Refocusing America's Long Term Foreign Policy on the BRICs; The Case for Cooperation with Brazil and China

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Refocusing America's Long Term Foreign Policy on the BRICs: The Case for Cooperation with Brazil and China

Izabella Safiyeva

May 13, 2014

Master’s Thesis
Submitted in Partial Fulfillment of the Requirements for the Degree of Master of International Affairs at the City College of New York

Advisor: Jean Krasno
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Abstract

This thesis examines relationship between the US and the BRICs (two of the BRICs in particular, Brazil and China). It sets out to analyze how the existing relationship between the U.S. and Brazil, and similarly the relationship between the U.S. and China is not functioning as well as it could be and how it can be constructed in a way that would be most beneficial for America. It is the argument of this paper, that to date, the U.S. has not been managing its relationship with these BRICs countries as effectively as it could be - a lot more can be done. This topic is important as we live in a mutually interdependent society. Countries on different continents are now dependent on each other for their own economic well being. A well to do neighboring country is mutually beneficial. A thriving economy and domestic tranquility facilitates trade and relations. The current diplomatic and economic relations with China and in particular with Brazil (emphasis on Brazil), are not adequate. In this thesis, I will show that in comparison to our relationship with Europe, the US could be doing more with these two BRIC countries. When comparing the level of the US engagement with Europe to the engagement with China and Brazil, the later lags in similar attention given our Western allies.
Chapter 1 -- Introduction

In this thesis, I will examine relationship between the US and the BRICs (two of the BRICs in particular, Brazil and China). This thesis sets out to analyze how the existing relationship between the U.S. and Brazil, and similarly the relationship between the U.S. and China is not functioning as well as it could be and how it can be constructed in a way that would be most beneficial for America.

It is the argument of this paper, that to date, the U.S. has not been managing its relationship with these BRICs countries as effectively as it could be - a lot more can be done.

Presently there are several weak spots in the U.S. - Brazilian ties. The U.S. and Brazil do not have a tax treaty. Brazil is the only country with such a large economy with whom the U.S. does not have a bilateral tax treaty. A tax treaty would serve a logical first step toward a deeper economic relationship ripe for investments. ¹ On the consular side, the relationship lacks ease in business travel and tourism. The visa restrictions and the few offices that process visa requests for Brazilians seeking to come to the U.S. are a real point of concern in order for the U.S. – Brazilian ties to grow deeper. At the moment, the U.S. visa renewal process is lengthy, turning away Brazilians wishing to visit America or engage in international commerce/business. ² Already producing high quality airplanes, Brazil is looking to build up a domestic aerospace industry while lessening its reliance on the U.S. and Europeans for space equipment. Brazil forged a space program with China; in December of 2013 it was reported that the two countries unsuccessfully tested a

satellite launched from China. It seems that there is an absence of on-going high-level bilateral political dialogue and little follow up on planned initiatives. This was evident in the recent cancelation of Brazil’s state visit to Washington D.C.

In regard to China, the U.S. has been on a trajectory of consistent efforts to forge a closer relationship. The two nations came a long way; such level of cooperation has not been seen in their history. Yet there is still a way to go; Chinese Foreign Minister Wang Yi reviewed Sino-American relations for a newspaper article in which he called for concrete policies turned into practical solutions. The foreign minister also urged building strategic mutual trust and keeping close engagements between senior leaders, extending to all levels as well. Yi expressed a desire for more communication and coordination between China and the US on regional issues. The Chinese also would like for the US to show more sensitivity and respect for the territorial integrity of China’s sovereign issues with Taiwan and Tibet. Finally, the Foreign Minister aspires to see the two countries further advance bilateral investment treaty negotiations to achieve an early breakthrough.

In their article, “A New Great-Power Relationship with Beijing,” Douglas H. Paal and Paul Haenle outline foreign policy and diplomatic challenges that exist between the US and China. The authors argue that in order for the US to have good relations with other Asian nations, the US must first pick the right approach with Beijing. The biggest challenges ahead are the deficit of trust, regional tension over territorial disputes as well as US/Chinese domestic hurdles. Possible solutions to theses challenges would be: to

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deepen military to military interaction and refrain from stating that the Chinese manipulate their currency. Investments made by the Chinese on American soil should not trigger the alarm on national security and finally, both should avoid partaking in unhealthy competition.  

