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**COURTING THE SOUTH:  
LULA'S TRADE DIPLOMACY**

**Gabriel Ondetti y Sybil Rhodes**

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# **Courting the South: Lula's Trade Diplomacy**

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## **Abstract**

Scholarly consensus regarding Brazil's Lula government characterizes its economic policy as surprisingly conservative but its foreign policy as roughly in line with the traditionally leftist principles of the Workers' Party. While broadly accurate, this perspective tells us little about trade diplomacy, which cuts across these two policy areas. In this article we explain why Lula's trade diplomacy has hewed much more closely to his broader foreign policy strategy than his economic model, despite the critical role of trade in Brazil's recent economic growth. We argue that two key factors have lowered the costs of adopting a combative, South-South orientation, allowing Lula to use trade diplomacy as a tool for appealing to party loyalists. One is the inherently muted short-term impact of trade diplomacy on key macro-economic outcomes. The other is the failure of the traditional trading powers to offer the incentives necessary to successfully conclude the major North-South trade talks they had initiated.

Analysts of Brazil's Workers Party (PT) government have argued that President Luiz Inácio Lula da Silva has pursued a conservative, market-oriented economic policy but a more left-leaning foreign policy that reflects to a significant extent his party's traditionally Third-Worldist perspective (Almeida 2007; Hunter forthcoming). While largely accurate, this generalization provides us with little guidance regarding commercial diplomacy, a crucial issue that cuts across these two broad policy areas. It is clearly a branch of foreign policy, since it involves interaction with other national governments, but is just as obviously a component of economic policy, since the substance of that interaction

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\* The authors' viewpoints do not necessarily represent the position of Universidad del Cema.

is the crafting of rules on tariffs, quotas, subsidies and other barriers to trade in goods and services.

As it turns out, Lula's commercial, or trade diplomacy has born a much greater resemblance to his foreign policy strategy than his economic model. Brazil has been a key force in promoting collective resistance on the part of developing countries to proposals launched by the United States and other rich countries. It has played a pivotal role in the influential G-20 coalition in the World Trade Organization's Doha Round negotiations and was the key force in the demise of the US-backed proposal for a Free Trade Area of the Americas (FTAA). Under Lula's leadership Brazil has striven to heal the divisions that have troubled the Common Market of the South (MERCOSUL), to expand its membership, and to build ties between this regional bloc and other countries and blocs of the global South.<sup>i</sup> These positions reflect the same strong emphasis on South-South solidarity and the need for greater global equity that has pervaded his foreign policy. They are, according to one veteran PT politician, "very close to what the party defends and has always defended" (Fier 2008).

That the PT government would choose trade diplomacy as an area in which to burnish its leftist credentials is at first glance rather surprising, given Brazil's increasing reliance on exports to fuel its economic growth and the major barriers some of its key products, especially agricultural commodities, continue to face abroad. Moreover, history shows that organizing South-South alliances to block the economic initiatives of the major powers is risky business. Such resistance has a high rate of failure and can result in political isolation, as it did in the 1980s when Brazil and other developing countries attempted to form a coalition to impede a new round of global trade talks on the terms desired by the United States and Europe.

The goal of this paper is to explain why Lula's commercial diplomacy has come closer to the combative, South-South orientation of his foreign policy than the conservative thrust of his government's domestic economic policy. We argue that a number of factors combined to limit the political and economic costs of pursuing a relatively leftist tack in this particular area, allowing the Lula government to use it as an instrument, along with other aspects of foreign policy, for demonstrating to PT militants and loyalists its adherence to traditional party principles.

One of these factors is intrinsic to trade diplomacy: the fact that, compared to some other aspects of economic policymaking, it has little short-term impact on politically crucial macroeconomic variables like growth and inflation. As consequence, the Lula government could run the risk of upsetting key economic elites without having to fear that their displeasure would undermine the PT's electoral performance. Conditions more specific to the negotiations Brazil has been involved in have also worked to lower the costs of a South-South orientation. We emphasize in particular the positions adopted by the traditional trading powers in the Doha Round and the proposed FTAA. In both cases, these actors failed to make the sacrifices necessary to bring the talks they had initially pushed for to a successful conclusion. The tepidness of their efforts facilitated Lula's strategy, both by the diminishing the economic costs of obstructing a deal and by lowering the risk that Brazil would end up politically isolated. As a consequence, opposition to the government's strategy in these two crucial and highly visible negotiations has been relatively muted. The PT government did not enjoy the same buffer from criticism with regard to MERCOSUL, but even in this case, as we explain later in the paper, certain circumstances have attenuated opposition to its strategy.

Another factor that could plausibly have influenced Lula's commercial diplomacy is the global commodity boom, which has been a key source of growth for the Brazilian economy since the early 2000s. Nevertheless, our view is that the boom has not had a decisive impact, simply because it has pulled the government in contradictory directions. While the growth of commodity exports has strengthened interest groups that favor new North-South trade agreements, it has also helped to justify a tough negotiating position vis-à-vis the rich countries by suggesting that Brazil is not in urgent need of new trade openings to propel its economy.

Our conclusions are based in part on 23 in-depth interviews carried out in Brasília and São Paulo during June 2008. The interviewees included seven PT activists and elected officials, nine diplomats, and seven representatives of interest groups, including associations representing industry, agribusiness, workers, and small farmers. The active diplomats interviewed requested anonymity, so we do not provide their names in the text. We also draw on press reports, documents prepared by government agencies and international organizations, and existing scholarly works, both published and unpublished.

This study contributes to an expanding literature on the Lula government, certainly one of the most significant in contemporary Latin America, given the importance of the left finally coming to power in the region's largest country. There is a substantial body of published research on both its economic policies (Bianchi and Braga 2005; Giambiaggi 2005; Carneiro 2006; Amann and Baer 2008; Amaral, Kingstone and Krieckhaus 2008) and its foreign policies (Lima 2005; Vizentini 2006; Almeida 2006; Vigevani and Cepaluni 2008; Hurrell 2008; Pecequillo 2008; Burges 2009). However, studies focusing specifically on its approach to international trade negotiations are few in number and not very current (Veiga 2005; Oliveira et al 2006). Despite its importance, trade diplomacy has generally

been addressed only as part of broader analyses, either of Lula's foreign policy or of the longer-term evolution of Brazilian trade policy, including both international negotiations and other aspects (Veiga 2007, 2009; Armijo and Kearney, 2008; Moreira 2009).

The paper is organized into two core sections. The first provides an overview of the Lula government's trade diplomacy, highlighting its marked South-South orientation. The second offers an explanation of why policymaking in this area ended up being closer to the government's foreign policy strategy than its economic model, fleshing out the arguments outlined above. We conclude by summarizing our key findings and noting their broader implications for discussions of contemporary developing country trade negotiation strategies.

## **LULA'S TRADE DIPLOMACY**

By now there is general agreement among scholars that, despite the PT's history as a leftist party, Lula has pursued a relatively conservative economic policy that has much in common with that of his predecessor, Fernando Henrique Cardoso, whose government is usually viewed as having been of the center-right (Oliveira 2006; Tavolaro and Tavolaro 2007; Amaral, Kingstone and Kriekhaus 2008; Hunter, forthcoming). Under the PT, fiscal and monetary policies have been surprisingly austere, Brazil's debt obligations have been fulfilled, relations with the international financial institutions have been highly cooperative, and import tariffs have remained stable.<sup>ii</sup> Although this package has brought considerable success, at least relative to the poor growth record of the preceding two decades, it has also

caused strains within the PT, given the party's longstanding hostility to free markets (Hunter, forthcoming).

