the United States, but also have had a longer history.

However, other Latin American countries, such as Brazil, do not support the political and economic dominance of the United States. To comprehend Brazil's view towards free trade and towards its role within Latin America, it is important to understand how Brazil views the globalized world. Priscilla Yeon from the Wilson Center Brazil's Institute provides a comprehensive insight. Yeon (2008) states "Brazil's foreign economic policy has been centered on defensive, protectionist objectives…This policy approach is derived from a Brazilian mentality that divides the world into developed and developing countries, where each has

opposing interests" (p. 2). Yeon argues that Brazil looks at itself and at other Latin American countries as a leader that can contribute to the development of countries in the region. Brazil considers that engaging in trade with developed countries could be harmful for the developing countries of South America (Yeon, p.3). Yeon disputes the Brazilian traditional protectionist policies and "south-south" Brazilian trade view. She claims that Brazil is missing out on opportunities on economic growth that could come through trade integration with the United States (Yeon, p.4).

The clearest example of Brazil's view of trade and of its role within Latin America is the creation of the regional integration agreement, MERCOSUR. As MERCOSUR has been growing with the addition of new members, Venezuela and the potential integration of Bolivia, scholars have discussed the role of Brazil in the customs union. Tullo Vigevani and Haroldo Ramanzini from the *Centro de Estudios de Cultura Contemporanea (Cedec)* examine how Brazil has been the center and most important party in the MERCOSUR agreement. As South America's most important economy, Brazil is not only a member of MERCOSUR but also its leader. Vigevani and Ramanzini argue that when this agreement was created in 1991, Brazil used MERCOSUR to integrate not only itself, but also other South American economies into the international community through a regional approach to trade (Vigevani and Ramanzini, p.82). During the 1980s, several Latin American economies, including Brazil were facing a serious economic crisis. The region faced inflation, currency devaluation and a high external debt. As a result, the international community perceived South America as a continent with weak economies. Because of this, the governments of the southern cone joined to discuss possible solutions and to increase the region's global importance. The results of these discussions led to the creation of MERCOSUR (Vigevani and Ramanzini, p. 81). As previously mentioned, the Brazilian

government played a major role in the formation of this customs union. It is important to notice that the MERCOSUR countries were not only seeking regional integration to aid each other's economies. Through this agreement, they were also looking to demonstrate to the international community that South America is also a strong competitive economic region.

Despite some Latin American countries' positive view towards U.S. influence in the region, others, including Brazil, have a different approach. These are the countries that have not or have struggled to engage in trade discussions with the United States. These insights lead to the idea that in order to truly understand the factors that inhibit the creation of FTAs, it is necessary to take into account the major role of politics in the negotiations and in the establishment of trade agreements. Paul H. Boeker, former president of the Institute of the Americas at the University of California in San Diego, in his article "Gains from Hemispheric Free Trade," addresses several important discussion points that result when the United States engages in trade agreements with Latin American countries. Boeker (1993) argues: "Whether possible hemispheric free trade fits into a pattern of liberal trade or revived protectionism in Latin America is a question of politics as well as economics" (p. 113). Throughout his article, Boeker argues that in order to establish free trade agreements, it is particularly important to hold strong political ties. As he points out, this is especially true in cases that involve the United States and Latin American countries.

One of the scholars that has contributed the most to the literature conversation on the problems that Brazil face with the increased influence of the United States in Latin America is Kellie Meiman form the Center of American Progress. Rothkopf asserts that differences in political views have always created a breach between Brazil and the United States (Meiman, p. 7). Particularly, since the election of the Workers Party, the Brazilian government has increased

its support and aid for other left-governments in South America. Meiman brings up the issue of Venezuela. The United States has been in a long conflict with the Venezuelan government because of issues including human rights, security and oil. Brazil has always believed that the United States should remain out of other countries' domestic conflicts and strongly disapproves of any possible intervention (Meiman, p.7). With the addition of Venezuela into MERCOSUR in 2012, Brazil has taken an even greater stance supporting the former Chavez, now Maduro leftist government in Venezuela. These political tensions have inhibited more open economic negotiations.

Taking into account the importance politics play on trade, Meyer, who also discussed the Doha rounds agricultural issues, in his study on Brazil-U.S. political and economic relations, discusses the political challenges that both countries have faced over the recent years and how this has affected bilateral relations. Meyer (2014) states: "Bilateral ties have been strained from time to time as the countries' occasionally divergent national interests and independent foreign policies have led to disagreements" (p. 10). Meyer makes reference to the 2013 wikileaks revelations, where it was revealed the NSA had been spying on the Brazilian government. This international incident generated more anti-U.S. sentiment from the Brazilian's center-left Worker's Party (Meyer, p.10). This political conflict affected bilateral relations between both countries as bilateral meetings were suspended after the incident. Meyer points out how when there are political tensions between two countries' governments, this prevents the nations from pursuing closer economic ties.

This paper will contribute to two literature conversations. First, it will contribute to the ongoing literature that discusses the benefits that occur when countries establish free trade agreements. My paper will contribute to this growing literature, as I will evaluate the possible

benefits that could result from the creation of an FTA between the United States and Brazil. I will use the Heckshner-Ohlin Model of international trade. Through this method I will proof with quantitative evidence that an FTA would potentially benefit both countries economies. However, as scholars have pointed out, politics play a crucial role in establishing an FTA. This is the second contribution that I will be making. Most of the current literature that discusses political and economic relations between Brazil and the United States focuses on the point of view of the United States. This biased view prevents a comprehensive understanding of the underlying issues that are preventing an FTA between both countries. Through my project, I will explain why from a Brazilian perspective, even though economically beneficial, establishing an FTA with the United States could harm its hegemony in Latin America.

2. Theory of International Trade

This paper aims to determine the benefits and consequences for Brazil in signing a free trade agreement (FTA) with the United States through examining the problems in the bilateral relation. Before going deeper into the specific situation between trade relations between both countries, it is vital to understand why free trade matters. The topic of free trade has been an ongoing and growing discussion over the last decades. With the rapid growth of globalization, this topic is relevant in the majority of countries around the world. Because of this, trade is a pertinent issue, particularly in major economic powers as both Brazil and the United States are. The purpose of this chapter is to explain the theory of trade, the benefits and consequences that it provides countries that have open markets, the types of trade agreements that exist, and the overall importance of this issue to-date. To do this, I will describe the theory of comparative advantage, the **Heckscher–Ohlin (H-O) model which provides a theory on the gains and benefits of trade as well as the distributive effects.**

First, it is important to understand the theory of trade and its benefits. Despite the growing popularity of the concept of free trade since the end of the 20th century, its roots go back to classical economists. In his book, *On the Principles of Political Economy and Taxation,* David Ricardo (1821) states:

> "Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry...and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilized world" (7.11).

Ricardo's classical theory demonstrates that free trade allows countries to specialize under the principle of comparative advantage. According to the World Trade Organization: "the principle

of 'comparative advantage' says that countries prosper first by taking advantage of their assets in order to concentrate on what they can produce best, and then by trading these products for products that other countries produce best" ("Understanding the WTO"). This increases productivity as each country specializes in producing the goods and services in which it has a comparative advantage. Each country produces the goods and services that require the lowest production costs relative to the production costs of other countries. This way, countries gain as they can export to other countries the products in which they have competitive advantage, and they can import the goods and services that other countries have comparative advantage in. Ultimately, this promotes competition and encourages growth in countries' economies.

After Ricardo's original contribution on the theory of trade, other contemporary scholars have made additions to the theory. In the Trade Negotiations Agriculture resource manual, three experts on trade from the Food and Agriculture Organization of the United Nations (FAO), José María Caballero, Maria Grazia Quieti and Materne Maetz, explain the benefits that come from this practice. According to Caballero, Quieti and Maetz (2000): "One reason why the amount of goods and services available to a country at a point in time can increase through trade is because it allows the country to buy goods and services from sources where it costs comparatively less to produce them." These authors discuss the benefits that come from the theory of comparative advantage. Naturally, every country is endowed in certain resources. Therefore, there are goods and services that cost less for countries to produce than others. Under the comparative advantage theory, each country exports the goods and/or services that it has a lower opportunity cost in producing, and each country imports the goods and/or services that the other country has a lower opportunity cost in (Caballero, Quieti, M and Maetz, 2000).

Another way of understanding comparative advantage in international trade the effects that opening up to trade has on countries is through the **Heckscher–Ohlin model** (H–O model), developed in 1919 by two Swedish economists, Eli Heckscher and Bertil Ohlin. The H-O model has the following assumptions:

- There are two countries.
- There are two factors of production, labor and capital, that are used to produced the two goods. Both, labor and capital are homogenous, and there is only one type of labor and one type of capital. The laborers, and capital equipment in each industry are the same.
- Two goods are produced by both countries. One of the goods is capital-intensive (c), meaning ir requires more capital input relative to labor input. The other good is labor-intensive (i), meaning it requires more labor input relative to capital input for its production. For trade to occur, both countries have to trade these goods.
- Capital is privately owned and the use of capital in production will generate income for the owner, this income is referred to as rents (r). The income of workers of labor is wages (w).
- There are factor constraints, the total amount of labor and capital used in production is limited to the endowment of each country.
    - The labor constraint is:
        - $L_i + L_c \leq L$ (Where L_i and L_c are the quantities of labor used for the production of the labor-intensive good and the capital intensive good, and L represents labor endowment of the country)

- The capital constraint is:
  - $K_i + K_c \leq K$ (Where K_i and K_c are the quantities of capital used for the production of the labor-intensive good and the capital intensive good, and K represents capital endowment of the country)

- The only difference between countries is their ednowment in capital and labor
- A country is capital-abundant relative to the other country if has more capital endowment per labor endowment than the other country, that means its (K/L) > (K/L) of the other country
- And a country is labor abundant relative to the other country if it has more labor endowment per capital endowment than the other country, that means its (L/K) > (L/K) of the other country.
- For demand, the factor owners are also the consumers of the goods. These factor owners have a utility function in terms of these two goods. Consumers maximize utility to allocate their income between the two goods. The aggregate prefences is represented by:
  - $U(C_c, C_i) = C_c C_i$, where C_c is the amount of the capital-intensive good consumed and C_i is the amount of the labor-intensive good consumed.