Why this topic is important:

We are all mutually interdependent. Countries on different continents are now dependent on each other for their own economic well being. A well to do neighboring country is mutually beneficial. A thriving economy and domestic tranquility facilitates trade and relations. The two countries are most certainly regional powers and more recently their global influence has grown tremendously. Their respective economies prospered thanks to large volumes of exports in manufactured goods and raw materials.

Why BRICs? Which particular BRICs?

The U.S. and Europe have a commendable record of cooperation; this relationship is solid, secure and mature. It is time for the U.S. to explore opportunities presented by nontraditional allies and take steps to integrate among other nations that are rapidly rising. The U.S. should take multilateral approach and above all, avoid viewing the world unilaterally. We are all interdependent. Our success is dependent upon the success of other countries.

Taking a multilateral approach of becoming close to the BRICs does not mean abandoning Europe. Financial advisors call this strategy diversification. Likewise, it is

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time for the U.S. to direct its attention to other areas around the globe. It is in the U.S. best interest to forge closer ties with the BRICs, particularly Brazil and China. It will be to the U.S. advantage to position itself closer to BRICs to appease interests on both hemispheres.

In this thesis, I will be relying on Brazil and China to illustrate my argument. My reasoning to pick Brazil over India has to do with the fact that, India continues to be weighted down by extreme poverty. Millions of Indians are stuck in the vicious cycle of perpetual poverty. Not too long ago, Brazil too had the same problem. However, unlike India, Brazil was able to pull significant numbers of people out of favelas. Lifting millions of Brazilians out of poverty, Brazil created a larger middle class with growing purchasing power.

The relationship between the U.S. and Russia has been widely discussed since the end of World War II, all the way throughout the Cold War and in the post-Soviet era. For this reason, Russia will not be a part of the discussion. Last but not least, South Africa is part of the BRICs acronym first coined by Jim O’Neill. Although South Africa has a large economy and is crucial on the African continent, it is beyond the scope of this paper.

Several questions that are important to consider and keep in mind throughout this thesis, are:

1. Q: Why BRICs? Why not traditional Western allies?
   A: Over the last few decades, BRIC countries have become regional powerhouses. Within their respective areas they dominate economically,
politically and militarily. Traditional European allies are preoccupied with Eurozone fiscal issues. Germany, by some accounts, is the only viable country within the EU that has been thrust into a saving mode of the financially strapped EU member states. 6 This is not to say that our allies in Europe should be forgotten. The difference between the U.S. relationship with the BRIC countries and the E.U. is that with the latter, the U.S. has mature and stable relations while the former is lacking the same stability. It is the core argument of this paper that the US now has weak relations with Brazil and to some extent China.

2. Q: What is the evidence of this weakness?
   A: for Brazil; absence of double taxation treaty, visa restrictions, losing influence in sale of aerospace equipment and technologies, and no high ranking official maintaining the relationship. For China; deficit of trust, need for cooperation in regional issues, absence of bilateral investment treaty.

3. Q: BRIC value to United States:
   A: It is a fair statement that the U.S. no longer exerts the same influence it once did within the Latin and South American region? This is true because China is gaining influence in the region. China is positioning as a competitive trade partner in Latin America. China’s imports from Latin America increased year by year, while numbers of American imports remained flat. Not only is China a big trading partner to Latin America, take note that China loaned $400 million to Costa Rica to build a cross-country road. 7

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Developing close ties with Brazil would allow the U.S. to regain what is has lost over the years in the Western Hemisphere it long claimed to preside over as part of the Roosevelt Corollary to the Monroe Doctrine. The fact that Brazil has been lobbying for reform at the Unites Nation’s Security Council, precisely wanting to obtain a seat as one of the 5 permanent members shows that Brazil undeniably wants a bigger role in international affairs. Domestically, this is also evident in the successful bid to host the 2014 FIFA World Cup and the 2016 Rio Olympic Games.