In contrast, many observers have seen foreign policy as the key area in which the PT has sought to remain faithful to its founding ideas (Almeida 2004, 2007; Hurrell 2008; Cason and Power, 2009; Hunter, forthcoming). Lula has positioned himself as a champion of the developing world's right to a larger say in international institutions and bigger share of the global economic pie. He has cultivated closer relations with major developing countries, including China, India and South Africa, and sought to promote greater cooperation among the countries of South America. Lula has also consorted openly with combative leaders shunned by the United States and other rich countries, such as Iran's controversial president, Mahmoud Ahmadinejad. Although Lula's foreign policy has not displayed the bellicose anti-Americanism of Venezuela's Hugo Chávez, it is broadly consistent with the PT's traditional emphasis on the need for Latin American and developing country autonomy and solidarity in the face of rich country "imperialism."<sup>iii</sup>

Unfortunately, the seeming scholarly consensus on the divergence between economic and foreign policy tells us little about commercial diplomacy, which, as we noted above, combines aspects of both economic and foreign policy. Moreover, the increasing salience of trade-related issues in Brazil's foreign relations since the 1980s, when the country initiated a process of modest trade liberalization, underscores the need for better understanding of the factors affecting trade diplomacy (Armijo and Kearney 2008).

How, then, can the PT government's policy in this crucial area be characterized? We argue below that its approach has been much closer to its relatively bold, South-South oriented foreign policy model than to its staid economic policy. This can be seen in all three of the major institutional contexts in which Brazil has been active during the Lula years: the

Doha Round of the WTO; the negotiations toward a possible FTAA; and MERCOSUL, including the bloc's negotiations with external actors. We examine each of these in turn, then conclude the section with a brief discussion of how business leaders, diplomats and politicians have characterized Lula's trade diplomacy overall, drawing on our interview data.

### **The Doha Round**

Brazil's role in the Doha Round has probably been the most prominent aspect of its trade diplomacy in recent years. Under Lula's leadership, Brazil shifted from relying largely on the Cairns Group, a North-South coalition of farm exporters (excluding the United States) created in 1986, to helping build and sustain the G20,<sup>iv</sup> which advocates in favor of developing country interests, especially with regard to agriculture. Over time, the key leaders of the G20, Brazil and India, also become the representatives of a broader, looser coalition of developing countries within the WTO. In recent years Brazil's determination to hold this coalition together has appeared to waver at times, but the G20 continues to exist and may yet play a critical role in the conclusion of the round, when and if the currently stalled talks are revived.

The G20 made its debut at the WTO meeting in Cancún, Mexico in September 2003 by taking a vocal stance against a joint EU-US farm proposal that fell far short of the expectations of developing country members, based on commitments made at the 2001 WTO ministerial in Doha, Qatar, which opened the Doha Round (Narlikar and Tussie 2004; Delgado and Soares 2005; Lima 2006). In order to mollify developing country governments resistant to a new round of multilateral liberalization, the United States and the European Union had committed to making Doha a "development round," or one that

would privilege the interests of the WTO's lower-income members. However, developing country diplomats feared that the US-EU text might end up being a new version of the Blair House accord, a 1993 deal between the two major trading powers that had effectively limited the liberalization of their farm sectors in the previous phase of multilateral trade talks, known as the Uruguay Round (1986-1994). Over the years Blair House had come to symbolize what many felt was the unbalanced character of the Uruguay agreement, with the developing countries making crucial concessions but receiving little in return.

Although India and some other countries also played important roles in the formation of the G20, Brazil appears to have been its key instigator. In early 2003 Brazilian diplomats in Geneva came to suspect that India might join the European Union in an essentially protectionist alliance on agriculture. They approached their Indian counterparts about forming a South-South coalition instead, one that would balance Brazil's offensive (i.e., pro-liberalization) interests with India's largely defensive stance. The Indians initially hesitated, but a number of events, most notably the release of the US-EU farm proposal (which occurred a month before the ministerial) ended up convincing them that Brazil would be a more reliable partner. Once they had resolved to form a coalition, Brazil and India set about recruiting additional members, including such heavyweights as Argentina, China and South Africa. Brazil's leadership was reflected in Foreign Minister Celso Amorim's role as coordinator and spokesman for the group in Cancún.<sup>v</sup>

The EU-US agricultural text of August 2003 did not include timetables for improving developing country access to rich world markets or reducing export subsidies and domestic crop support. On the other hand, it did include a proposal to exclude large farm exporters from the category of countries afforded preferential treatment, a provision which added insult to injury for Brazil, a major player in global farm trade. Brazilian

officials worked closely with their Indian and Argentine colleagues to draft an alternative proposal, which was then signed by 17 other countries. This text called for more favorable terms for developing countries in the areas of market access, export subsidies and domestic support, and excluded the possibility of denying preferential treatment to countries with significant agricultural exports. Although the G20 proposal contained a mixture of liberal and protectionist measures, it was its unified stance against rich country export subsidies that attracted the most attention (Delgado and Soares 2005). Because of this emphasis, quite a few members of the Cairns Group, which did not produce its own proposal at Cancún, opted to support it.

The memberships of the G20 and the Cairns Group overlap quite a bit: out of the total of 29 countries belonging to one coalition or the other, 13 belong to both. Both groups, moreover, seek to dismantle the extensive web of tariffs, quotas and (especially) subsidies used to support US and EU farmers. However, there are important differences between them. The most outstanding is that, as we mentioned earlier, the Cairns Group is a North-South coalition, while the G20 is made up exclusively of developing countries.<sup>vi</sup> In addition, there are differences in the character of the agricultural sectors of the member states and, consequently, their trade policy preferences. While liberalizing US and EU farm policies to benefit their own agricultural exporters is paramount for the Cairns Group, the G20 has a more diverse set of priorities. In particular, some G20 members have large and relatively uncompetitive small farm sectors that demand protection from imports. India, for example, is a strong advocate of farm protectionism for poor countries. Table 1 depicts the countries in each coalition, classified according to level of economic development and dependence on agricultural and food exports. The G20 countries also tend to have more protected industrial sectors, with Brazil being a good example.<sup>vii</sup>

**[Table 1 here]**

In order to satisfy its partners, especially India, Brazil has been obligated to support certain protectionist measures, such as exemptions from tariff limits for certain “Special Products,” and “Special Safeguard Mechanisms” for developing countries facing import surges. Relatively few of the world’s poorest countries, especially those of Sub-Saharan Africa, have opted to join the G20. Such countries are more likely to belong to other developing country alliances, such as the African, Caribbean, and Pacific group (ACP), which consists of countries granted special preferences in the European markets, or the G33, which advocates in favor of farm protectionism for poor countries.<sup>viii</sup> The G20 leadership, however, has made an effort to display solidarity with other developing world coalitions. Representatives of the ACP, the G33, and other such groups have participated in the G20’s ministerial meetings and the G20 has tried to incorporate some of their central demands in its negotiating platform (Lima 2006). Brazil and the G20, for example, have taken a firm stance against rich world positions on non-agricultural issues of importance to poorer countries, notably the so-called “Singapore Measures,” and have taken measures to deal with the sensitive question of preference erosion.<sup>ix</sup>

The years subsequent to Cancún were marked by grudging recognition of the G20’s importance, and particularly Brazilian and Indian leadership, on the part of the rich world. In 2004, Brazil and India were invited to join a group of key players, which also included the United States, the European Union and Australia, to work out a framework for future talks. By July 2004, the Five Interested Parties (FIP) had put together a blueprint that incorporated some of the G20’s central demands, including the elimination of all export

subsidies. Some NGOs and developing country governments criticized Brazil and India, both because of the elitism of the FIP process and because the Brazilian and Indian negotiators made significant concessions in areas of concern to them, including the controversial issue of rich country cotton subsidies (Lima 2006). To mollify the detractors and promote South-South solidarity, the G20 put a stronger priority on the interests of the poorest countries at the next WTO ministerial, held in Hong Kong in 2005.