Figure 2.1 depicts the H-O theorem. The graph displays how in the H-O theorem, both countries are assumed to have identical technologies and the only difference is resource endowments. This first assumption means that the two countries would have the same production possibility curve (PPC), the same set of aggregate indifference curves and the same aggregate equilibrium. The PPC curve at autarky ($PPC^{0)}$ is defined by the ratio of the relative prices of the

capital intensive good to the labor intensive good $(Pqc/Pqi)^{0}$, which equals the ratio of the quantity of the capital-intensive good produced to the quantity of the labor-intensive good (QcA/QiA) at autarky. This is displayed by the purple curve in Figure 2.1. The H-O assumes that aggregate preferences are at U= CcCi, the indifference curve, which is displayed by a black curve. The point at which this indifferent curve intersects the PPC at autarky is defined as Point A. Point A is the equilibrium point, and QcA is the quantity of the capital-intensive good produced at equilibrium at autarky, and QiA is the quantity of the labor-intensive good produced at equilibrium at autarky (Suranovik, 2006).

After these assumptions at autarky, the H-O theorem assumes that there is a shift of labor and capital. Labor is shifted from the capital-abundant country to the labor-abundant country, while capital is shifted from the labor-abundant country to the capital-abundant country. This produces two changes. First, the capital-abundant country will have more capital and less labor than it did at autarky and the labor-abundant country will have more labor than it did at autarky. This causes both countries' PPC's to shift. As the capital-intensive country experiences an increase in capital and a decrease in labor, it will produce more of the capital-intensive good and less of the labor-intensive good. The H-O model assumes that the prices remain constant and so does aggregate preferences, which means the indifference curve stays the same. Following this, for the capital-abundant country, production will shift from point A to point B, where the new PPC intersects the indifference curve, I, and the PPC would shift from PPC^{0} to PPC* as shown in figure 2.1. As the new PPC* at point B ratio, (Qc*/Qi*), is now greater than it was at autarky, (QcA/QiA), the new price ratio in the capital-abundant country will be greater than before the capital and labor shift. This means that the new price ratio of capital-intensive goods (Pqc/Pqi)* is greater than it was at autarky, $(Pqc/Pqi)^{0}$. Therefore, in the capital-abundant country, the shift

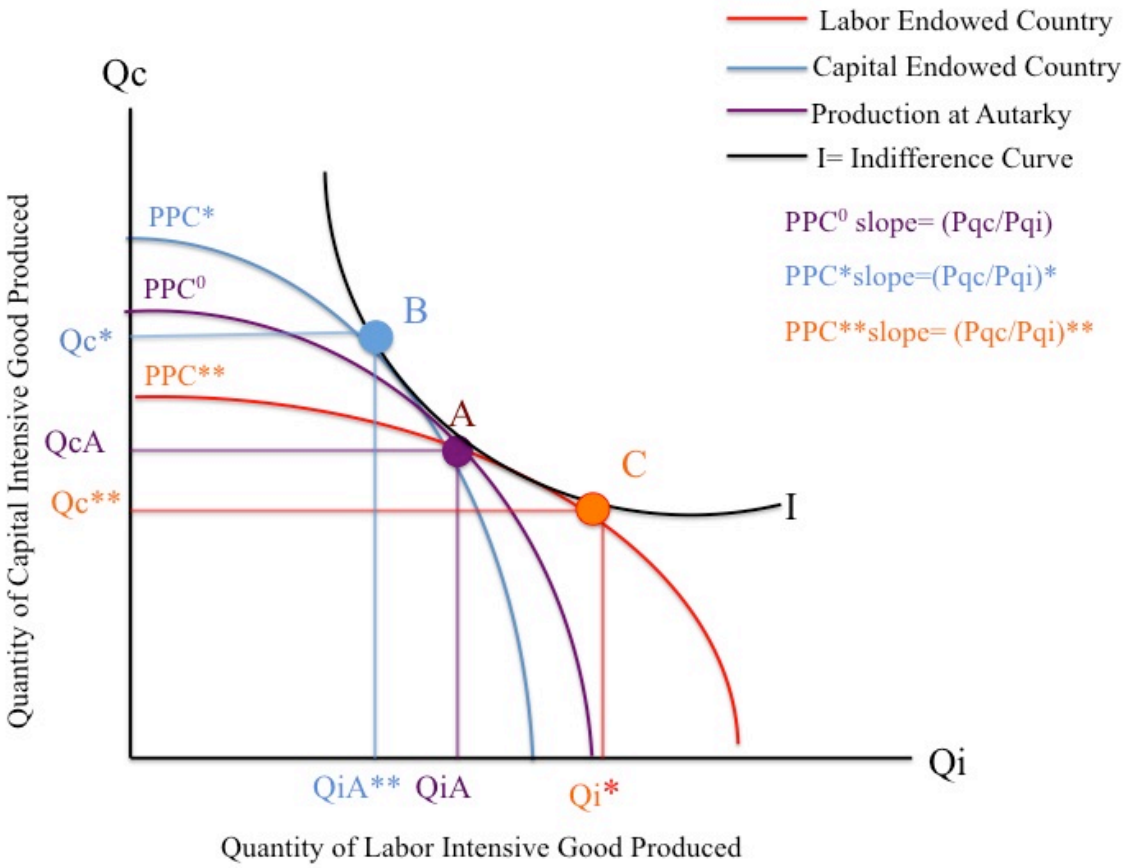
of labor and capital will cause the price of the labor-intensive goods will increase (Suranovik, 2006).

For the labor-abundant country, the shift of resources will cause production to go from from point A to point C, where the new PPC intersects the indifference curve, I, and the PPC will shift from PPC^0 to PPC** as shown in figure 2.1. As the new PPC** at point C ratio, (Q*c***/Q*i***), is now greater than it was at autarky, (Q*c*A/Q*i*A), the new price ratio in the labor-abundant country will be greater than before the capital and labor shift. This means that the new price ratio of labor-intensive goods (Pq*i*/Pq*c*)** is greater than it was at autarky, $(Pqi/Pqc)^0$. Therefore, in the labor-abundant country, the shift of labor and capital will cause the price of the capital-intensive goods to increase (Suranovik, 2006).

Figure 2.1 depicts that as one country becomes labor-abundant and the other country becomes capital-abundant, the price ratio of the capital-intensive and labor-intensive goods changes. The labor-abundant country can supply more labor-intensive goods, which decreases its price but this also causes the country to produce less capital-intensive goods, and the prices of these goods to increase. On the other hand, the capital-abundant country can produce more capital-intensive goods, but less labor-intensive goods, causing the prices of labor-intensive goods to increase. The difference in prices as capital and labor shifts incentivizes profit-seeking firms in both countries to trade. The higher price of capital-intensive goods in terms of labor-intensive goods in the labor-abundant country allows the capital-abundant country to take advantage of the relative high price and it will export capital-intensive goods there. The higher price of labor-intensive goods in terms of capital-intensive goods in the capital-abundant country allows the labor-abundant country to take advantage of the relative high price and export labor-

intensive goods there. This theory is the H-O theorem, that each country exports the good intensive in the country's resource endowment (Suranovik, 2006).

Figure 2.1 H-O Theorem



(Suranovik, 2006)

After understanding how the shifting of labor and capital factors incentivize nations to engage in trade, the H-O model also analyzes the effect that engaging in trade has on the distribution of income of the individuals of each country. As previously mentioned in the H-O model assumptions, there are two types of individuals, those who make their income from labor (workers) and those who earn their income from capital (capitalists). The income the capitalists make is referred to as rent (r), and the income the workers make is referred to as wages (w). The

H-O model measures the change in real income after opening up to trade to determine how the purchasing power of capitalists and workers is affected. When the capital-abundant country and the labor-abundant country engage in trade the price of each country's export good will rise relative to each country's import good. In the capital-abundant country, (P*c*/P*i*) increases but in the labor-abundant country, (P*i*/P*c*) rises. To observe how these price changes affect income in each country, the H-O model applies a magnification effect to the price changes.

In the capital-abundant country, as (P*c*/P*i*) increases, the percentage change in the price of the capital-intensive good (P*c*) is greater than the percentage change in the price of the labor-intensive good. (P*i*) When the magnification effect of the H-O model is applied, rent is greater than the price of the capital-intensive good, which is greater than the price of the labor-intensive good, which is greater to the wages earned (r > P*c* >P*i* >w). This implies that the rent earned in terms of both, the capital-intensive good (r/ P*c*) and the labor-intensive good (r/*Pi*) increases. Additionally, it means that the wages in terms of both, the capital intensive good (w/P*c*) and the labor-intensive good (w/P*i*) decreases. Therefore, in the capital-abundant country, the individuals who receive income from capital are able to purchase more of each good compared to autarky and the individuals who receive wage income are able to purchase less of each good. The distributive effects differ in the labor-abundant country because with trade, the (P*i*/P*c*) increases, meaning that the percentage change in the labor-intensive good (P*i*) is greater than the percentage change in the capital-intensive (P*c*) good. According to the magnification effects, this causes for wages to be greater than the price of the labor-intensive good, which are greater than the price of the capital-intensive good, which are greater than the income from rent (w>P*i*>P*c*>r). This indicates that the wages earned in terms of both, the capital-intensive good (w/ P*c*) and the labor-intensive good (w/*Pi*) increase. Also, it means that the rent in terms of both, the capital

intensive good (r/P*c*) and the labor-intensive good (r/P*i*) decreases. Consequently, in the capital-abundant country, the individuals who receive wage income are able to purchase more of each good compared to autarky and the individuals who receive income from rent are able to purchase less of each good. In terms for the effect of trade on individual's wages, the H-O model shows how in the capital-abundant country, capitalists receive gains while workers receive losses. In the labor-abundant country, workers receive the benefits while capitalists suffer the consequences (Suranovik, 2006).

3. Empirical Analysis

To observe the possible gains and losses that would result from the United States and Brazil opening trade relations, I will conduct an empirical analysis following the Hecksher-Ohlin (H-O) theorem. To achieve this, first I will use the H-O theorem assumptions. As the theorem mentions, one of the first assumptions is that there are two countries, a labor-abundant, and a capital-abundant. In this case the two countries are Brazil and the United States.

To figure out which country is capital-abundant and which one is labor-abundant to the other country, I first have to calculate the capital to labor ratio (K/L) for each the labor to capital ratio for each. Following Clarke's and Kulkarni's (2009) application of the H-O model, I will assume that the capital of a country is its GDP times 5 (p.11). Using the data on Table 3.1 form the World Bank, Brazil's capital to labor ratio would be 106.8 and the United States' capital to labor ratio would be 539.7. Then, the labor to capital ratio (L/K) of Brazil would be 0.009 and for the United States it would be 0.0019. Since the capital to labor ratio of the United States is larger than Brazil's, the United States is the capital-abundant country. And since the labor to capital ratio of Brazil is greater to that of the United States, Brazil is the relative labor-abundant country.