**China:** already a permanent member of the Security Council. It is the second largest economy in the world. China owns the biggest share of the United States treasury bonds; Brazil is not too far behind either, coming in as the forth-biggest holder of U.S. treasury securities.  

China is on good terms with Russia and countries in the Middle East. Over the last couple of years, China has tremendously expanded its reach within the African continent. China is on friendly terms with a number of states that the U.S. is not.

4. **Q:** Out of the four BRICs, which countries demand more attention and worthy of United States cooperation?

   **A:** Based on population and economy size; in the first place China and close second, Brazil.

5. **Q:** Why China and Brazil? China is the 2\textsuperscript{nd} largest economy in the world worth $9 trillion US dollars.

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A: Brazil is the 6th largest economy, valued at $2.5 trillion. Brazil’s upcoming 2014 World Cup and 2016 Summer Olympics is reminiscent of China coming out party in 2008. However, since winning the bids to host athletic events, Brazil erupted in a string of domestic protests expressing disdain for price hikes in public transportation. Domestic disruption is not uncommon while large athletic events are hovering overhead; in 2008, groups supporting Tibet and Darfur were protesting China’s hosting of the Olympic Games.

6. Q: Why not Russia or South Africa?
A: The relationship between the U.S. and Russia has been widely discussed since the end of World War II, all the way throughout the Cold War and in the post Soviet era. For this reason, Russia will not be a part of the discussion. Although South Africa has a large economy and is crucial on the African continent, it is beyond the scope of this paper.

7. Q: How would the U.S. benefit from forging close ties with the BRICs and cooperating on global issues?
   a. Global cooperation is beneficial cost-wise which can lead to sharing the financial and logistical burden of policing the world’s waterways.
   b. Global public relations. New partnerships would renew image with a favorable outlook.

Hypothesis

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The current diplomatic and economic relations with China and in particular with Brazil (emphasis on Brazil), are not adequate. In this thesis, I will show that in comparison to our relationship with Europe, the US could be doing more with these two BRIC countries. When comparing the level of the US engagement with Europe to the engagement with China and Brazil, the later lags in similar attention given our Western allies.

Methodology

I envision turning to books written by leading international relations scholars to support my work’s large arguments. Similarly, I intend on using scholarly papers for academic trend spotting within the realm of international affairs. Official data and statistics prepared by various departments within the government will be helpful to support these arguments. I am confident it will be worthwhile to consult inter-governmental organizations of the World Bank and the United Nations for reports such as the annual World Development Report and the Human Development Report. Additionally, I will be staying abreast in news gathered around the web from top tier publications for up to date developments. The Economist Magazine would be especially useful for obtaining country reports published quarterly.
Richard N. Haass, current President of the Council on Foreign Relations and foreign policy expert, being in the field for four decades and spanning several administrations recently wrote a very concise book on what the U.S. should and should not be doing domestically and abroad. In *Foreign Policy Begins at Home; The Case for Putting America’s House in Order*, his main argument is that, the U.S. is overreaching abroad and underperforming at home. Haass maintains that the U.S. has a distorted foreign policy focus on the Middle East and not enough focus on Asia, and the rest of the world. The author maintains that the U.S. should allocate resources to domestic needs such as: the economy, infrastructure and schools. Furthermore, Haass asserts that policymakers at home should be concerned with the growing deficit and slow rate of GDP.  

When Haass states that the U.S. has overreached abroad, he is talking about military interventions in Iraq and Afghanistan. Furthermore, at home, the U.S. is not as it once was; the economy and society are not as we would like them to be to continue shaping the world. In his book, Haass develops the Doctrine of Restoration by which he means that it would be more beneficial to focus less on the Middle East and pivot towards Asia where the power lies. The author blatantly states that we would be better off by not engaging in outside wars but instead we should preserve resources to fix our country in order to position ourselves to do more in the long-term, since American leadership begins at home.  