In Hong Kong, the United States and the European Union conditionally committed to eliminating exports subsidies by 2013. Although many developing countries and progressive NGOs viewed the concession as minor (since both powers were already moving in this direction), it did reflect the G20's success at altering the original US-EU plan presented in Cancún. Little else was achieved at this meeting, however, as the Europeans refused to consider reducing other agricultural trade barriers without substantial developing country concessions on industrial goods. In mid-2006, WTO Executive Director Pascal Lamy announced that the negotiations would be suspended indefinitely, but an effort was made the following year to revive them. Representatives of the United States, the European Union, India and Brazil met in Potsdam, Germany in June 2007 to try to break the impasse. However, Brazil and India ended up walking out of these talks to protest what they viewed as US and EU intransigence on farm policy and unrealistic demands on industrial tariffs.

The Lula government's strategy shifted in the subsequent bout of negotiations beginning in July 2008. Brazil endorsed a compromise proposal offered by Lamy, featuring a lower ceiling on US farm subsidies in exchange for larger industrial tariff cuts than the G20 countries had previously accepted (Miller 2008). Brazil's position differed from those of both Argentina, which rejected deeper tariff cuts, and India and China, which called for a

potent safeguard mechanism to protect developing world farmers. The talks ended with no agreement, deepening the considerable pessimism about the future of the multilateral trading system. Brazil's posture also cast some doubt on the future of the G20. However, after a ministerial meeting in December 2009, Brazilian Foreign Minister Celso Amorim and other top G20 diplomats insisted that the group was still alive (Raja 2009).

### **The Free Trade Area of the Americas**

Lula's South-South emphasis in trade diplomacy is also evidenced in his government's resistance to the US-inspired proposal for a hemisphere-wide trade agreement and its countervailing emphasis (discussed further below) on strengthening MERCOSUL as a collective tool for negotiating on more even terms with the rich world.

Although Brazil's discomfort with the FTAA, a US initiative dating from the first Summit of the Americas in Miami in 1994, had already surfaced during the Cardoso years, it clearly deepened with the PT in office. The proposed agreement was viewed by many *petistas* as a grave threat to Brazil's policymaking autonomy and its political influence in the hemisphere (Pomar 2008; Zero 2008). Before becoming president Lula himself had repeatedly referred to it as a US attempt to "annex" Latin America (Rossi 2002). His decision to appoint Samuel Pinheiro Guimarães to the number two position at the Foreign Ministry, popularly known as Itamaraty, seemed to confirm his animosity towards the FTAA. The outspoken Guimarães had been dismissed from his job as director of the Itamaraty's research institute under Cardoso because of his sharp criticism of the proposed hemispheric trade deal. According to a representative of one of the Brazil's major commercial farming associations, Guimarães's appointment was "a great demonstration of being rewarded for anti-Americanism" (Ferreira 2008).

The FTAA talks stalled in late 2003 as a result of disagreements between the United States and Brazil. American officials claimed to want a broad agreement, but at the same time preferred to leave out issues they believed were better discussed in the WTO, including farm subsidies and anti-dumping measures, both major concerns for Brazil and other MERCOSUL countries (Abreu 2007). The US position on subsidies, an issue of particular importance for Brazil, was that they had to be reduced in the context of global talks, since concessions could not be made to some countries without making them to everyone. Brazil responded by asserting that its own sensitive issues, including government procurement, investment rules and intellectual property, should be left out as well. Brazilian negotiators also argued that certain key questions, including tariff reductions, should be dealt with in negotiations between MERCOSUL as a collectivity and the United States. The FTAA would thus be limited to a narrow agreement, which came to be known in Brazil as “FTAA light.” The United States objected to both the narrowing of the FTAA and the idea of direct negotiations with MERCOSUL (Hornbeck 2006).

The January 1, 2005 deadline for the conclusion of the FTAA talks thus passed with no agreement. Meanwhile, the US shifted its focus to bilateral or regional trade agreements with other Latin American countries, including Colombia, Peru, and Central America. Diplomats, politicians and interest group leaders of all political stripes generally agreed that the Lula government’s negotiating maneuvers were in essence meant to kill the FTAA (Barbosa 2008; Felício 2008; Camargo Neto 2008; Pomar 2008). In March 2007 Minister Amorim himself boasted in a private meeting with social movement and NGO activists that the FTAA had failed “thanks to Brazilian diplomacy” (Scolese 2007).

## MERCOSUL

Finally, Lula's emphasis on fostering closer relations with other developing countries can be seen in his efforts to strengthen South American regional integration, at least at a political level. The MERCOSUL trade pact involving Brazil, Argentina, Uruguay and Paraguay (with Bolivia and Chile as associate members) had suffered a blow in the late 1990s and early 2000s because of the currency crises in Brazil and Argentina, which provoked new protectionist pressures. Trade policy in Argentina, the bloc's second largest member, has taken an especially protectionist turn, provoking friction with the country's MERCOSUL partners. Lula has sought to restore the bloc's cohesion and increase its relevance on the hemispheric and global stage. Past Brazilian presidents had also sought to strengthen MERCOSUL (da Silva 2002; Veiga 2004) but under Lula this goal has taken on greater importance (Malamud 2005) and has been cast more in political than economic terms.

Under the PT, Brazil has not pushed hard either to eradicate protectionism within MERCOSUL or to plug the substantial gaps in its common external tariff. Rather, its strategy has been to bolster other members' long-term commitment to the bloc by demonstrating that Brazil's leadership is not based on narrow self-interest. For example, Brazil has taken a permissive attitude towards protectionism by its MERCOSUL partners (especially Argentina)<sup>x</sup> and was behind the creation of a fund to provide economic support for the bloc's smaller economies, Paraguay and Uruguay.<sup>xi</sup> In interviews, diplomats said Lula's approach is rooted in the notion that Brazil must promote the long-term development of its neighbors' economies, since their prosperity will in turn benefit Brazil.

Brazil's leadership of MERCOSUL has also favored the expansion of its membership and ties within South America. In October 2004 MERCOSUL and the Andean

Community of Nations signed an agreement signifying their intent to integrate their economies.<sup>xii</sup> A few months later, Colombia and Venezuela became associate members, and in July 2006 Lula and Celso Amorim celebrated Venezuela's full admission to the agreement, pending ratification by the legislatures of the member states. The addition of Venezuela finally had turned MERCOSUL into "the face of South America," said Amorim (Agência Estado 2006).

The decision to admit Venezuela was quite controversial given President Chávez's strident criticism of the United States, the World Bank and other global actors. MERCOSUL was also relatively lenient in setting the conditions for Venezuela's entry. For example, Venezuela has four years to come into compliance with the group's common external tariff (Hornbeck 2007, p. 9). It is unlikely that previous Brazilian governments, including Cardoso's, would have approved of this move. At the MERCOSUL summit in January 2007, Chávez confirmed some of the fears surrounding Venezuela's admission by declaring that MERCOSUL needed to be "decontaminated" of its free-market biases (Clendenning 2007). Because of these concerns, as well as disquiet with Chávez's authoritarian and socialist tendencies, it took more than three years for the Brazilian Senate to ratify Venezuela's admission, which it did in December 2009.<sup>xiii</sup>

MERCOSUL's external trade diplomacy during the Lula years arguably also betrays a South-South bias. In addition to its agreement with the Andean Community, MERCOSUL signed pacts with both India and the Southern African Customs Union (SACU), which is anchored by South Africa. Meanwhile, MERCOSUL's negotiations with the European Union, which date back to the Cardoso era, stalled. Some analysts argue that Lula downgraded the EU talks as a priority, although diplomats said that the negotiations broke down because of economic conflicts of interest between the two blocs. The only

relatively developed country with which MERCOSUL concluded an agreement was Israel, which has a small economy and an insignificant farm sector. Although these decisions regarding the expansion of MERCOSUL and its agreements with other countries and blocs were made collectively by MERCOSUL's member countries, Brazil's dominant position in the group means that they could not have been approved without Lula's support. Since MERCOSUL does not allow its member countries to negotiate trade agreements individually with outside actors, Brazil has not concluded any separate bilateral deals during the Lula years.