Table 3.1 Brazil's and the United States' GDP and Labor Force in 2014

Brazil	2,347	109,842,906
United States	17,384	161,048,950

Source: World Bank

Now that I have defined which country is the relative capital-abundant one and which one is the relative labor-abundant one, I will apply the H-O theorem to analyze Brazil and U.S. trade relations and determine if there are more gains or losses if they pursue closer economic ties. Table 3.1 displays that both countries are major trade partners and trade among them has increased since the beginning of the 20th century.

Figure 3.1 U.S. Trade in Goods with Brazil



Source: United States Census Bureau

Table 3.2 and table 3.3 show the principal exports and imports that have been traded between both countries. Observing Brazil's current trade, agricultural products, which tend to be labor-intensive-goods, play an important role in its trade sector relatively compared to the United States. Also, the majority of U.S. exports to Brazil tend to be capita-intensive goods. Brazil exports agricultural goods and raw material while the United States exports machinery and capital equipment.

Table 3.2 Brazil's Main Exports to the United States in 2013

Good	U.S. Billion
Mineral and Fuel Oil	5.8
Iron and Steel	3.0
Machinery	1.9
Aircrafts	1.7
Coffee	1.1
Tobacco	0.391
Fruit and Vegetable juices	0.304
Coarse Grains	0.296
Raw Sugar Cane	0.158

Source: United States Trade Representative

Table 3.3 United States' Main Exports to the Brazil in 2013

Good	U.S. Billion
Machinery	7.3
Mineral Fuel	6.5
Aircraft	5.3
Electrical Machinery	5.2
Organic Chemicals	2.3
Wheat	1.2
Dairy Products	0.082
Prepared Food	0.067

Source: United States Trade Representative

Continuing to follow the H-O theorem assumptions, now we will assume there are two goods, one, which is labor-intensive, and the other is capital-intensive. Based on the data from Tables 3.2 and Table 3.3, we can see that the United States exports more capital-intensive goods and Brazil exports more labor-intensive goods, particularly in the agriculture sector, relative to the United States. For the purpose of this study, I will use aircrafts as the capital-intensive good, and agricultural products, specifically sugar cane, as the labor-intensive good because both countries produce and export both of them.

In the United States, in 2013 the U.S. Aerospace Industry employed about 500,000 people. In the same year, the Brazil Aerospace Industry employed 27,000 people. To determine the factor intensity for each good, it is important to remember that the H-O model defines it as the ratio of capital to labor (K/L). In the United States, the total factor intensity ratio for the Aircraft industry was (118.5 Billion /500,000), which was $237,000 per laborer (shown in Table 3.4). In comparison, in Brazil, the factor intensity ratio for Aircrafts was (5.4 Billion/78,000), which equaled $69,230 per laborer (shown in Table 3.5). Evidently, the United States uses less labor in the production of aircraft relative to Brazil. As the United States is the capital-abundant country, it makes sense that it is more efficient in producing capital-intensive goods relative to Brazil.

Table 3.4 United States' Production and Labor in Aircraft and Sugar Industries 2013

Industry	Total Amount Exported (US Billion Dollars)	Total Amount of Labor employed
Aircraft	118.5	500,000
Sugar	0.70	18,000

Sources: United States Department of Commerce, the World Bank, Trading Economics and United States International Trade Commission

Table 3.5 Brazil's Production and Labor in Aircraft and Sugar Industries in 2013

Industry	Total Amount Exported (US Billion Dollars)	Total Amount of Labor employed
Aircraft	5.4	78,000
Sugar	12.4	1.1 million

Source: United States Department of Commerce and OECD

Next, we will analyze the labor-intensive good, sugar. As displayed in Table 3.4, in 2013 the United States exported 7 million USD in sugar with a labor force of 18,000. And as shown in table 3.5, Brazil exported 12.4 billion USD in sugar with a labor force of 1.1 million. In Brazil, the relative labor-abundant country, labor is used more in producing labor-intensive goods such as agricultural products, including sugar. Also, Brazil can produce sugar at a lower cost than the United States. As depicted in table 3.6, the cost of producing 100 kg of sugar in Brazil costs 10.6 USD, while producing the same amount in the United States costs 31.7 USD. The difference in production costs can be attributed to the difference in labor costs. Table 3.7 displays the average annual income of farmers in Brazil and in the United States. The data shows that the average income for a farmer in the United States is 23 times of that of Brazil. This difference in wages gives Brazil comparative advantage in producing not only raw sugar, but also other agricultural products.

Table 3.6 Cost of Producing Raw Sugar per Country

	Brazil	United States
USD per 100 kg	10.6	31.7

Source: Bayer CropScience

Table 3.7 Average Agricultural Income per Farmer

	Brazil	United States
Income per worker per year (in USD)	2,971[1]	69,880

Source: Bureau of Labor Statistics and Trading Economics

Continuing to follow the H-O model, when the factors of production, capital and labor, shift countries, Brazil will produce more of the labor-intensive good, sugar, and the United States will produce more of the capital-intensive good, aircraft. Also, it will mean that that Brazil will produces less aircrafts and the United States will produce less sugar. This causes for the price ratio between of sugar to aircraft to increase in Brazil, which results in an increase in the domestic price of aircrafts. Also, this causes in the United States, the price ratio of aircraft to sugar to increase. This means that the price of domestic produced sugar will now be grater. The changes in price ratios incentivize Brazil to export sugar and to import aircrafts. It also encourages the United States to export aircrafts and import sugar from Brazil.

To observe the distributive effects of income in free trade, we will apply the magnification effect. In Brazil, the percentage change of the price sugar is greater than the percentage change of the price of aircrafts. When I apply the magnification effect, the income coming from sugar production will increase compared to the income from aircraft production. In the United States, the percentage change of the price of aircrafts is greater than the percentage change of the price of sugar. Then, when I apply the magnification effect to the United States, the income from aircraft is greater than the income from sugar production. Consequently, in Brazil, the individuals involved in the production of labor-intensive goods such as sugar and

[1] Because of lack of data, Brazil's minimum wage was used to represent average agricultural income.

other agricultural products, experience an increase in their income. However, since the United States can produce capital-intensive goods more efficiently relative to Brazil, the capital-intensive sectors, such as the aircraft industry would experience losses. In the United States, the farmers and workers involved in agriculture would face the losses as the United States imports agricultural goods at lower prices. But the individuals involved in the production of capital-intensive goods, such as aircrafts, would receive the gains.

The analysis above shows that in both countries, there will be winners and losers if they establish a free trade agreement. Because of this, in every country there are internal domestic actors that are involved in the country's pursuance of FTAs. In the United States, the agricultural sector tends to be the most opposed to the removal of tariff barriers. For example, the data above shows that Brazil not only produces more sugar cane and other agricultural products than the United States, but it can also produce it a lower opportunity cost. If the two countries decide to engage in an FTA, the farmers in the United States would face the most losses since domestic consumers will be able to purchase Brazilian agricultural products at lower prices. Also, establishing an FTA would affect agricultural subsidies in the United Sates. The U.S. government provides subsidies to domestic farmers, according to the Wall Street Journal agricultural subsidies are around $20 billion USD annually ("Should Washington End Agricultural Subsidies?" 2005). If Brazil and the United States open up to trade, removing these subsidies would be one of Brazil's principal demands. During WTO discussions, the Brazilian government has already expressed disagreement with these subsidies (Meyer, p.10). In the United States, small farmers have constantly opposed agricultural provisions on NAFTA and CAFTA (Main Organic Farmers and Gardeners Association [MOFGA]).

From an economic stand point, for the United States and Brazil to engage in free trade would be beneficial. Removing trade barriers allows each country to export the goods it has comparative advantage in and import the good that he other country has comparative advantage in. Since both countries are already major trade partners, this possibility seems beneficial for both. However, as the H-O theorem shows, when engaging in trade there are both winners and losers. As a result, the people who would face the losses in each country play an important political role domestically and oppose FTA negotiations. The following chapter provides a context and analysis of the domestic and foreign factors affecting the U.S.-Brazil FTA discussions.

4. Economic, Political and Historic Context

To have a comprehensive understanding of Brazil's current foreign policy, and in particular its bilateral economic relationship with the United States, it is necessary to take a look at Brazil's history from the last years of the bureaucratic authoritarian regime from the 1970s and during the re-democratization period after the end of the dictatorship in 1985. The events that followed these historical moments deeply affected the Brazilian's government's economic policies. However, as political relations between countries' governments also affect economic bilateral relations, it is also vital to understand the political relationship between Brazil and the United States. This context chapter serves two major purposes. First, it provides a background on the economic and political situation in Brazil from the end of the 20th century until today. Second, it provides historical context to Brazil's relationship with the North American country.

This chapter is divided into 3 subsections. The first two explain the economic and political situation in Brazil from the 1980s to the current government of the Labor Party: *From the Crisis in the Brazilian Economy in the 1980s to the 1990s, The Reform Era* and *The Rise of the Labor Party and the "South-South" Foreign Policy.* These first sections give an insight on the current Brazilian government's policies. The last subsection focuses on the political and economic bilateral relation between Brazil and the United States: *Brazil and the United States, Problems in the Bilateral Relation.* This last section provides a better understanding of why both countries, especially Brazil, are reluctant in pursuing closer economic ties.

i. From the Brazilian Economic Crisis in the 1980s to the 1990s, The Reform Era

From 1964 to 1985 Brazil endured a bureaucratic authoritarian regime. The regime, particularly during the 1970s, started to bring economic instability to the country. By the 1980s the Brazilian economy faced a major inflationary crisis. Scholar Thomas E Skidmore provides a comprehensive explanation on the causes and consequences that led to the crisis. Skidmore (1999) argues that Brazil saw a great loss in physical capital, which inhibited economic growth. In physical capital there was a decrease in both private and public investment. Because of the inflationary crisis, very few business owners wanted to increase their productive capacity. Additionally, the Central Bank set indexation policies to finance government deficit by selling bonds that included full indexation and high real interest rates and to encourage wealthy Brazilians and foreigners to keep their money in Brazil instead of sending it abroad. However these indexation policies backfired. The Central Bank's policy encouraged financial speculation and made the banking sector the most profitable in the economy. This diverted capital from productive investment to financial speculation. All of these factors had negative effects on the Brazilian economy because without private investment, Brazilian industries did not have the necessary capital to modernize (Skidmore, 196). Also, public investment suffered as well. This occurred for two principal reasons. First, tax revenues at the time were used to cover government deficits. Second, the government price policies in state business were not rational. The state and local governments kept the prices of utilities such as oil, water, electricity and telephones, low in order to slow inflation and gain popularity. Nevertheless, the costs of the utilities were higher than the prices, which lead state businesses into deficit and there was no capital left for public investment (Skidmore, 196). As Skidmore analyzes, without private and public investment, the economy of Brazil could not grow during the beginning of the 1980s.