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Elaborating on China, the author points out that although there are significant problems (environmental degradation, political system, emergence of nationalism), the U.S. must be ready, willing and able to deal, if not cooperate, with the China as it currently is. On that note, Haass addresses Europe which he states will remain the same and most importantly will not step up to be a valuable partner in the 21st century as it was the 20th.

I envision that Haass’ book will add a great deal to the final chapter of the thesis, which aims to cover policy recommendations.

David Shambaugh is professor of political science and international affairs, member of the Council Foreign Relations, and a non-resident senior fellow at the Brookings Institution. Since 1984, he has written extensively on China and is considered to be the foremost expert on China’s foreign policy, military and security issues.

Shambaugh’s most recent work is *China Goes Global; The Partial Power* (2013) in which he conveys that contrary to common perception and taking into account numerous problem areas, China has yet to be on the same level as the U.S., therefore making it a partial power. Shambaugh divides his book into chapters that cover China’s global grasp in global governance, diplomatic, economic, security and cultural presence. This book will be a great source of information when discussing China’s strengths and weaknesses.

According to the author, since its big push forward, China has become a sought after partner in global governance. Despite China’s presence being wide and far, political influence has been limited. Judging by its record of involvement, China does not engage
itself in international affairs apart from standing its ground on issues relating to Tibet and Taiwan.  

He puts forward an interesting take on China’s success. While many scholars and politicians would describe China in the last couple of decades as having risen, Shambaugh sees it differently. He believes that China has spread across the globe gaining attention for its presence most notably in Africa but in other countries as well.

Likewise, Shambaugh makes a point to highlight the fact that the second largest economy in the world does not carry proportional weight in contributing to international causes. To that extent, China became involved in international organizations to elevate its image, and continue to be involved to maintain its ‘face,’ but not because it sees a real value in these institutions. The author outlines specific areas that are underfunded when taking into account China’s GDP, they are: contributions to the UN Operating Budget, contributions to UN Peacekeeping Operations and climate change initiatives which are lackluster.

Based on Shambaugh’s analysis of China’s impact around the globe, I would like to suggest that areas in need of improvement would be opportunities for the U.S. and China to collaborate, thus forging closer ties. Given, China’s abundant potential for bigger and better things, the U.S. would play the role of mentor to cultivate China to the fullest. I would argue that cultivating China would not be to our detriment, instead, it would contribute to an international dialogue that would alleviate the financial strains that the U.S. has been taking on in recent history. And as Haass would have it, funds saved abroad would find best use domestically in our economy, infrastructure and education system.

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BRICS

In his 2009 paperback edition of the highly acclaimed *The Second World: How Emerging Powers are Redefining Global Competition in the 21st Century*, Khanna writes that at this point, countries of the world have evolved to such extent that it is impossible to have a unipolar world ever again. To that extent, Khanna writes that a level playing field has emerged between the United States, the European Union and China.  

The second half of the 20th century has become synonymous with globalization and as the world becomes smaller, nations are scrambling to obtain vital resources to fuel further development. The author presents a perspective that is hard to disagree with; he says that the rise of the Second World is beneficial to the Third World since the relationship is defined by no strings attached opportunities that would otherwise come with conditionalities from the First World. Khanna calls the Second World’s alliance creation between each other and the Third World, a structural shift.

Khanna offers a five-step strategy for America to renew itself in this redefined world order and effectively deal with the changes of the 21st century.  

- Step 1: “speak of global interests and values rather than American ones.”
- Step 2: “America should drastically, ramp up its diplomatic activity by enhancing the powers of regional assistant secretaries and adding ambassadors to key regional institutions.”
- Step 3: “Diplomacy must be boosted not just through government channels but through a “diplomatic-industrial complex.” Wall Street wants open, stable

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emerging markets, and is increasingly willing to provide the funding and
knowhow necessary to stimulate development in ways Congress cannot.”

• Step 4: “What Congress can do is get the country’s fiscal house in order, and
avoid protectionist reflexes when it comes to channeling foreign sovereign wealth
into renewing America’s crumbling infrastructure and fostering innovation.”