### **Overall Assessments**

There appears to be considerable agreement among relevant actors in Brazilian society that Lula's commercial diplomacy has been characterized by a strong South-South emphasis. The private interest group representatives we interviewed, for example, uniformly viewed Itamaraty's initiatives as driven in substantial measure by the PT's ideological preferences. The head of a leading farm lobby noted that Lula had "appropriated" the space that Brazil's agricultural exports had given the country in multilateral trade talks to advance the PT's political agenda. Lula, he said, "uses the instruments of trade for political purposes [*para fazer política*]" (Camargo Neto 2008). Some also expressed the belief that the government's strategic choices in this area, including its leadership of the G20 and its lenient treatment of Argentine protectionism, have been guided by its goal of obtaining a seat on the United Nations Security Council by positioning itself as a kind of representative of the developing world (Branco 2008; Marconini 2008).

Active Itamaraty diplomats were more cautious about making broad generalizations regarding Lula's trade diplomacy, but most suggested that the current government has put a higher priority on relations with developing countries than its predecessors did. Career diplomats we spoke to who were not currently active in Itamaraty were more open in proclaiming the leftist character of Lula's trade diplomacy. A former ambassador to Washington noted that "in the current government there's a politicization and ideologization of foreign policy" that extends to trade diplomacy and is characterized by the high priority placed on cultivating relations with other developing countries (Barbosa 2008). Another argued that Lula's commercial diplomacy has embodied the *cepalino* ideology of the PT, which emphasizes the protection of domestic policy space and casts doubt on the benefits of economic integration with rich countries (Almeida 2008). Although this perspective has clearly influenced Brazilian trade diplomacy in the past, he suggested that *petistas* embrace a particularly strong version of it.

PT politicians and militants, especially those associated with the party's more moderate internal factions, generally agreed that commercial diplomacy has been an area in which Lula's policies have adhered relatively closely to the party's longstanding principles. One federal legislator said that Lula's trade diplomacy has been what the PT "always defended, oriented toward the construction of more cooperative relations among countries...and the reduction of inequalities between countries, from a socialist perspective" (Mourão 2008). A top official of the Unified Workers' Central (CUT), the national labor union federation historically allied with the PT, expressed a similar opinion, emphasizing in particular Lula's efforts to counter-balance US economic hegemony in the hemisphere. "It's not a policy of he who submits. It's a policy of he who confronts," he noted (Felício 2008).

The view of the PT's left wing, which competes with Lula's moderate faction for party control, was somewhat less enthusiastic. Valter Pomar, current PT Secretary for International Affairs and a former left-wing candidate for party president, characterized Lula's commercial diplomacy as "moderate and cautious" (Pomar 2008). At the same time, however, Pomar praised the government for having resisted "North American hegemony" in the FTAA talks and having promoted "continental integration" through its approach to MERCOSUL.

## **EXPLAINING LULA'S TRADE DIPLOMACY**

That trade diplomacy would be a highly visible policy area under the PT government was not entirely Lula's decision. Both the Doha Round and the FTAA talks had already been scheduled for completion during his first term office, making it almost inevitable that Brazil's behavior in international trade negotiations would end up being a high-profile issue.

However, the decision to adopt a strong South-South orientation in commercial diplomacy cannot be explained by the negotiation schedules. Lula's choices in this area could have adhered more closely to the cautious approach of his overall economic strategy. In the WTO the government could have continued to work primarily through the Cairns Group to pursue its goals in agriculture. It could have also taken a more pliant position in the FTAA talks and deemphasized Latin American integration, given MERCOSUL's obvious problems. Why, then, did Lula choose to pursue a commercial diplomacy much more akin to his foreign policy? Our argument stresses the relatively low economic and political costs of implementing a commercial diplomacy strategy that could appeal to the PT's core supporters. Although the global commodity boom of recent years might be

expected to have shaped the government's positions in trade negotiations, given the importance of commodity exports to the Brazilian economy, we suggest that its overall impact has been ambiguous. We begin by briefly examining the logic underlying Lula's economic and foreign policies, drawing on the scholarly literature examining these two areas. Then we analyze his choices on commercial diplomacy in light of these accounts.

### **Economic and Foreign Policies**

Students of the PT note that in the late 1990s the party began distancing itself from some of the more radical economic policy positions embraced since its founding in 1980, including the call for a transition to socialism (Amaral 2003). One influential account of this process stresses the party's growing involvement in sub-national government, which is said to have pushed party members to embrace a more pragmatic, gradualist approach (Samuels 2004). Another highlights the role of external constraints, including the increasingly integrated global economy and the obstacles to change posed by Brazil's domestic political institutions (Hunter 2007).

Nevertheless, there can be little doubt that the 2002 election campaign marked a critical moment in the PT's programmatic transformation, laying the groundwork for the economic approach adopted in office. The party selected prominent businessman and conservative politician José Alencar to be Lula's running mate and issued a "Letter to the Brazilian People," in which it pledged to pursue sustainable macroeconomic policies and honor Brazil's debt obligations. It also released a statement promising to honor a loan agreement between the Cardoso government and the International Monetary Fund (IMF), an organization long vilified by *petistas*. Following the election the PT took additional measures to underscore its commitment to market-friendly policies, including the

announcement that a highly respected private banker would be appointed to lead the Central Bank.

These moves have usually been seen as an attempt to reassure a business community panicked by the prospect of a president who had once endorsed the suspension of public debt payments, the renationalization of privatized industries and other leftist policies (Couto and Baia 2004; Giambiaggi 2005; Hunter and Power 2007; Kingstone and Ponce forthcoming). The threat of a rapid economic meltdown was underscored by the currency crisis that struck Brazil in 2002, when Lula's election began to appear inevitable. Failing to act decisively could have helped Cardoso's PSDB pull out a surprise victory in the October election or ensured that the PT inherited an economy in ruins. These commitments have continued to guide the government's economic strategy since Lula assumed the presidency, probably out of some combination of their relative success and the lingering fear that deviating from them will erode business confidence and ultimately undermine growth.

Fewer researchers have pondered the reasons behind the PT's foreign policy choices, probably because they seem to flow more naturally from the party's longstanding ideological and policy positions. However, those who have tried to explain why foreign policy has remained closer to the PT's ideals than other policy areas have pointed to the relatively low economic and political costs of this orientation (Cason and Power 2009; Hunter, forthcoming). Unlike many of the domestic programs traditionally championed by the PT, Lula's South-South foreign policy places no significant burden on the federal budget and has no other obvious distributive implications that might provoke the ire of elites. In contrast to land reform, one of the party's most cherished policies, South-South diplomacy does not involve seizing private assets or casting doubt on the security of

property rights. In contrast to pro-union labor reform, another historic PT priority, it does not involve raising the costs of doing business or shifting the distribution of industrial profits from capital to workers.

As a result, the government leadership has been able to express the party's ideals in foreign policy to a far greater extent than in most other areas and in so doing placate party loyalists disheartened by the relatively conservative slant of its overall policy package (Hunter, forthcoming). A survey administered at the PT's 2006 national meeting found that party militants were substantially more content with Lula's foreign policy than with his social or, especially, economic policies (Amaral 2006). Only 25.3% characterized Lula's economy policy as "very good," compared to 75.0% in the case of foreign policy. Even social policy, which is headlined by the popular *Bolsa Família* program, was viewed by party militants less favorably than foreign policy, with only 29.6% qualifying it as "very good."