By 1985, with the end of the bureaucratic authoritarian regime, the new government had the challenge of solving the economic problems the dictatorship had left. In the presidential elections, the Brazilian population elected Tancredo Neves as the new president of the country. Nevertheless, Neves became ill shortly after the election and died, making his vice-president, José Sarney, the new president of Brazil. Because of the military policies in the 1970s and 1980s, when Sarney rose to power, he was not only the first democratic president after two decades of dictatorship, but he was also facing an inflationary crisis (Skidmore, p.190). Solving these challenges were the major priorities during his presidency.

Sarney had a group of economic advisors who designed a new stabilization plan to solve the inflationary crisis. This plan was known as the "Cruzado Plan." This plan was implemented in 1986, shortly after Sarney's accession to power. Through this, prices, the exchange rates and wages were frozen. The government also set a 20 percent annual wage increase. At the beginning of the plan implementation, things were going well. Inflation fell less than 2 percent a month, there was a consumer boom, and there were labor shortages, which led to wage increases (Fritz, p.125). However, this only lasted until the end of the year. By December of 1986, inflation increased again. The government had increased utility prices. Because of this and the consumer boom there was an excess demand so several merchants were not following the government's price freezes. Additionally, the country faced problems on their balance-of-payments and the frozen exchange rate became overvalued as imports were favored and exports discouraged. Then, by the beginning of 1987, foreign exchange rates fell rapidly and Finance Minister, Funaro, suspended interest payments on foreign debts owned to private banks. The Cruzado Plan was just another failed economic stabilization attempt (Skidmore, 192-193).

By the end of Sarney's presidency in 1989 inflation had reached 1783 percent (Werner p. 392). But not only was inflation becoming a major problem in the country, but Skidmore also describes that during the last years of Sarney's presidency Brazil was facing major human capital loss. The failed attempt of the new democratic government to stabilize the economy caused many Brazilians to migrate to other countries. The Brazilians that mostly migrated were the well educated and talented which resulted a major loss of human talent for the country (Skidmore, p.198).

Another major setback in the Brazilian economy was the widening socioeconomic gap between the rich and the poor. Income, education, healthcare, employment, transportation, and housing were all becoming more unequal by the 1980s. This was a result of the economic boom that occurred in the 1970s. Even though during this time all incomes increased, the wealthier became richer at much faster rate than the lower social classes (Skidmore, p.198). During the economic stagnation of the 1980s, the poor were affected more than the wealthy because of what is known as the "inflation tax." This means that the lower socioeconomic classes paid mostly through cash during a period where cash value deteriorated. However, the upper class was able to use checking accounts, which had been indexed for inflation and had a small interest rates (Skidmore, p.199). As during the economic boom the wealthy became richer faster, and as during the economic crisis the poor faced more losses, the socioeconomic disparity in Brazil was on the rise. This brought many problems to the country, particularly in the area of crime. Robberies, kidnappings and street crime increased throughout the country (Skidmore, p.200). By the end of the 1980s, Brazil was in social and economic turmoil.

After Sarney's presidency ended in 1989, a new president elect Fernando Collor de Mello assumed the presidency of Brazil. He had the challenging task of recovering the Brazilian

economy. Particularly in the area of inflation as by 1990 it reached 1783 percent (Skidmore p. 392). To achieve his economic goals, Collor and his advisors created a package to radically attack inflation. The plan included: a moratorium on internal debt, privatizing government owned companies, ending subsidies, creating new taxes, declaring a new currency and opening the Brazilian economy to the foreign markets (Diniz & Vericat, p. 66). To achieve his plan, there were nine main economic reforms that Collor led during his presidency. Because of all of these reforms, the 1990s is known as the "reform decade" as it transformed the Brazilian economy (Baumann, p.147). These reforms included: trade reform, opening up to financial capital, privatization, financial restructuring, reform of the pension system, increase in private investment and productivity, production development policies and reforms in the employment and agricultural sector (Baumann, p.152). Of all of these changes, the most significant contributions he made to the country's economic policy was in the area of trade. Brazil used to have one of the highest tariffs on imports in the world. Collor reduced tariffs until they reached 10-20 percent of the imported product. However, business owners, especially in the state of São Paulo, the most important industrial sector in Brazil, did not support these actions. The industrialists in São Paulo could not compete with foreign prices. As well, despite Collor's efforts to stabilize the economy through economic liberalization, his policies were not achieving his goals (Skidmore, p.219).

In addition to unsuccessful economic policies, most of the changes made by Collor during his presidency were done through presidential decrees and not with Congressional approval. Not only were Brazilian citizens were resenting Collor's new unsuccessful policies but also congress members were unhappy with his unwillingness to negotiate with them (Skidmore, p.220). In 1992, Collor's campaign faced rumors of corruption. By that time, a national poll

showed that the president had a 69 percent no confidence rating from the Brazilian people. Following the scandal, the Congress opened a serious investigation against the president and opened a vote for impeachment. First, the Chamber of Deputies voted 441 to 38 to impeach Collor. Then, the Senate supported the lower house's vote and in a 76 to 5 vote, impeached the president (Skidmore, p. 221). With Collor out of office, his vice president, Itamar Franco took the presidency. Once again, Brazil was facing a new leadership and Collor's economic policies were not giving results yet; inflation in 1993 rose to 2489 percent (Werner, p.393). Because of this, Franco had the challenge of stabilizing the country. To solve the ongoing inflationary crisis, in 1994, Franco appointed the well known economist, Fernando Henrique Cardoso, as Minister of Finance. (Bresser Pereira, p.133).

Facing an economic crisis, Cardoso and his group of economic advisors began a new stabilization plan known as the "Plano Real." This plan had three main points. First, it wanted to avoid any shock treatments. The Plano Real wanted to avoid any policies such as price and wage freezes due to their failure under the Plan Cruzado (Skidmore, p. 223). Second, Cardoso and his advisors created a balanced budget for the year 1994 to reduce government spending and stabilize the deficit. Finally, the third and most important change brought by the plano real was the two-stage transition to a new currency (Skidmore, p.224).

The first stage of the transition lasted for four months and it was the introduction of the *Unidade Real de Valor* or Unit of Real Value (URV). Due to the long history Brazil had had with hyperinflation, the Brazilian population became used to living in an economy where prices constantly rose. The purpose of the URV was to turn the current currency, the cruzeiro, into this new unit so people would stop expecting prices to always go up. Salaries, and the prices of goods and services were all converted into URV (Bresser Pereira, p. 131). The URV helped control

inflation and it opened the stage for the second part of the new transition of the new currency, the introduction of the real into the Brazilian economy. To create a smooth currency transition, when the government introduced the real, they adopted two measures to avoid two of the major problems that the Cruzado Plan had caused. First, to tackle inflation, the government's policies created an overvalued exchange rate for the real which led to cheap imports. Second, to avoid another consumer boom, the government imposed high interest rates (Skidmore, p.224).

The Plano Real was a major success in Brazil, particularly in fighting the long lasting problem of inflation. The new currency had been a success as Brazilians accepted it and the new economic stabilization boosted the morale of the Brazilian population (Skidmore, p.224). From 1994 to 1995, inflation dropped from 913 percent to 19 percent (Werner, p.393). During this time period, Brazil had presidential elections again. With the success of the Plano Real, former Minister of Finance, Cardoso, who was the candidate of the Brazilian Social Democratic Party (PSDB), became the new President of Brazil in 1995 (Gramacho, p.107). Nevertheless, after the initial years of the Plano Real, Brazil started to face more economic challenges. By 1997 the country was facing two principal issues. On one hand, the gap of distribution of wealth between the rich and poor in Brazil had increase. The country needed more public investment in health, transportation and education. However, the Cardoso government did not have enough federal funds in the short run, and one of the reforms during his presidency included reducing government spending. Because of this, the Brazilian population, particularly the lower and lower middle class started to resent Cardoso, resulting in a decrease in support (Skidmore, p.231). The second economic issue that his government faced was the 1997 financial crisis. The policies during the 1990s had opened the Brazilian economy to the global markets. In 1997, the São Paulo stock market fell 22 percent, speculation attacked the real, and financial offices around the

world were telling investors that Brazil was a risky country to invest in (Gramacho, p.138). To combat these problems, the Brazilian government increased annual interest rates to 40 percent in order to discourage investors from withdrawing their money from Brazil. However, these measures had negative consequences. The high interest rates were costly for the government so the government had to decrease public spending. Also, these policies were deflationary which inhibited economic growth. As previously mentioned, during this period there was social inequality had increase in Brazil and without economic growth, it was difficult for the government to improve the standard of living of the population (Skidmore, p.233).

Despite these issues of slow economic growth and an increasing socioeconomic gap during his first presidency, Cardoso amended the constitution and ran for reelection in 1998, becoming the president of Brazil until 2002 (Gramacho, p.108). However, Cardoso's second term as president faced several challenges and his second term was not as successful as his first one. Due to the economic policies established by the government, inflation in 1999 increased again, the real faced devaluation, and reached 7.5 percent (Gramacho, p.109). During Cardoso's presidency, the Workers Party in Brazil gained popular support. The Workers Party condemned Cardoso's government's neoliberal policies, the opening of the Brazilian economy to foreign markets, the government's reduced public spending, and the increase of social inequality. The lack of support of Cardoso led to the presidential election of the Workers Party's candidate, Luiz Ignacio Lula Da Silva, in 2002 (Fritz, p.139).

ii. The Rise of Labor Party and "South- South" Foreign Policy Approach

The 2002 elections in Brazil had an important impact on the foreign policy of the country. The Workers' Party candidate Luiz Ignacio Lula de Silva won the presidency. The Workers' Party in Brazil ran their candidacy under the premises that it would diminish the socioeconomic gap, contribute to strengthening Brazilian companies, and creating more restrictions on international trade. During President Lula's term, Brazil faced rapid economic growth. He focused on reducing poverty and started the program, Bolsa Familia, which gives cash transfers to low income families in order to provide education and healthcare to their children. By the end of his term, the population living in poverty in Brazil was reduced from 37.5% to 20.9% and the gini coefficient, which shows income inequality, fell from 0.64 to 0.56 (Meyer, p.4). However, in 2010 the economy started facing challenges (Meyer, p.1). After President Lula served his presidency, his candidate, Dilma Roussef, was elected in 2009 and to-date continues to serve as the head of state of the country. Roussef's government's economic policies have not been successful; economic growth has been slow, averaging at 2% per year (Meyer, p.1). In the area of trade, Roussef has weaken Brazil' economic presence by focusing on boosting domestic consumption. In addition, her government has proven to favor trade with other developing countries particularly in the Latin American region and it has proven to be more restrictive on foreign trade with North American companies (Meyer, p.5). The purpose of this subchapter is to understand the trade policy priorities of the Brazilian government and why pursuing closer economic ties with the United States has not been a main concern.