• Step 5: “Finally, the United States must pursue a G-3 with the EU and China.
Swing states like Russia, Saudi Arabia and India can influence the agenda, but
only the big three can effectively sanction those who don’t play by the rules. A G-3
would also be a vehicle to address global challenges, such as stabilizing the
price of oil, reducing poverty, and intervening constructively in failing states.
None of these goals can be achieved without the strategic collaboration of the
world’s three superpowers and it is this issue-based, bottom-up cooperation that
could build trust and eventually generate equilibrium rather than tension among
them.”

In Parag Khanna’s *The Second World: Empires and Influence in the New Global
Order* (2008) he argues that traditional leaders will yield to the global influence of
smaller countries. Khanna’s larger argument is that the world order is being reversed in
which the Second World countries are becoming more and more influential due to these
three factors; money, culture and energy. 14

Khanna regards China as a superpower. In his view of the world order, the U.S. is
first, followed by China, while the European Union (EU) is third. Divided in five parts,
Khanna covers each geographical region proving his argument that smaller, Second

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World countries will begin to exert influence on traditional powers. In his chapter on Asia, Khanna is similar to Martin in the way that both authors believe that China already has and will further develop a significant amount of influence on culture. The bigger picture that Khanna communicates in his book is that, to other Asian nations, China’s rise is not seen as a threat but instead, as a tool for their development and advancement. Therefore it would be a natural outgrowth that Second World countries would look to China for leadership. Khanna justifies regarding China as superpower in view of its massive capital investments in Research and Development (R&D).

Fareed Zakaria, author of *The Post-American World* (2009), is convinced that household debt and leverage (another word for debt) accumulated on Wall Street by ruthless corporate titans has gotten America in big trouble. According to Zakaria, everyone is to blame for the debt debacle: business elite, politicians and people on Main Street. Zakaria argues that the country and its people’s relationship with debt will dictate the future; he firmly believes that the reason for Chinese success lies in the fact that households and corporations have been very cautious with taking on debt and rightly so. Living and spending within one’s means is a basic rule that is widely ignored by many Western countries, but is honored by the Chinese. As part of this cycle, the Chinese government saved its money in contrast to the American government that started issuing treasury bills to finance large-scale projects. He goes on to write, “through their accumulation of massive quantities of American debt, the Chinese ended up subsidizing
the behavior that caused it – American consumption … The Chinese over saved, the Americans over consumed.”  

Robyn Meredith, a well respected journalist who has written a tremendous number of articles about China and India, in her 2008 book, The Elephant and the Dragon: The Rise of India and China and What It Means for All of Us, Meredith makes an impressive argument how these two countries are surpassing the US. The author has done two things particularly well: first, her use of statistics is astonishing. For example, 75% of toys are manufactured in China. India churns out twice as many college graduates when compared to the US, yet they are willing to take on call center jobs that are considered to be beneath many Americans. And second, Meredith has shown to us that Chinese and Indian workers are not only significantly cheaper, but they are also more productive than their counterparts in the US.  

Brazil

Larry Rohter, a former New York Times correspondent in Brazil gives a full overview of the country’s rich and diverse history all the way through modern times in his book Brazil on the Rise. While most chapters of the book are very useful for the lay reader, for the purposes of this paper, I will be drawing from Rohter’s chapters on industry, agriculture and energy when discussing reasons to cooperate with Brazil on a deeper level.  

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There is a stark difference between the Larry Rohter’s book and Riordan Roett’s, *The New Brazil*. Riordan Roett is a longtime academic and author of nearly two-dozen books and a textbook on Brazil. This latest book by Roett most certainly has an academic feel, dividing the chapters along political eras in Brazil’s history. I anticipate consulting Roett’s work to educate myself on Brazil’s political landscape as I go along in my thesis.