**[Table 2 here]**

We argue below that the "low costs" framework for understanding Lula's foreign policy applies rather well to commercial diplomacy, despite the potentially crucial economic implications of decisions in this area, which might have been expected to pull Lula's strategy in a more conservative direction. Part of the reason lies in inherent characteristics of this policy area, mainly its limited direct impact on crucial macroeconomic outcomes like growth and inflation. However, certain specific aspects of the trade talks Brazil has been involved in have also helped to limit the costs of an assertive South-South approach. We highlight, in particular, the postures assumed by traditional

trading power in the two major North-South negotiations in which Brazil has been involved in recent years, Doha and the FTAA.

### **Inherent Characteristics of Trade Diplomacy**

Trade diplomacy differs from a number of other areas of economic policy in that its impact on the domestic economy is both less immediate and more uncertain. It is less immediate because trade accords generally take several years to be negotiated and be ratified, and typically many of their provisions are phased in gradually in order to allow the participating countries to adjust to the impact of greater import competition or less government support of domestic firms. It is more uncertain mainly because the government of a particular country can only control the outcome of negotiations to a limited extent, particularly in the strongly multilateral setting of the WTO, where dozens of countries are involved. In addition, the actual economic impact of trade agreements is not easily predictable, in part because of uncertainty regarding when and how member countries will implement their commitments.

Because of these characteristics, trade diplomacy does not have as strong a short-term impact on domestic economic activity as some other aspects of economic policymaking. Monetary and fiscal policy present probably the sharpest contrast. Changes in interest rates or other actions by the central bank can impact the economy in a matter of days, or even hours. Taxation and spending work more slowly, but signs of a mounting budget deficit can quickly put investors on the alert, signaling the risk of inflation and a potential currency crisis. The increased integration of financial markets in recent decades has arguably made the consequences of seemingly unsustainable macroeconomic policies faster and more drastic than in the past, limiting domestic policy autonomy further (Akyüz

2007; Rodrik 2007). Of course, the impact of fiscal and monetary strategy depends to a significant extent on the reactions of private actors, but the state has more sovereign control of these areas than it does of the outcomes of trade negotiations, which are inherently dependent on the will of foreign governments.

Although fiscal and monetary policy provide the clearest counterpoint to trade diplomacy in terms of the speed and certainty of their impact on the economy, even tariff policy, which is of course closely related to trade diplomacy, differs significantly. Import tariffs are often bound by international agreements, but national governments have the option of applying a rate that is lower than the rate specified by the agreement, and in many cases they do. In Brazil for example, tariffs affected by the country's WTO commitments have generally remained significantly below their bound rates. Unlike the process of negotiating and ratifying a trade agreement, raising or lowering a tariff is procedurally simple and has a rapid impact on the economy, often affecting a variety of domestic prices. It is also a decision that is fully under the control of the national government, as long as the applied rate does not exceed the bound rate.

These aspects of commercial diplomacy as a policy area help us understand why the PT government has been willing to take an approach in this sphere that is in important ways more leftist than its broader economic strategy and, especially, its macroeconomic strategy. Although this approach was bound to provoke conflicts with some influential private sector interest groups, as well as ideological conservatives in the media and political elite, it was not likely to significantly affect short-term growth, job creation or inflation, the variables that are arguably most critical from an electoral standpoint. The lack of an immediate connection between policy choice and these macroeconomic outcomes gave the government more room to maneuver in trade diplomacy than in some other economic areas.

## **The Dynamics of North-South Trade Talks**

Intrinsic characteristics of trade diplomacy, however, do not entirely explain why the Lula government adopted a relatively bold South-South orientation in this area. It is also important to consider the dynamics of the negotiations in which Brazil was involved, especially the two most prominent, the Doha Round and the FTAA. We argue that the positions adopted by the two key rich-country actors in these talks, the United States and the European Union, also had the effect of lowering the costs of an assertive South-South strategy, both by diminishing the potential gains for Brazil and its allies from eventual accords and by reducing the likelihood of retribution outside of the direct sphere of negotiations.

A key to understanding the posture adopted by the PT government lies in the unattractiveness of the offers made by the major trading powers in the Doha Round and FTAA, from Brazil's perspective, as well as that of other developing country governments. With regard to Doha, in particular, our interviews revealed a surprisingly broad consensus among Brazilian private sectors groups, diplomats and politicians that the G20's rejection of US and European proposals in the Doha Round was justified, given the stinginess of those offers with regard to farm trade. The creation of the G20, they felt, was a necessary maneuver to block another Blair-House type accord that largely preserved existing barriers to farm trade while extending liberalization in other areas, some of them quite sensitive (Lima 2008; Marconini 2008; Suplicy 2008). The modesty of the offers made by the rich countries was particularly disappointing given their previously stated commitment to making Doha a "development round" (Barbosa 2008).

Where opinions did differ on Lula's Doha strategy was in regard to the extent of the protectionist concessions made to India and other developing countries to hold the G20 together, as well as the Itamaraty's single-minded emphasis on maintaining the G20 after the initial confrontation at Cancún. Representatives of export-oriented interest groups sometimes expressed the belief that a more flexible and pragmatic approach to coalition-making might have been more suitable to Brazil's interests as a highly competitive player in global farm trade (Ferreira 2008; Lima 2008). They suggested that the government had used Doha (as well as the FTAA) to advance its own political and ideological agenda. However, without exception, they stopped short of saying that the G20-based strategy had scuttled a potentially beneficial deal.

The largely negative perspective in Brazil about the gains to be had from a Doha agreement, given the offers on the table, has served to temper domestic interest group resistance to the government's confrontational posture toward the traditional trading powers. More protectionist sectors have generally been pleased that the Itamaraty's diplomacy was helping to block a deal that would inevitably bring greater liberalization of the domestic economy. Groups representing industry, for example, applauded Itamaraty's decision to walk away, along with fellow G20 leader India, from the 2007 Potsdam talks (*Valor Econômico* 2007a). However, even more competitive sectors, including commercial agriculture, have not mobilized strongly to fight it. Their criticism of the government, rather, has mainly focused on its failure to secure new trade agreements outside of the multilateral framework (Lima 2008).

Discontent with the terms the United States and the European Union have been willing to offer on agriculture also helped Brazil secure support from other governments for its coalition-building efforts, ensuring that Itamaraty's efforts would not leave Brazil

isolated. In fact, South-South coalition making in the Doha Round in general has been impressive in its scope and durability (Narlikar and Tussie 2004; Rolland 2007). The reasons behind developing country resistance vary. Most of the Latin American countries in the G20 have concerns similar to Brazil's, involving a desire for larger reductions in farm tariffs and, especially, subsidies. Other G20 members, like India and China, also seek to liberalize rich country agricultural sectors, but want to ensure, above all, that they can continue to protect their own farmers. The members of the G33 have a similar perspective. What these varied countries share is the view that US and EU offers are insufficient and do not fulfill the promises made in 2001 to obtain their consent to a new round.

Pessimism about the possibility of securing favorable terms from the United States also facilitated the government's tough negotiating posture in the FTAA talks. Rubens Barbosa, a private trade consultant, career diplomat and former ambassador to Washington under Fernando Henrique Cardoso, noted that the US position in the FTAA talks was "totally unbalanced" and simply did not make economic sense for Brazil (Barbosa 2008). This had become clear, he said, by the end of the Cardoso years. Although Barbosa was critical of the general South-South thrust of Lula's trade diplomacy, he argued that even a PSDB government might well have rejected an FTAA under the terms proposed by the United States.