The Workers' Party in Brazil has been very strong in their "south-south" foreign policy. According to the World Trade Organization (WTO), in 2013 Brazil had two principal goals in its trade policy framework. First, the country remains very active in multilateral trade, particularly

among BRIC'S countries. Brazil wants to reinforce its role as a leader of emerging economies. Second, the country's policy aims to strengthen the regional integration of MERCOSUR (WTO). These trade economic policies suggest that Brazil aims mainly to encourage trade growth within the Latin American region and within developing countries, as well as assert its role as a world leader.

The Brazilian government has strengthened its ties with other developing countries in Latin America by acting as leader in the MERCOSUR agreement. This agreement began to be negotiated in 1991, as the Brazilian government under the presidency of Collor,met with the governments of Argentina, Paraguay and Uruguay to sign the Asunción Treaty, which created the customs union among these nations. The goal of MERCOSUR is to liberalize trade among South American countries by eliminating obstacles to regional trade. The provisions of the agreement include: the free movement of goods and services, the application of the Common External Tariff (CET), the creation of the MERCOSUR passport to allow the free movement of citizens in member states, and the Democracy Clause where members agree to maintain democratic regimes. However, members are allowed to maintain high tariffs on certain products to protect domestic producers (Xinshen & Agapi, p.27). In 2012, Venezuela joined MERCOSUR and became its fifth member. As well, MERCOSUR has five associate members: Bolivia, Chile, Colombia, Ecuador and Peru. These five members receive tariff reductions and preferential trade benefits. Of the members of MERCOSUR, Brazil is the largest and fastest growing economy. As such it is the most important member in the regional agreement (Vigevano & Ramanzini p.81). Through this custom trade union Brazil serves as the economic leader of South American nations.

In addition to strengthening the regional economies of the Americas region, through MERCOSUR, Brazil has also looked to increase the influence of Latin America throughout the world. Currently, MERCOSUR has established preferential trade agreements with India and Israel. As well, presently MERCOSUR and its members are engaging in negotiations with the European Union (EU) to create a bi-regional free trade agreement (Brazil). In the negotiations between MERCOSUR and the EU, Brazil has been a major leader, as it wants to not only be a regional leader but also a major world economic power.

However, Brazil not only has interests in creating trade agreements with countries in the South American region. Brazil also has pursued closer economic ties with other major economies outside the Western Hemisphere, including the BRIC's countries: Brazil, Russia, India , China, and South AfricaThese countries, with the exception of South Africa, are the only developing nations whose economies have GDPs of more than USD$ 1 trillion. As well, these countries have fast growing economies, stable debt levels, and together they account for 40% of the world's total shares of foreign-exchange reserves ("The BRICs: The Trillion Dollar Club"). Even though the BRICS countries are located in different regions around the world, the fact that they are developing nations brings them together as they have similar economic priorities. Despite their high GDPs, fast growing economies and their emerging markets, all of these four countries have high poverty levels. Because of this, their governments, in addition to focusing on expanding their economies, are also concerned with anti-poverty social programs ("The BRICs: The Trillion Dollar Club"). Brazil's role in BRICS depicts its traditional view that countries are divided into two blocks: developed and developing, and each of these blocks have different and opposing interests (Yeon, p.2). As a developing country, it is no mystery that Brazil prefers to engage in agreements with other emerging economies, including BRICS. Also, another major

goal of the Brazilian government in trade negotiation forums, particularly in the WTO, has been to be a leader for developing nations on trade issues. For example, Brazil has emerged as a leader for the G20, a coalition of developing nations who want a reduction of farm subsidies in developed nations.

One of the countries that the Brazilian government has reached out to the most has been China. Brazil is endowed with natural resources and agricultural products that China imports (Whalley & Medianu, p.708). In 2013, China was Brazil's largest trading partner with 17% of Brazil's exports going to China, and 15% of Brazil's imports coming from China ("Trade in Brazil"). Brazil's most important exports to China are soybeans and crude oil and its most important imports from China include electronic technology products and machinery and transport equipment (Whalley & Medianu, p. 716). For Brazil, it seemed that China would be a good country to continue pursuing economic ties with as Chinese demand of natural resources will increase over the following years. It was expected that by 2020, China's share of Brazil's natural resources and agricultural exports to reach 66% (Whalley & Medianu, p.728). Pursuing closer economic ties with China follows Brazil's "south-south" foreign policy. However, recent events in 2016 should worry Brazil.

During the middle of the year of 2015 and into the beginning of 2016, China started facing economic stagnation. China's economy grew at its lowest pace since 1999 (World bank). This is affecting the Brazilian economy since China and Brazil have developed closer economic ties over the past years. The overall trade between both countries last year fell 25 percent from what it was in 2013 (Leahy, 2016). Now that China is Brazil's major export receiver, the slow down in the Chinese economy presents challenges for Brazil. Because of this, now the possibility

of engaging in an FTA with another major economy, such as the United States could be a possibility for the Brazilian government.

iii. Brazil and the United States, Problems in the Bilateral Relation

The bilateral relation between Brazil and the United States currently faces two main political and economic tensions. The first tension arouse from the issue that both of them want to become economic leaders in Latin America. They both seek to expand their influence and they see each other as competitors. The second tension between them deals with the political conflicts that the Workers Party's government has had with the U.S. government in the 21st century. The purpose of this last subsection is to provide an understanding of these problems.

"God is a Brazilian," one of the most famous quotes stated often in Brazil, shows that since colonial times, Brazil has aspired for regional hegemony (Smith, p.75). As the largest country in South America, both in population and economic size, Brazil has always been a regional leader. Government officials in the country have always seen Brazil as equal, if not superior to the United States in power and leadership potential (Smith, p.76). Nevertheless, the 20th century brought several problems to the country, which threatened its stance in the region compared to that of the United States'. For Brazil, the 20th century was characterized by political instability, poverty and economic stagnation (Smith, p.77). These challenges permitted the United States to take an important leadership role in the Americas region and undermine Brazil's leadership position.

One of the principal factors that caused the United States to assert its dominance over Latin America was the Cold War. During its worldwide competition against the Soviet Union to stop communism, the United States used the Americas region to assert dominance. The North American country viewed any sort of communist regime in Latin America as a threat to its supremacy (Smith, p.151). Because of this, the United States supported right-wing authoritarian regimes throughout the Americas region as long as they cooperated with the United States. A

group of American government officials, including assistant secretary of state for economic affairs, Thomas C. Mann, created the Mann Doctrine in 1964, with which they justified supporting authoritarian regimes in Latin America. The Mann Doctrine had four principal objectives:

> "(1) promotion of economic growth with absolute neutrality on questions of social reform, (2) protection of U.S. private investments, (3) display of no preference, through aid or other means, for representative democratic institutions, and (4) opposition to communism" (Smith, p.146).

As long as the bureaucratic authoritarian regimes in Latin America sustained the objectives of the Mann Doctrine, the United States supported these authoritarian governments. When the Brazilian military overthrew the center-left government and established a bureaucratic authoritarian regime in 1964, the U.S. government supported the new officials (Smith, p.147). The authoritarian bureaucratic regime in Brazil proved to be a good ally to the U.S. government since it did not threaten North American interests and most importantly, repressed any form of communist ideology (Smith, p.190). Individuals who opposed the regime or who supported left-wing ideals were arrested, tortured or killed (Smith, p.191). It is important to note that several prominent members of the current Worker's Party in Brazil were part of the bureaucratic regime opposition, and some of them, including President Roussef, were arrested and tortured during these times (Rossi, 2014). As previously mentioned in subsection 4.1, the bureaucratic authoritarian regime created many problems for Brazil. Economic, political and social instability affected Brazilian dominance and gave the United States an opportunity to assert leadership position in the Americas region.

The United States has never been quiet on its goal of expanding its economic influence in Latin America. According to scholar, Peter H. Smith (2008), after end of the Cold War, the United States enjoyed "unquestionable supremacy within the Western Hemisphere" (Smith, p.207). On the economic front, compared to Brazil, the United States' GDP by 1990 was thirteen times larger than that of Brazil (Smith, p.207). Additionally, the United States was more stable relative to Brazil. To keep affirming its dominance position, in 1994 the United States signed the North American Free Trade Agreement (NAFTA) with Canada and Mexico, becoming Mexico's largest trade partner (Trade).

After signing NAFTA, the United States also hoped to create a larger multilateral agreement with more countries in the region, the FTAA, which wanted to remove MERCOSUR's CET, increase trade flows among the 34 Latin American countries and encourage higher FDI from the United States to the region ("Free Trade Area of the Americas"). The United States government wanted to expand U.S. trade and to create more opportunities for U.S. Foreign Direct Investment (FDI) in those countries to assert its influence over the region. Evidently, the main concern from a Brazilian government perspective with the FTAA was the United States' attempt to exert its influence over Latin America. Masi and Wise state (2003): "it seems clear that the United States is using the FTAA talks as a way of isolating Brazil and Argentina, while exposing the weak points of the integration process within the MERCOSUR" (p. 340). Masi and Wise's research suggest that the United States used the FTAA to remove other major power influences in Latin America.