One of the contributors to *The Pivotal States; a New Framework for U.S. Policy in the Developing World* (1999) a book of essays, is our own Jean Krasno who pens a chapter on Brazil. Having written her doctoral dissertation on Brazil and published an article on the country’s nuclear program, Krasno saw Brazil as an important country even before it was dubbed as one of the emerging markets and subsequently rolled into the BRIC acronym by Jim O’Neill. Jean Krasno argues in her essay that Brazil is a pivotal state due to its size and success in overcoming not only economic issues but also the transformation from military-led rule to a democratic state.

After outlining the country’s profile, Krasno makes several influential points not to be missed. Backing up her argument that Brazil is a crucial state worthy of the United States’ attention, she cites that historically Brazil has been an ally to the West during both world wars and on issues presented at the United Nations. Additionally, Brazil is a leading member of the Organization of American States, able to influence large number of member votes.

Besides the political aspect, the United States and Brazil have other areas of common interest. Krasno writes that Brazil is “a pivotal nation in curbing environmental

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degradation, preventing climate change and in preserving biodiversity.”

Moreover, the Brazilian move to dismantle its nuclear weapons program is in tune with American efforts to stop the nuclear proliferation across the globe.

Krasno’s proposals for US strategy towards Brazil are on point with the situation laid out. She writes that Brazil and the United States can foster a closer relationship once the US recognizes Brazil for what it’s worth and acts accordingly. By the same token, the US can support democracy in Brazil by allocating foreign aid packages to ease pressure on the government to address a multitude of social issues. Krasno specifically cites the following that would surely make a difference for the average Brazilian: grants to education, job training, rural development and small-business creation. The author of the essay points out all this doesn’t have to be carried out solely by the US; the UN Development Program and the World Bank could easily step up to provide their funds and expertise.

Krasno also writes that direct government relations can be enhanced by following through on a bilateral commission originally established by Secretary of State Henry Kissinger in 1976. The purpose of this commission would be to address areas of mutual interest as aforementioned. Adding to that, formulating a treaty of commerce and navigation with Brazil would be tremendously helpful.

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20 Ibid. 194.
Reading Krasno’s chapter on Brazil, I came across a sentiment that also runs through George Friedman’s book, *The Next Decade: Where We’ve Been and Where We’re Going* (2011). The author conveys the importance of maintaining the balance of power. For each continent, he outlines hotspots with which the US must actively deal with due to the importance of geopolitics. He devotes a significant part of his discussion to Russia and Pakistan, which are beyond the scope of this paper but still equally important in the grand scheme of things. Friedman outlines all-important objectives with which the US will come in contact over the next decade.

In a chapter entitled “A Secure Hemisphere,” Friedman writes that Argentina is favored by the US over Brazil. This could be explained by Friedman’s words that over time, Brazil could develop into a competitor for the US.

In the next decade, while maintaining friendly relations with Brazil, the United States should also do everything it can to strengthen Argentina, the only country that could serve as a counterweight. It should be remembered that early in the 20th century Argentina was the major power in Latin America. Its current weakness is not inevitable. The United States should work toward developing a special relationship with Argentina in the context of a general Latin American development plan that also incudes resources devoted to Uruguay and Paraguay.

Friedman sums it up pretty well by writing the following:

A unique program for Argentina could generate a premature Brazilian response, so Brazil should be included in any American program, if it wishes to participate. If necessary, this entire goodwill effort can be presented as an attempt to contain Hugo Chavez in Venezuela. It will cost money, but it will be much cheaper, in every sense, than confronting Brazil in the 2030s or 2040s over the control over South Atlantic.

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22 Ibid. 202-203.
U.S. favoring Argentina over Brazil, for me begs the question, why? It is something that I hope to have an answer for toward the end of this thesis.

The work of Robert D. Atkinson and Stephen J. Ezell, *Innovation Economics: The Race for Global Advantage* (2012) is very similar in ideas and attitude to Richard N. Haass. The authors argue that America is losing its edge in innovation and with it, we are losing basic industries as well. Once again, other nations such as China are playing smart by protecting their infant industries and even demanding foreign companies to surrender their intellectual property in return for market share. Atkinson and Ezell identify two policy failures that are running America into the ground. The first is what the authors call “innovation mercantilism.” And second, Americans are simply in denial about the country’s waning position in today’s world.  