Much of the Brazilian manufacturing sector was quite wary of an FTAA, due to producers' fears of being unable to compete successfully with more efficient US firms (Branco 2008; Marconini 2008). The labor movement, a substantial part of which shares the PT's traditionally leftist, anti-market ideology, was even more determined to resist a hemispheric accord (Félício 2008). In contrast, agro-export interest groups we interviewed generally felt that their own sector could potentially have extracted some significant

benefits from a hemispheric trade agreement, assuaging to a degree the lack of a Doha deal and preventing other Latin American countries from gaining preferential access to the U.S. market through bilateral accords (Ferreira 2008; Lima 2008). However, even they acknowledged that arriving at a satisfactory accord would have been quite difficult, given the tough bargaining posture adopted by US negotiators (Ferreira 2008; Camargo Neto 2008).

Brazilian economists have been divided about the desirability of a hemispheric trade accord, but even those who hold relatively liberal views have underscored the conservatism of the US negotiating posture. Pedro da Motta Veiga, for example, argues that as discussions turned to specifics in the early 2000s American negotiators refused to make the substantive concessions needed to bring the talks to a successful conclusion. Instead, they made the proposal of establishing gradations of access to the US market according to a country's level of development, which was sure to provoke a negative response from Brazil. Creating an FTAA "required leadership and the country that launched the hemispheric liberalization project – the United States of America – did not seem...capable of exercising that role and above all paying the corresponding price" (Veiga 2007, p. 112).

Given the lack of domestic enthusiasm regarding the FTAA, it is not surprising that resistance to the Itamaraty's strategy was limited. Perhaps the most significant sign of dissent came from within the government itself. In late 2003 the Minister of Agriculture and the Minister of Development, Industry and International Trade both publicly complained that Itamaraty was adopting an excessively inflexible posture in the FTAA talks (*Folha de São Paulo* 2003). However, Lula quickly reaffirmed his support for Itamaraty's strategy after this incident, and the criticisms expressed by these ministers

never developed into a broader movement among either the private sector or the conservative political opposition.<sup>xiv</sup>

The inability of the traditional trading powers to make the sacrifices needed to bring new North-South trade agreements to fruition reflects domestic resistance to liberalization in those societies. As is well known, farmers in the United States and Western Europe (especially the latter) are strongly organized and have stubbornly resisted the reduction of subsidies, tariffs and other forms of state assistance (Sheingate 2001). In addition, the broader domestic mood in these countries has not been favorable to trade in recent years. The Uruguay Round was propelled forward by the difficult economic conditions of the 1970s and early 1980s, which fed a desire to open new markets to trade and investment. Although Doha was also launched during an economic downturn (the bursting of the “dot-com” bubble) the crisis followed on the heels of a series of major liberalization initiatives, including the conclusion of the Uruguay Round and the creation of NAFTA. Rich countries were still dealing with the impacts of these changes and globalization was becoming a controversial issue, a fact that was underscored by the protests that disrupted the WTO ministerial in Seattle in 1999.

The United States and its allies pushed for the launch of a new round of WTO talks, but the political will necessary to fight for their conclusion was lacking. Charlene Barshefsky, U.S. Trade Representative from 1997 to early 2001, has noted that the Doha Round was initiated under “false pretences” (Altman 2008). Rather than a determination to liberalize trade, its launch reflected a desire among the world’s governments to inspire confidence in the global economy and demonstrate solidarity with the United States following the September 11 attacks. The years that followed would show that, in fact, “there was almost no enthusiasm” for a new multilateral deal. In contrast, the FTAA talks

began in 1994, when enthusiasm for free trade in the United States was probably reaching its peak. Nonetheless, by the early 2000s, with the rapid growth of the Clinton years over and rising trade with developing economies putting pressure on domestic firms, public support for trade was beginning to wane.<sup>xv</sup> As Ambassador Barbosa noted, the collapse of the FTAA talks reflected a “convergence of negative interests” between Brazil and the United States, since the US government itself lacked the drive to make a decisive push for a hemispheric agreement (Barbosa 2008).<sup>xvi</sup>

The lack of attractive “carrots” offered by the major trading powers to lure Brazil into trade agreements has been matched by an absence of “sticks” to punish it for its rebellious postures. During the Uruguay Round, rich countries had sometimes tried to induce the cooperation of developing countries by linking their behavior in multilateral talks to other issues, such as the allotment of trade preferences under the General System of Preferences, or the application of the “Special 301” provisions of US trade legislation, through which American administrations can impose trade sanctions on countries that violate US intellectual property rights. Our interviewees unanimously agreed, however, that Brazil has suffered no significant pressures or sanctions because of its leadership of the G20 or its central role in the failure of the FTAA.

We cannot speak as authoritatively on the pressures that might have been exerted on Brazil’s coalition partners in the Doha and FTAA talks, but it seems telling in this regard that both the G20 and MERCOSUL largely held together in the respective talks. Those countries that defected from the G20 after Cancún (Colombia, Costa Rica and El Salvador) were all Latin American countries highly dependent on US aid or trade. Some MERCOSUL members, notably Uruguay, have flirted with the idea of signing separate

bilateral accords with the United States in recent years, but during the FTAA talks the group demonstrated impressive unity.

The failure of the traditional trade powers to apply strong pressures on recalcitrant developing countries reflects not only their own lack of enthusiasm for new trade deals, but also the way international opinion had come to view the rules governing global trade by the early 2000s. During the Uruguay Round developing countries made major concessions on intellectual property, trade in services, export promotion and other issues of interest to rich countries. In compensation, agriculture, the major area of offensive interest for much of the developing world, was brought into the multilateral regime. However, as we mentioned earlier, the restrictions placed on agricultural policy were weak.

The years following the conclusion of the round in 1994 brought rising condemnation of this arrangement from NGOs and intellectuals as unfair and an impediment to the development of poor countries. Criticism of the exclusion of agriculture from strong WTO disciplines intensified and diffused to more mainstream sources in the early 2000s, including international financial institutions, such as the World Bank (2002), and leading media outlets, including the *Economist* (2002) the *New York Times*<sup>xvii</sup> and the *Wall Street Journal* (2002). This escalation was caused by a series of events that underscored the extent and the potentially dangerous consequences of global inequality. The 1999 Seattle protests pointed to the fragility of political support for globalization, forcing liberal intellectuals and public authorities to think about how the system could be reformed to spread its benefits more broadly. Part of the response was the United Nations Millennium Summit of September 2000, which resulted in a pact to achieve a series of anti-poverty targets. The terrorist attacks that occurred a year later were widely interpreted as evidence of how economic failure in the developing world could lead to radicalism and

global instability, capable of menacing the security of rich societies. Finally, the Doha ministerial itself, in November 2001, confirmed the growing sense that global trading rules were unjust by committing the WTO to prioritizing the needs of poorer countries.

The growing consensus against rich country farm policies and multilateral trade rules made it easy for Brazilian officials to justify at a normative level their decision to ally with other developing countries to pry deeper concessions from the rich world. Time and again, Minister Amorim, as well as the diplomats we interviewed, defended Brazil's strategy in the WTO by pointing to the unfair bias against agriculture and the stated commitment of the wealthy countries to making Doha a "development round." In the face of these arguments, the European Union and the United States had no effective retort. In particular, they could not, as in earlier years, blame Brazil and other developing countries for getting in the way of global welfare-enhancing free trade, since now it was their own protectionist farm policies that were at the center of the controversy.

### **The Politics of MERCOSUL**

The political dynamics of MERCOSUL are different from those of the FTAA and Doha, since there are no developed countries directly involved, and the challenge for national authorities lies not so much in crafting a new agreement as managing an existing one. MERCOSUL thus merits separate discussion.