In response to the United States' efforts to increase its influence over the Americas through the FTAA, the Brazilian government launched a proposal to create a South America Free Trade Area (SAFTA). The goal of this proposal was to create a free zone for trade

throughout the countries in the region without including the United States. This was an attempt of the Brazilian government to "affirm its position as a sub regional hegemon rather than as a conduit to the United State" (Smith, p.234). Other than integrating the South American economies and opening its markets, Brazil mostly wanted to claim its leadership status in the region. SAFTA has was not successful in establishing free trade throughout the region and instead it let to the creation of the Union of South American Nations in 2008 (Ruiz-Briceño, p.23). Also, despite extended discussions for over a decade, in 2005 the FTAA discussions terminated, as there was not a general consensus on trade provisions. The FTAA was not successful and its failure, according to Masi and Carol Wise, can be attributed to the inability of the Brazilian government and of the United States government to reach an agreement. Brazil is a major exporter of agricultural products. But the United States government provides a large amount of subsidies to domestic agricultural producers. As agriculture is important for Brazil's global competitiveness, the Brazilian representatives tried to negotiate with the United States by asking the governments to reduce agricultural subsidies (Hornbeck, p. 2). The FTAA talks are important to take into account when examining the bilateral relation between Brazil and the United States. This was an example of failed discussions between both nations when attempting to further integrate their economies.

Currently, the United States keeps growing its economic influence over Latin America. In addition to NAFTA, the United States has established FTAs with other countries in the region. In 2004, the United States signed the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). This regional agreement opened free trade relations between the United States and several Central American countries including: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. Furthermore, over the past

years, the United States has established bilateral FTAs with Chile, Colombia, Panama and Peru (Trade). To respond to the increasing U.S. dominance, the current government under Dilma has promoted Brazil's leadership by strengthening MERCOSUR and leading the Union of South American Countries (UNASUR) (Smith, p.279).

Another major economic tension between Brazil and the United States has occurred at the WTO Doha multilateral negotiations. From President Lula's ascension to power, Brazil has led an anti-U.S. charge by challenging U.S. trade policy in multilateral forums (Smith, p.277). Brazil has been a major leader in advocating that developed countries, such as the United States, should reduce tariffs and subsidies to agricultural goods in order to permit developing nations to compete in the world market. The United States does not agree or support Brazil's requests and because of this, the FTAA failed and negotiations in the Doha rounds on agriculture have not been able to advance (Meyer, p.10).

In addition to these economic tensions, the Brazilian government has disagreed with many foreign policy actions taken by the United States. This is particularly true with the United States use of military force to intervene in other countries internal affairs. During Brazil's temporary seat at the U.N. Security Council, the Brazilian government was one of the first countries to condemn the United States for its military intervention in Iraq (Meyer, p.11). After this action, popular support for the United States in Brazil decreased from 68 percent in 2000 to 50 percent in 2004 (Smith, p.271). In addition to this, in 2010 Brazil joined Turkey in an attempt to sponsor negotiations over the Iranian nuclear program. These unpopular military actions, resentment towards the United States and capitalist ideals allowed for resurgence of left-wing "anti-American" support in Brazil. The continuing governance of the Worker's Party for 14 years depicts this new wave of thought.

More recently and more relevant between both countries as it directly involved them, the bilateral relation took a negative hit with the Wikileak scandal in 2011. When the Wikileaks revealed the United States government's covert operations, it was revealed that the National Security Agency (NSA) had been spying on the Brazil's state-oil company, *Petróleo Brasileiro S.A. (*Petrobras) and had electronic surveillance on President's Dilma Rousseff's government. The Brazilian government saw these actions as a breach of trust and a major international transgression. President Roussef cancelled a state dinner in the White House with President Obama after the scandal, which was a significant negative setback in the bilateral relation (Meyer, p.10). After the incident, at the United Nations General Assembly in New York City, President Roussef (2013) stated: "friendly governments and societies that seek to build a true strategic partnership ... cannot allow recurring illegal actions to take place as if they were normal. They are unacceptable." Evidently, the current Brazilian government does not think of the United States as a close ally.

Conclusion

Throughout this paper, I have analyzed and explained the importance of free trade to-date and why it is relevant in our current world market. Globalization is more prevalent and in the future countries will become more interconnected than before. I have also analyzed the possible benefits and the reasons why countries should engage free trade. Brazil and the United States are major world leaders with growing economies. Based on the empirical analysis, both countries should engage in FTA discussions. Brazil is endowed in agricultural resources and it is labor abundant. This allows Brazil to produce at a lower cost several goods that the United States imports. Also, the United States is capital abundant and exports capital-intensive goods, which constitute Brazil's major imports. Their economies are complementary to each other and removing trade barriers would benefit both countries. Throughout this paper, I have found three main conclusions. First, the factors that are preventing the United States and Brazil from pursuing an FTA are not entirely economic but rather political in both the domestic and international arena. Second, their long history of both cooperation and competition to become a major Western Hemisphere leader, has prevented, particularly Brazil, from initiating and pursuing an FTA. Finally, the last conclusion I can draw from my research is that the context in which FTA negotiations are pursued depends greatly on current events and future political and economic events.

Despite economic collaboration and strong commercial ties, the two governments seem to have an ambiguous relationship and have had a long history of being both allies and rivals. Without political cooperation, it is not possible for both countries to engage in free trade negotiations. Establishing an FTA does not only rely on economic factors but on each government's official's ability to negotiate and come to an agreement. Events such as the

wikileak revelations of the NSA spying on the Brazilian government have a major impact in creating major tensions between both nations. Also, the Brazilian government's opposition to U.S. interventions in other countries also creates tensions between them. For FTA discussions to occur, the role of domestic politics is as important as the role of international politics. As the empirical analysis on chapter 3 shows, when two countries engage in free trade, the result is that some actors receive benefits and gains while others face the losses As depicted in chapter 3, in the case of the United States, the farmers lose if the country establishes an FTA with Brazil since the U.S. government would have to remove or diminish the agricultural subsidies that it provides American farmers, and the farmers would now have to compete with cheaper Brazilian goods. In Brazil, the capitalist-intensive sectors would lose, as Brazil would be able to consume U.S. capital-intensive goods at lower prices. To create an agreement between nations, the U.S. government and FTA advocates have to find a way to compensate the farmers who would face losses, as well as gain their support. On the side of Brazil, the history of political instability and failed economic reforms has affected the current government's policies. To reach an FTA agreement, Brazil and the United States not only have be politically stable but they also have to be able to convince their citizens and domestic political actors to agree into engaging in trade discussions.

Another major conclusion I found is that from a Brazilian perspective, the United States does appear to threaten Brazil's hegemony in Latin America. Brazil has always had a mentality of *manifest destiny,* as scholar Peter H. Smith describes it. And they believe it is the country's responsibility and future to become the principal leader and major influence in Latin America. This is evident from the day Brazil became an independent nation until to-date with the government's actions. The creation of MERCOSUR, the attempt of creating SAFTA, Brazil's

role in the FTAA negotiations and the Doha rounds, as well as its strong position against the United States on the U.N. Security Council, are evident examples of the Brazilian government doing both, asserting its dominance over the Latin American region and showing its leadership potential to the rest of the world. The United States has threatened this by interfering in Latin American countries' internal affairs and engaging in commercial treaties with several countries in the region. This rivalry between both countries has definitely been a key factor in preventing both countries from engaging in FTA discussions.

This paper has showed that there are several different and complicated factors that are preventing an FTA negotiation between Brazil and the United States. Because of this, I made a final conclusion that it is important to realize that there are several other factors that could not be included in this research that need that will have to be observed over the following years which could have an effect on both countries possibly pursuing an FTA.

First, on the international front for Brazil, it is important to take into account that the country's current major trade partner, China, is having an economic slow down. This has already reduced China's demand for Brazilian exports and it could keep decreasing over the following years. Without China's demand for Brazilian goods, the Brazilian government has to look to other options for selling their principal goods. Another major economic challenge Brazil faces is the devaluation of its currency, the *real*. Government overspending, hyperinflation and high debt have made investors distrustful of the Brazilian economy. In 2015, the currency faced its highest devaluation in years (Simon and Federowski, 2016). The actions the Brazilian government takes in the future to address the issues in their domestic economy are important in the future trade decisions of the country.

The second major factor to consider relates to problems in the Brazilian government. Since December of 2015, Brazil has had challenges on domestic politics. The Brazilian Congress has opened an impeachment procedure to remove President Roussef from office. Her presidency has been characterized by corruption scandals, hyperinflation, a devalued currency and rising unemployment. In addition, former president Lula Da Silva was arrested and detained for questioning earlier in March for 2016 on corruption charges (Benites, 2016). The accusations and arrests of Worker Party's leaders have created political turmoil in the country. Specially, after Lula was accused, President Roussef appointed him as her Chief of Staff. Under Brazilian law, government officials are not subject to trial in the judicial courts. President Roussef's decision to appoint Lula in her cabinet keeps Lula from being charged for corruption (Castilho, 2016). This political instability will definitely play a role in the future trade agreements and economic decisions of the country.

Another issue that Brazil will be facing in the near future is that the country is hosting the 2016 World Olympics. This decision by the government has been greatly opposed by the majority of the population. The hosting city, Rio de Janeiro has one of the highest crime rates in the country and the population living in poverty keeps growing. The Brazilian government has invested resources into building transportation infrastructure for the Olympic games as well as increasing police presence. The lack of funds allocated to social programs such as healthcare, education and housing have been used to fund the event. In addition, police brutality against the lower income population has increased throughout the city. These government actions have resulted in increased crime and violence in the hosting city (Olivares Reuters, 2015). With an unpopular leader and a socioeconomic unstable country with economic challenges, it is vital to observe what happens later in 2016 and over the next years.

Summary in Spanish

¿Por qué Brasil y los Estados Unidos no han firmado un tratado de libre comercio? Una perspectiva Brasilera

El propósito de este proyecto de investigación es examinar las razones por las cuales dos grandes potencias del hemisferio occidental, Brasil y los Estados Unidos, no han establecido un tratado de libre comercio (TLC). En particular, este trabajo está enfocado desde la perspectiva del gobierno brasilero. Brasil es una potencia con una economía en rápido crecimiento y que ha establecido TLCs con otros países. Sin embargo, ¿por qué Brasil no ha establecido un TLC con los Estados Unidos? Para responder esta pregunta, este proyecto analiza varios factores, incluyendo: las ventajas y desventajas que un TLC le produce a un país, la situación política y económica de Brasil en las últimas tres décadas, y el papel de las dos naciones, Brasil y los Estados Unidos, en la región latinoamericana.