In some sectors, experts are starting to worry that while American year-to-year contributions to R&D funding are still above Asian giants, we could be in trouble over long-term investments. According to Patrick Thibodeau, the problem is hidden in the fact that American R&D, which is federally funded, has not increased. To that extent, $129 billion that was set-aside for R&D in 2013 is actually a decline of 1.4%. Moreover, he writes that “Other emerging economies, besides China, are also spending more on R&D. India, for instance, will invest about $45 billion next year in R&D, an increase of just over 12%.”

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The authors yearn for the American policy makers to do more since “Nations around the world are establishing national innovation strategies, restructuring their tax and regulatory systems to become more competitive, expanding support for science and technology, improving their education systems, spurring investments in broadband and other IT areas, and taking a myriad of other pro-innovation steps.”  

China

During the literature review, I have come across two very informative books that complement each other’s work. They are; Barry Naughton’s *The Chinese Economy; Transitions and Growth* (2007) and *Demystifying the Chinese Economy* (2012) by Senior Vice President and Chief Economist of the World Bank, Justin Yifu Lin.

Naughton’s *The Chinese Economy; Transitions and Growth* is his tenth book and a valuable contribution to the study of China’s modern economy. In it, Naughton lays out a comprehensive overview of the country’s efforts beginning after the revolution in 1949 and the subsequent transformative steps taken by the new government in order to enter the modern global economy. The author skillfully covers China’s early economic policy reforms and the institutional change that followed the ‘opening’ period.  

In his book, Justin Yifu Lin covers the reasons for China’s undisputed decline before the 18th century and China’s efforts to regain its preeminence ever since. Throughout the pages of this book, the author urges his audience in China and other developing countries around the world to understand each country’s specific situation (political, economic and social) from all angles. He states that there is no one answer or theory to go by; what worked in one place, may not work in another. Each country must

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25 Ibid. Pg. 6.
find its own unique route to success. The author’s profound hope is that other countries will learn without having to make the same missteps made by China over the years until it reached its current achievement.  

Martin Jacques argues that by 2050 the world order will be completely different from what it is today in his 2009 book *When China Rules the World*. In this new world order, China will be the hegemonic power whose economic might will surpass that of the U.S., India, Japan and all the currently leading European countries (as projected by the Goldman Sachs data). Jacques’ primary argument is that China will not only be an economic hegemon, but it will also have significant impact politically and culturally – it will be the driver in the new world order. Furthermore, the author asserts that China’s impact on the world will be as great, if not greater than that of the U.S. over the last century.

Jacques also delves into how the U.S. achieved its superpower status shortly after World War II and decades later, how George W. Bush’s flawed foreign policy has brought the country into a steady economic decline. It is a well-known fact that the reason why the U.S. is regarded as a superpower is largely due to its impressive military expenditures; Jacques believes that as the U.S. goes through the economic slump, it will become increasingly expensive to support the military bases around the world and the U.S. will no longer be able to maintain its superpower status. The author lists several factors which he asserts are the reasons behind the American decline, they are: deficits, overconsumption, and lack of domestic manufacturing.  

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Theory

International relations would be void without theory and a theoretical framework. Having said that, Joseph Nye and his numerous works seem to be the most appropriate within the discussion of the above laid out topic. Nye is by far considered to be a pioneer in international affairs; in 1977 along with Robert Keohane, he co-founded the theory of neoliberalism. Also with Keohane, they co-authored *Power and Interdependence* (2001), which offers theoretical approach to understand the complex world of today’s politics and international relations.  

In 1990, he coined the term ‘soft power’ and with it he defined what the U.S. has done with such success after World War II. So, what is soft power? The man who came up with the concept defines it as “the ability to get what you want through attraction rather than coercion or payments. It arises from the attractiveness of a country’s culture, political ideals, and policies.” Nye’s latest book is extremely helpful in understanding exactly what is soft power and using his definition to assess other countries soft power influence. I will be consulting his book further and in more detail when analyzing whether or not soft power is manufactured by Brazil and China and if yes, to what extent.