Lula has faced growing and sometimes intense criticism of his handling of MERCOSUL. His tolerance of protectionism within the group has rankled manufacturers (Branco 2008; Marconini 2008). Export-oriented farm interests, meanwhile, fault Lula for not pushing to loosen the constraints MERCOSUL places on its members' ability to

negotiate trade pacts outside the group (Ferreira 2008; Caparroz 2008; Lima 2008). Negotiating as part of MERCOSUL is too cumbersome, they argue, and the few external accords that have been concluded by the bloc are economically insignificant. The business community in general, as well as conservatives in the academic, media and political establishments, question the decision to admit Venezuela, given Chavez's opposition to free trade and his poor relationship with the United States.

Nevertheless, even in the case of MERCOSUL, there are certain factors that have served to attenuate criticism somewhat. One involves timing. Until at least 2006, there was still some reason for Brazilian exporters to be hopeful that, despite the painfully slow pace of progress, a Doha deal might be concluded in the near term. Had that occurred, it would have overshadowed the lack of bilateral accords and MERCOSUL's internal problems. Public criticism of Lula's commitment to the regional pact became appreciable only after the 2007 Potsdam debacle, which spelled the end of any realistic hopes for a new multilateral accord and highlighted the lack of a "Plan B" for lowering the barriers faced by Brazilian exporters should Doha fail (*Estado de São Paulo* 2007; *Gazeta Mercantil* 2007; *Valor Econômico* 2007b).

Second, criticism of Lula's failure to push for an institutional reform that allowed MERCOSUL members to negotiate separate extra-bloc trade accords has been tempered by the recognition that such a strategy would be politically perilous for any Brazilian government. Significantly loosening the bloc's rules on this point would effectively demote MERCOSUL from a customs union with a common external tariff to a mere free trade area, and would thus constitute a major blow to Brazil's longstanding efforts to transform MERCOSUL into a tool for exerting its own influence in Latin America and beyond.

Some business representatives we spoke to felt that, had he been elected president in 2002, the PSDB's José Serra (who has criticized MERCOSUL in the past) might well have proceeded in this direction (Camargo Neto 2008). However, others were skeptical. As one industrial interest group leader put, "MERCOSUL is not a question of the government, but a question of state. The nation has an interest in MERCOSUL no matter who is in government" (Branco 2008). Active diplomats also cast doubt on the idea that a Serra government would have taken such a step. Reducing the bloc to a free trade area, they argued, would not only raise the hackles of Brazilian nationalists, it would also produce little economic benefit, since the basic political obstacles to achieving trade accords with desirable partners like the United States, the European Union and Japan would persist even if Brazil negotiated on its own, given the differences in comparative advantage between Brazil and these more developed countries.

### **The Commodity Boom**

Perhaps somewhat conspicuous by its absence from this analysis of Lula's commercial diplomacy thus far is the impact of the commodity boom of recent years. The boom began for Brazil around 2001 and took hold at the global level roughly a year or two later. Rising demand for agricultural and mining commodities (notably from China) has strongly affected Brazil, boosting both its role in international trade and the weight of exports in the domestic economy. In our view, however, its impact on Brazilian trade diplomacy has not been decisive, mainly because its effects have tended to pull the government in contradictory directions.

On the one hand, their rising contribution to the economy has given commodity exporters, especially farmers, a solid rationale to demand a larger say in trade negotiations, and they have done so. Perhaps the clearest evidence of this trend is the creation in mid-2003 of the Institute for International Trade Negotiations (ICONE), an influential think tank and lobbying group funded by some of the most powerful export-oriented agricultural interests, including beef, pork, poultry, soybean and sugarcane producers. ICONE has sought and obtained significant input into trade negotiations, despite the Itamaraty's longstanding reputation for insularity and resistance to interest group influence. The group has provided Brazilian diplomats with technical support and has accompanied them at negotiation sessions (Lima 2008).

The influence wielded by ICONE and other commercial farming groups would tend to favor the conclusion of new North-South trade accords, since farmers would benefit from the concessions made by rich countries on agriculture but would not be hurt by those made in return by Brazil, which would mainly affect industry. At the same time, Brazilian agricultural producers have relatively little use for trade integration within Latin America, since other countries in the region produce many of the same primary commodities. In other words, the growing clout of farmers works against South-South diplomacy, at least in a strong version involving lasting commitments and substantial concessions to coalition partners.

On the other hand, by generating a sustained increase in Brazil's export revenues, the commodity boom has made it easier during the Lula years to drive a hard bargain in trade negotiations, since it is difficult to make the case that Brazil is in great need of new trade agreements to fuel its economic expansion. It has raised the question of whether Brazilian really needs new trade agreements at all (Veiga 2009). This situation stands in

sharp contrast to the years of the Uruguay Round, when Brazil's prolonged slump and transition to a more export-oriented growth model made increased market access a key priority (Abreu 2007). It has helped the PT government fend off criticism that its South-South trade diplomacy is squandering opportunities to achieve new openings for its exports.

## **CONCLUSION**

Lula's government has conducted commercial diplomacy with an important South-South orientation, offering a marked contrast with the overall tenor of policy in other economic arenas. In this paper we have developed an explanation for why Lula's trade diplomacy has been more similar to his overall foreign policy (and the PT's traditional identity) than to his surprisingly conservative economic policies.

We argued that trade diplomacy was an area in which an approach in line with the party's long-held principles could be implemented at a relatively low political and economic cost. Unlike other economic policies, it had no significant short-term effects on economic growth, employment, or inflation likely to be noticed by voters. Furthermore, the global context of trade negotiations—in particular, the rich trading powers' ambivalence about committing themselves to major new trade agreements, even ones they had initially pushed for—made it easier to adopt a tough negotiating posture, both by diminishing the attractiveness of potential agreements and by reducing the likelihood of political isolation or economic retribution. The weak commitment on the part of the wealthy countries meant that the Lula government had the opportunity to square the circle politically and appeal to leftist desires for an anti-imperialist, pro-developing country foreign policy tack while

simultaneously positioning himself, at least in the WTO context, as a champion of freer trade for Brazil's farm exporters, traditional opponents of the left.

The international aspect of this argument does not apply to MERCOSUL, where rich countries are not directly involved. Even here, however, certain conditions arguably served to temper criticism of Lula's emphasis on strengthening South-South relations over improving access for Brazilian exporters. We emphasized, in particular, the protracted character of the Doha Round's (at least temporary) demise, as well as the recognition among many domestic actors of the overall importance of MERCOSUL to Brazil's long-term strategic interests.

Although this paper has dealt exclusively with the Lula government, we believe our arguments hold some interesting implications for the broader literature on developing country coalitions in international trade talks, which has grown rapidly in recent years, mainly because of the flurry of South-South coalition making in the Doha Round (Drahos 2003; Narlikar 2003; Narlikar and Tussie 2004; Odell 2006). Domestic politics plays a role in some of these analyses, but the clear emphasis has been on the influence of international factors on developing world alliances. Perhaps the most distinctive argument offered by this body of literature is that the rise and persistence of such coalitions reflects a gradual process of learning and adaptation within the institutional context of the GATT/WTO.<sup>xviii</sup> Developing country negotiators, this interpretation argues, have learned how to build coalitions that both appeal to the collective interests of poorer countries and are capable of withstanding the divide-and-conquer tactics used by the wealthy.

Our analysis of Lula's trade diplomacy contributes to, but also challenges, this literature in two ways. First, it suggests that domestic electoral politics may have an important impact on South-South coalition making in some cases. Brazil has played a

critical leadership role in developing country alliances in international trade talks during the Lula years, and our arguments indicate that partisan considerations have been a substantial influence behind the Brazilian government's actions. Some inclination toward South-South alliance-making could have been expected even under a non-PT government, but Lula has undoubtedly brought a particularly strong emphasis on this approach, reflected in all of the major negotiating contexts.