Tanto Brasil como los Estados Unidos son grandes potencias mundiales. Según el Banco Mundial, en el 2013 el producto interno bruto (PIB) de Brasil fue de 2.246 billones millones de dólares estadunidenses, y el producto interno de los Estados Unidos fue de 16.77 billones de dólares estadounidenses (Brazil). Esta información pone a los Estados Unidos como la economía más grande del mundo y a Brasil como la séptima economía mundial y la más grande en América Latina. El crecimiento económico de los dos países también ha incrementado el comercio entre ambos. La oficina del Representante Comercial de los Estados Unidos (USTR) dijo que en el 2013, Brasil fue el séptimo mayor socio en exportaciones de los Estados Unidos, y el décimo sexto mayor socio en importaciones. Además, en el mismo año, los Estados Unidos fue el segundo mayor socio de Brasil en exportaciones y también el segundo mayor en

importaciones, los Estados Unidos recibió 11 porciento de las exportaciones de Brasil, y 14 por ciento de las importaciones en Brasil vino del país norteamericano (Brazil| United States Trade Representative). Además de tener un papel clave en la economía mundial, Brasil y los Estados Unidos también son actores principales en el sector comercial de cada uno.

Brasil y los Estados Unidos han establecido varios tratados cooperativos y pertenecen a grupos y organizaciones que tienen como objetivo mejorar la relación bilateral. Ejemplos de estos incluyen: el Diálogo de la Asociación Económica, la Comisión de Relaciones Económicas y Comerciales, el Diálogo Económico y Financiero, el Diálogo Estratégico de la Energía, el Comité Consultivo en Agricultura, el CEO Fórum, la Asociación para el Desarrollo de la Aviación de Biocombustibles, y el Comité Permanente Conjunto sobre Energía Nuclear (Duran, 2014). Estos acuerdos muestran el clima de cooperación que existe entre ambas naciones. En adición, Brasil y los Estados Unidos son miembros de la Organización Mundial de Comercio (OMC), una institución que busca reducir las barreras comerciales y promover negociaciones para el libre comercio. Como miembros de la OMC, ambos países han tenido un papel importante en las negociaciones en la Ronda de Doha del 2001. Sus papeles activos muestran que los objetivos de ambos gobiernos es liberalizar sus economías, incrementar el comercio económico multilateral y ejercer una mayor influencia entre la comunidad internacional (Meyer, p.12).

Además, al analizar el comercio que ya existe entre los dos países, es evidente que aunque la firma de un TLC tiene consecuencias para algunos sectores en ambos países, en general, sería beneficioso para los dos. La gráfica 1.1 muestra el comercio entre los dos países y demuestra que el comercio entre los dos ha incrementado durante los últimos años. La mayoría de las exportaciones de Brasil a los Estados Unidos son productos agrícolas, y la mayoría de las

exportaciones de los Estados Unidos a Brasil son productos tecnológicos o que requieren tecnologías avanzadas.

1.1 Comercio de mercancías de Estados Unidos con Brasi



Fuente: Oficina de censo de los Estados Unidos

Para ver los efectos que tendría un TLC entre Brasil y Estados Unidos, en mi proyecto analicé el efecto que un TLC tendría en dos industrias en cada país. Estas industrias son la industria de aviación y la industria de la producción de azúcar. La tabla 1.1 y la tabla 1.2 muestran las exportaciones y el número de personas empleadas en cada industria por país. Mientras que en los Estados Unidos se produce más productos de aviación que Brasil y además requiere menos empleo comparado con Brasil, es claro que Estados Unidos tiene ventaja en este sector. Como los Estados Unidos tiene más tecnologías avanzadas, pueden producir más productos tecnológicos de una manera más eficiente que estas industrias en Brasil. Sin embargo, en el

sector de la producción de azúcar, es evidente que Brasil puede producir más. También, como lo muestra la tabla 1.3, Brasil puede producir azúcar por un menor costo que los Estados Unidos.

Tabla 1.1 Producción y empleo en industria de aviación y azúcar en Estados Unidos en el 2013

Industria	Exportaciones (Millones de dólares estadunidenses)	Numero de personas empleadas por industria
Aviación	118,5	500.000
Azúcar	0,70	18.000

Fuentes: Departamento de Comercio de los Estados Unidos, el Banco Mundial, Trading Economics y la Comisión de Comercio Internacional de los Estados Unidos

Tabla 1.2 Producción y empleo en industria de aviación y azúcar en Brasil en el 2013

Industria	Exportaciones (Millones de dólares estadunidenses)	Numero de personas empleadas por industria
Aviación	5,4	78.000
Azúcar	12,4	1.000.000

Fuente: Departamento de Comercio de los Estados Unidos

La razón por la cual el costo de producción de azúcar es tres veces menor en Brasil que en los Estados Unidos es porque el costo laboral es menor en Brasil. La tabla 1.4 muestra los promedios de los ingresos por trabajador del sector agrícola en cada país. El ingreso de los trabajadores agrícolas en Brasil es 23 veces menor que en los Estados Unidos. Por esta razón, Brasil tiene una ventaja en la producción de azúcar. Estas estadísticas demuestran que si los dos países firmarían un TLC, Estados Unidos exportaría más productos que requieren tecnología, como la industria de aviación, y Brasil exportaría más productos agrícolas, como el azúcar. Por

lo tanto, en los Estados Unidos, los individuos involucrados en las industrias que requieren tecnología obtendrían las ganancias de un TLC. Pero los individuos involucrados en el sector agrícola sufrirían las pérdidas porque no podrían competir con los precios bajos de los productos agrícolas de Brasil. En Brasil, los sectores que requieren tecnología sufrirían las pérdidas porque no podrían competir con la tecnología avanzada de los Estados Unidos, pero el sector agrícola obtendría las ganancias.

Tabla 1.3 Costo de producción de azúcar por país

	Brasil	**Estados Unidos**
Dólares estadunidenses por 100 kg	10,6	31,7

Fuente: Bayer CropScience

Tabla 1.4 Promedio de ingresos por trabajador del sector agrícola por país

	Brasil	**Estados Unidos**
Ingresos por trabajador del sector	2.971	69.880

Fuente: Oficina de estadísticas laborales

Aunque en cada país habría ganadores y perdedores con un TLC, parece que en general ambos países tendrían beneficios. Las industrias más fuertes de cada país podrían exportar más y crecer sus industrias internacionalmente. Por ende, debido a que Brasil y los Estados Unidos ya son socios comerciales y comparten varios acuerdos cooperativos, ¿por qué no han establecido o no empezado negociaciones para un posible TLC?

Para responder esta pregunta, es importante primero analizar la historia política y económica de Brasil en las ultimas tres décadas.

Por 20 años, el gobierno de Brasil fue un estado burocrático autoritario. Para mejor entender lo que este tipo de gobierno significó para Brasil, Guillermo O'Donnell (1978) describe este tipo de régimen con las siguientes características: las posiciones gubernamentales son ocupadas por personas que vienen de las fuerzas armadas; la exclusión política, lo cual cierra la accesibilidad política al público e impone controles y restricciones sobre organizaciones como sindicatos y la exclusión económica que reduce la participación de los sectores populares en la economía (O'Donnell, p.6). Debido a las políticas impuestas por este gobierno, después de que el estado burocrático autoritario salió del poder en 1985, Brasil tuvo una crisis económica. Los nuevos gobiernos democráticos intentaron enfrentar la crisis. Primero, el presidente José Sarney implementó una terapia de choque y creó un plan de estabilización económica conocido como el plan Cruzado. Estas políticas fueron exitosas al comienzo, pero después dejaron al país con hiperinflación y problemas socioeconómicos (Skidmore, 192-193). Después de Sarney, el presidente que le siguió, Fernando Collor de Mello intentó estabilizar la economía a través de políticas que promovían la liberalización económica. Sin embargo, sus políticas no fueron exitosas y Collor tuvo una desaprobación de 69 por ciento de la población (Skidmore, p.219). En 1993, el Congreso brasilero votó para remover a Collor de la presidencia (Skidmore, p.220). Luego, Fernando Enrique Cardoso fue elegido como presidente. Después del gobierno de Collor, Cardoso creó un plan de estabilización económica conocido como el "Plano Real." Este plan volvió a estabilizar la economía brasilera, privatizó compañías estatales y abrió el país al mercado internacional (Baumann, p.152).

No obstante, aunque las políticas establecidas por estos presidentes ayudaron a estabilizar la economía brasilera, también causaron que creciera la desigualdad social en Brasil (Skidmore, p.234). Este efecto resultó en la elección del candidato del Partido de los Trabajadores (PT), Luiz Ignacio Lula Da Silva, en el 2002. La plataforma de su campaña consistía en ayudar a las clases bajas socioeconómicas y reducir la desigualdad social. Además, en contraste a los gobiernos de Collar y Cardoso, Lula, y luego su sucesora, Dilma Roussef, implementaron políticas proteccionistas en Brasil (Yeon, p.3). Es importante entender la historia económica de Brasil para comprender la perspectiva del gobierno Brasilero hacia el comercio.

Otro aspecto que es necesario tener en cuenta es que aunque Brasil y Estados Unidos tengan acuerdos cooperativos, también los dos países tienen una constante rivalidad. Esta rivalidad tiene raíces en la aspiración de los dos en convertirse en líderes del hemisferio occidental, particularmente en Latinoamérica. Tradicionalmente, Brasil ha sido la mayor economía en Latinoamérica y ha ejercido un papel de liderazgo. Los políticos brasileros siempre han visto a Brasil como igual o superior a los Estados Unidos en poder y potencial de liderazgo (Smith, p.76). Sin embargo, el siglo XX le trajo muchos problemas a Brasil que amenazan su posición en la región. El siglo XX en Brasil fue caracterizado por inestabilidad política, pobreza y estagnación económica. Estos problemas le permitieron a los Estados Unidos incrementar su influencia en la región y perjudicar la posición de liderazgo brasilera. Brasil teme la creciente influencia de Estados Unidos sobre Latinoamérica. Estados Unidos ya ha establecido TLCs con varios países latinoamericanos, incluyendo México, Republica Dominicana, Costa Rica, El Salvador, Nicaragua, Guatemala, Honduras, Chile, Colombia, Panamá y Perú (“Trade”). La influencia económica de Estados Unidos en la región latinoamericana es evidente.