Second, we offer a somewhat different perspective from the literature on the international forces at work. Rather than pointing to a long-term process of social learning within a specific institutional space, we underscore the impact of broader, but more conjunctural, trends in the global political economy, especially the increasingly apparent disjuncture between the rich countries' nominal endorsement of new North-South trade pacts and their unwillingness to make the sacrifices needed to push for their successful conclusion. We suspect that the unprecedented spate of South-South coalition-making in the Doha Round of multilateral talks, in particular, cannot be adequately understood without reference to this broader context.

Of course, our claims in this paper are limited to the specific empirical case we examine, but we believe the arguments we have developed offer fodder for future research on other cases. More broadly, we would stress the need to continue scholarly investigation of trade diplomacy policies in developing countries, given the increasingly prominent part played by countries like Brazil, China and India in both global commerce and the international entities that regulate it.

Table 1. Membership in the Cairns Group and G20 by Level of Development and Dependence on Agricultural and Food exports

(plain text = G20 only; italics = Cairns Group only; boldface = both)

Level of development	Dependence on Agricultural and Food Exports			
	Low	Medium	High	Very high
Advanced Industrial Countries		<i>Canada</i>	<i>Australia</i>	<i>New Zealand</i>
Less Developed Countries	China Mexico Nigeria Venezuela <b>Philippines</b>	Egypt India <i>Malaysia</i> <b>Indonesia</b> <b>Pakistan</b> <b>South Africa</b> <b>Thailand</b>	Cuba Ecuador Zimbabwe <i>Colombia</i> <i>Costa Rica</i> <b>Bolivia</b> <b>Brazil</b> <b>Chile</b> <b>Peru</b>	Tanzania <b>Argentina</b> <b>Guatemala</b> <b>Paraguay</b> <b>Uruguay</b>

Sources: World Bank (2007); CIA (2007)<sup>xix</sup>

Notes: Level of development is measured using GDP per capita in PPP (constant 2000 international \$) in 2004. The threshold between Advanced Industrial and Developing Countries is \$15,000. Dependence on agricultural and food exports is the sum of these as a percentage of total merchandise exports in 2003. (For Paraguay and Zimbabwe, the figures are from 2004.) The categories are low (<10%); medium (11-20%); high (21-50%); and very high (>51%).

Table 2. Evaluation of the Lula Government by PT Militants

	Politics	The Economy	Social Policy	Foreign Policy
Very bad	4.2	3.9	1.1	0.7
Bad	12.6	5.3	1.4	1.1
Average	34.6	21.8	16.5	2.8
Good	36.0	43.9	51.4	20.4
Very Good	12.2	25.3	29.6	75.0
Total	100.0	100.0	100.0	100.0

Source: Amaral (2006)

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<sup>i</sup> We follow the convention of using the term South to refer collectively to those countries not usually considered part of the advanced, industrialized world, although we realize that the implied geographical generalization (that poorer countries are concentrated in the southern hemisphere) is not altogether accurate.

<sup>ii</sup> If there is a significant exception to this rule, it is Lula's use of the state development bank, the National Bank for Economic and Social Development, or BNDES, which has taken on an increasingly important role in providing credit to Brazilian firms. See Shirai 2009.

<sup>iii</sup> This emphasis is evident in some of the party's key documents from the 1980s. For example, the resolutions of the 1989 national meeting stated that a future PT national government would "have an anti-imperialist policy and lend its unrestricted solidarity to struggles in defense of self-determination and national sovereignty" (Árabe 1998, p. 45).

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The PT's solidarity with anti-imperialist and leftist forces in the developing world was also underscored in an article in the party's internal magazine, *Teoria e Debate* (Löwy 1989).

<sup>iv</sup> This is the G20 which advocates on behalf of developing country interests in trade, not the group of large economies (also known as the G20) established to discuss issues related to the global financial system.

<sup>v</sup> This account is based primarily on interviews with Brazilian diplomats. Other published accounts of the G20's formation do not necessarily accord Brazil as much primacy in creating the coalition, but none that we have seen contradicts this one.

<sup>vi</sup> Latin America is particularly well represented in the G20, as it is in the Cairns Group. Twelve of the 23 members of the G20 and ten of the 19 members of the Cairns Group are from this region. Latin America is by far the most represented world region in both groups, in part because of its prominence in agricultural trade, and perhaps also because of Brazil's leadership within the region.

<sup>vii</sup> The average non-agricultural MFN tariff in the G20 is 10.3%, compared to 7.9% in Cairns (WTO 2009). The figure for Brazil is 14.1%. Brazil did undertake a substantial, largely unilateral tariff reduction in the early 1990s, but its industrial tariffs remain quite high relative to those of the advanced, industrialized countries.

<sup>viii</sup> ACP comprises signatories of the Lomé Convention, a 1975 agreement under which a group of European countries committed itself to providing economic assistance, especially trade preferences, to former colonies. The G33 has a diverse array of members, including countries from all the developing regions. The G20's membership overlaps to some extent with those of both of these groups, especially the G33. A few countries belong to all three.

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<sup>ix</sup> The Singapore measures, which include proposals for new rules on foreign investment, government procurement, and intellectual property, were the immediate cause of the breakdown of talks in Cancún, although the farm trade issue was also a key source of discord. Brazil, for the most part, did not have fundamental objections to including these issues in the Doha Round talks.

<sup>x</sup> In February 2006, Brazil and Argentina signed a bilateral agreement that allows one country to apply special safeguards, in the form of tariffs or quotas, in the case of a surge in imports from the other. The accord was a response to Argentina's concern about the rapid growth of imports from its neighbor and it was signed over the objections of Brazilian industry groups (Hornbeck 2007).

<sup>xi</sup> The idea behind the fund is derived from the European Union's structural policy, but the amounts involved are far more modest.

<sup>xii</sup> A new entity made up of the members of the two free trade areas, as well as Chile, Suriname and Guyana, and called the Union of South American Nations (UNASUR/UNASUL) was created in April 2007, with headquarters in Quito, Ecuador. UNASUL has issued joint resolutions on major issues like the 2009 military coup in Honduras and the potential expansion of the US military presence in Colombia. However, it remains to be seen whether this organization will have any significance beyond rhetorical demonstrations of regional unity.

<sup>xiii</sup> The Paraguayan legislature has yet to do so.

<sup>xiv</sup> Perhaps the sharpest public criticism of the PT government's strategy in the FTAA talks came after the fact and from an unlikely source, Lula's ambassador to Washington from 2004 to 2007, Roberto Abdenur. In a 2007 interview with the newsmagazine *Veja*, Abdenur

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accused Itamaraty of embracing a “backwards anti-Americanism” in its foreign policy and, with regard to the FTAA, sacrificing potentially beneficial trade opportunities.

<sup>xv</sup> A recent study, for example, notes a substantial deterioration of public support for international trade in the United States between 2002 and 2007 (Kohut and Wilke N.D.).

<sup>xvi</sup> The president of an organization representing Brazilian farm exporters expressed a similar view, “The FTAA was undermined by the disinterest displayed by practically all of the countries in the hemisphere, starting with the two that presided over the process, the United States and Brazil” (Jank 2006).

<sup>xvii</sup> In 2003 the *New York Times* published a series of editorials under the title of “Harvesting Poverty” on the damage caused by rich country subsidies and tariffs to poor economies.

<sup>xviii</sup> This idea has been elaborated by Amrita Narlikar and her collaborators. See Narlikar and Tussie 2004; Narlikar 2005; and Hurrell and Narlikar 2006.

<sup>xix</sup> GDP per capita for Cuba is from the CIA World Factbook. All other data come from the World Bank’s World Development Indicators.