Históricamente, la política brasilera de comercio exterior ha sido enfocada en políticas proteccionistas económicas, especialmente en relaciones con países desarrollados. Brasil tiene altas tarifas de importación que inhiben el crecimiento económico en el sector del comercio. Adicionalmente, la posición de Brasil hacia el comercio apoya una política que promueve el comercio con países en vía de desarrollo (Yeon, p.2). Esto fue evidente cuando Brasil tuvo un papel activo en la creación del tratado comercial regional, Mercado Común del Sur (MERCOSUR), con el propósito de integrar las economías suramericanas. También Brasil forma parte del grupo BRIC. Los miembros de este bloque son las economías en vía de desarrollo más grandes del mundo y que no hacen parte de la Organización de Cooperación y Desarrollo Económico (OECD) (Sharma, 2012). Los países que pertenecen al bloque son: Brasil, Rusia, India, China y Suráfrica. De estos países, China es el país con el que Brasil ha tenido mejores relaciones comerciales y están actualmente entrando en negociaciones para promover un TLC entre China y Brasil. La razón por la cual su relación comercial bilateral ha sido exitosa es porque tienen economías complementarias (Whalley & Medianu, p.708). No obstante, aunque China y Brasil han incrementado sus relaciones económicas, los Estados Unidos todavía tiene un papel importante en el comercio brasilero. Por esta razón, Brasil no puede olvidar que Estados Unidos todavía es un importante socio económico. La relación entre China y Brasil genera una cuestión interesante. Por más que China también sea una gran potencia mundial, a Brasil no le importa que China incremente su presencia en Latino América. La razón por la cual esta observación es importante es porque revela que hay factores que no son económicos que están previniendo que Brasil firmé un TLC con los Estados Unidos. Estos factores son las tensiones políticas y la rivalidad que existe entre ambos para volverse líderes en Latinoamérica.

Otro aspecto crítico que es necesario considerar es la tensión política que ha aumentado entre los dos países en los últimos años. Hay dos problemas en particular que han afectado la relación bilateral; la elección de los candidatos del PT en Brasil, Luiz Ignacio Lula Da Silva en el 2003 y la elección de la actual presidenta, Dilma Roussef en el 2011. El gobierno brasilero bajo el liderazgo de estos presidentes ha tenido una posición antiestadounidense. Este gobierno con ideales izquierdistas ha tenido relaciones cercanas con otros gobiernos también de izquierda en Suramérica, incluyendo a Venezuela y Bolivia. Adicionalmente, ambos Lula y Dilma han expresado oposición a las intervenciones militares de los Estados Unidos en países como Irak, Libia y Siria, ante el Consejo de Seguridad de las Naciones Unidas (ONU) y otras organizaciones internacionales (Meyer, p.10). La segunda tensión política que ambos gobiernos ha tenido recientemente fue el descubrimiento de los wikileaks. Este descubrimiento aumentó la tensión antiestadunidense que ya existía en el PT. Los wikileaks revelaron que la Angencia de Seguridad Nacional (NSA) de los Estados Unidos había espiado a la empresa petrolera estatal de Brasil, *Petróleo Brasileiro S.A. (*Petrobras) y que estaban monitoreando electronicamente el gobierno de Dilma. El gobierno brasilero vio estas acciones como una agresión internacional. Dilma canceló una cena de estado en la Casa Blanca con el presidente de los Estados Unidos, Barack Obama después del escándalo, lo cual fue negativo para la relación bilateral (Meyer, p.10). Posteriormente, en la Asamblea General de las Naciones Unidas en la ciudad de Nueva York, Dilma (2013) dijo:

> "Las intromisiones en los asuntos de otros países las leyes internacionales son una afrenta a los principios que deben guiar las relaciones entre ellos, especialmente entre las naciones amigas. Una nación soberana jamás puede afirmarse en detrimento de otra soberanía… Le transmitimos al gobierno norteamericano nuestra protesta, exigiendo explicaciones, disculpas y garantías de que estos procedimientos no se repetirán."

La reacción de Dilma demuestra que el gobierno actual brasilero no considera a los Estados Unidos como un aliado después de las revelaciones de espionaje. Las tensiones políticas que salieron de este incidente internacional afectaron negativamente la relación bilateral. El éxito en la negociación de un TLC depende de la habilidad de los políticos de ambas naciones en llegar a un acuerdo. Cuando hay conflictos políticos entre los gobiernos, como es en el caso de Brasil y de los Estados Unidos, llegar a un acuerdo es muy difícil.

A través de este trabajo, he analizado y explicado las razones por las cuales las dos grandes potencias económicas mundiales, Brasil y los Estados Unidos, deberían firmar un TLC. Desde una perspectiva económica, ambos países tienen economías complementarias y las industrias más fuertes de cada país, crecerían y recibirían ganancias con el establecimiento de un acuerdo bilateral. Al mover las tarifas y las barreras comerciales a través de un TLC, el sector agrícola en Brasil se beneficiaría y el sector tecnológico e industrial de los Estados Unidos recibiría los beneficios. En este proyecto he encontrado tres conclusiones principales. Primero, los factores que están previniendo que Brasil y los Estados Unidos firmen un TLC no son solamente económicos sino también políticos. Segundo, la larga historia que existe entre ambos países que ha sido caracterizada por cooperación y rivalidad en volverse líderes de la región latinoamericana, ha prevenido, particularmente a Brasil, en entrar en negociaciones comerciales. Finalmente, la última conclusión de mi investigación es que el contexto en el cual las negociaciones de un TLC pueden ser negociadas, depende de eventos actuales y de eventos políticos y económicos del futuro. A pesar de colaboración económica y relaciones comerciales, los dos gobiernos tienen una relación ambigua y han tenido una historia de ser ambos aliados, y rivales. Sin cooperación política, no es posible que los dos países empiecen negociaciones para un posible TLC. Escándalos como las revelaciones de los wikileaks -de la NSA espiando al

gobierno brasilero-, aumentan las tensiones entre ambos países. Además, como había mencionado previamente, el gobierno brasilero siempre se ha opuesto a las intervenciones militares de los Estados Unidos. Estos desacuerdos también crean más tensión entre ellos. En la implementación de un TLC, el papel de la situación política doméstica en cada país tan importante como el papel de la política internacional. Como muestra el análisis empírico de los efectos de un TLC en los sectores de aviación y producción de azúcar, cuando dos países entran en libre comercio, el resultado es que algunos actores reciben ganancias y otros pérdidas. En el caso de los Estados Unidos, las personas en el sector agrícola sufrirían, mientras las personas en las industrias tecnológicas recibirían las ventajas. En Brasil, los sectores de tecnología tendrían desventajas, pero el sector agrícola se beneficiaría. Para crear un TLC, Brasil y los Estados Unidos necesitan tener buenas relaciones bilaterales y también convencer a su ciudadanos y a los sectores económicos de sus países de apoyar las negociaciones.

La otra conclusión que encontré, es que desde la perspectiva brasilera, los Estados Unidos amenazan la hegemonía de Brasil en Latinoamérica. Brasil siempre ha tenido una mentalidad de *destino manifiesto,* lo que significa que cree que es la responsabilidad y el destino del país ser el líder y la mayor influencia de Latinoamérica. Esta creencia ha sido evidente desde el día en que Brasil tuvo su independencia hasta el día de hoy. La creación de MERCOSUR, el rol de Brasil en la OMC y su posición antagonista hacia los Estados Unidos en la Asamblea General de la ONU, son ejemplos del gobierno brasilero afirmando su dominio sobre la región latinoamericana y demostrando su potencial de liderazgo en el hemisferio occidental. Los Estados unidos ha amenazado la posición brasilera al participar en tratados comerciales con varios países de la

región. Esta rivalidad que existe entre ambos países ha sido un factor clave que ha prevenido que entren en negociaciones para un posible TLC.

Finalmente, quiero resaltar que hay otros factores que ahora y en el futuro van a afectar las relaciones bilaterales entre los dos, y que podrían ayudar o inhibir que se hable de un posible TLC entre Brasil y los Estados Unidos. Primero, en el lado internacional, es importante tener en cuenta que desde a mediados del 2015 y hasta ahora, uno de los mayores socios comerciales de Brasil, China, ha tenido una desaceleración económica. Estos problemas en China ya han reducido su demanda por exportaciones brasileras y esta reducción en demanda puede seguir disminuyendo en los próximos años. Debido a que Brasil ya no va a poder depender de la demanda de China, el gobierno brasilero tendrá que buscar otros socios comerciales para exportar sus productos principales. Uno de estos países podría ser los Estados Unidos. Otro problema que tiene Brasil en este momento es la devaluación de su moneda, el *real,* que está en su peor momento en años (Simon & Federowski, 2016). Actualmente, Brasil está sufriendo de deuda externa debido al gasto excesivo del gobierno y también la economía está con amenaza de hiperinflación. Las acciones que el gobierno brasilero tome en los próximos años para enfrentar estos problemas en su economía doméstica son muy importantes en las futuras políticas comerciales del país

El otro evento que está afectando a Brasil es que el gobierno está teniendo problemas de desconfianza y corrupción desde el 2015. El Congreso brasilero abrió un proceso para remover a Dilma de la presidencia. Su presidencia ha sido caracterizada por escándalos de corrupción, hiperinflación, devaluación y creciente desempleo. Adicionalmente, el ex presidente Lula Da Silva fue arrestado y detenido brevemente a comienzos de marzo del 2016 por corrupción. Sin embargo, para prevenir que Lula Da Silva fuera juzgado por las cortes en Brasil, Dilma lo

nombró como su jefe de gabinete. Bajo la ley brasilera, los oficiales del gobierno, no pueden ser sujetos a juicio en los tribunales judiciales. La decisión de Dilma de nombrar a Lula da Silva en su gabinete, solo para pevenir que sea juzgado y hallado culpable, ha recibido mucha oposición dentro de Brasil (Castilho, 2016). Sin duda, esta inestabilidad política va a tener un efecto en las decisiones económicas del país y en la posibilidad de establecer acuerdos comerciales.

Otro problema que Brasil va a enfrentar en el futuro cercano es que el país es el anfitrión de los Juegos Olímpicos del 2016. Esta decisión del gobierno ha sido opuesta por la mayoría de la población brasilera. La ciudad principal del evento, Rio de Janeiro, tienen una de las tasas más altas de crimen en el país y la población viviendo en pobreza. El gobierno de Brasil ha invertido recursos para construir infraestructura y mejorar los medios de transporte para los Juegos Olímpicos. Sin embargo, el gobierno no ha invertido recursos en programas sociales como programas de salud, educación y vivienda. Adicionalmente, el gobierno ha incrementado la presencia policial lo cual también ha causado más agresión policial hacia la población de clase baja. Estas acciones del gobierno ha incrementado el crimen y la violencia en la ciudad anfitriona (Olivares Reuters, 2015). Es importante ver qué va a suceder en los próximos años en Brasil debido a la presencia de un presidente impopular y una situación inestable socioeconómica.

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