Coming on the heels of the World Trade Center bombing in September 2001, Joseph Nye pens a book urging Americans to be less arrogant and more sensitive to needs of others. The author states that Americans became too comfortable being the unipolar power after the collapse of Soviet Union and thereby grew accustomed to ignore “many international treaties, norms, and negotiating forums.” Nye outlines issues of global

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magnitude, which he argues the US cannot tackle alone. He urges for the US to lead by cooperation and soft power; relying only on hard power will not cut in today’s world of ‘contemporary information revolution’ and globalization. He adds that global climate change and international financial stability could be ensured and achieved by working with others and cooperating while carrying our duties with respect to other countries.
Chapter 3 – World Economy

Among the many casualties of World War II, were the national economies of the Allies and Axis powers alike. Following years of warfare that destroyed vital infrastructure, Europe and Japan were in ruins - physically and financially. The US and the Allied forces came together to collaborate on rebuilding efforts in Bretton Woods, New Hampshire. Today’s World Bank and the International Monetary Fund are the products of the Bretton Woods conference of 1944.

In the years since the inception of the World Bank and the IMF, the global economy evolved to the point that these two premier institutions are part of the picture, but not the whole picture. Let’s chronicle the evolution.

Not too long ago, developed countries were at the helm of the decision-making process. The European Commission explains that,

At its beginnings, the G7 was an informal gathering of heads of state and governments of the world's most advanced economies (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States). It started at Rambouillet in 1975 at the initiative of French President Valéry Giscard d'Estaing and German Chancellor Helmut Schmidt. The European Commission has regularly taken part in all sessions since the Ottawa Summit of 1981.

In the early stages, members of the G7 were accompanied at meetings by their foreign and finance ministers. In 1998, the British Presidency decided to separate the ministerial meetings from the original summit in order to keep the original concept of a small, informal gathering. In the same year, Russia joined what then became the G8. Since 2005, the G8 has been holding dialogues with the major emerging economies of Brazil, China, India, Mexico and South Africa. 32

According to Riordan Roett, author of The New Brazil, the expansion from the G7 to the G20 occurred when the George W. Bush administration was pressured by its EU allies to “expand the decision-making framework from traditional G7 to the G20, to

include the largest economies in the world.” 33 Roett goes onto to write that shortly after the G20 formation, Brazil quickly emerged as the leading nation of the group.

The group’s first gathering took place in Washington D.C. in 2008 shortly after the world was brought down to its knees by the financial crisis. The Economist characterized the meeting to be a realistic assessment of global affairs. The G-20 set out clear objectives they believe must be addressed. Among the target objectives are a new set of universal accounting standards and reform of the outdated Bretton Woods institutions – the IMF and the World Bank. 34

Since its formation, the goal of the G20 summits has been to bring together finance ministers and central bank governors from 19 countries and the European Union. As seen on the map, members of the G20 are; Argentina, Australia, Brazil, Canada, China, France, Germany, Indonesia, India, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States and European Union.

Source: Department of Foreign Affairs and Trade, Australian Government

According to the Australian Department of Foreign Affairs and Trade, the 2014 summit host, the G20 members account for 85 percent of the world economy, 80 percent of global trade, and two-thirds of the world's population.  

A snapshot of the largest world economies in 2012 reveals that while the U.S. is still at the top of the pack, BRIC countries are not too far behind, in fact they all made it into the top 10. Take a look:

**Gross domestic product 2012**

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Economy</th>
<th>(trillions of US dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>United States</td>
<td>15,684,800</td>
</tr>
<tr>
<td>CHN</td>
<td>China</td>
<td>8,358,363</td>
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<tr>
<td>JPN</td>
<td>Japan</td>
<td>5,959,718</td>
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<tr>
<td>DEU</td>
<td>Germany</td>
<td>3,399,589</td>
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<tr>
<td>FRA</td>
<td>France</td>
<td>2,612,878</td>
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<tr>
<td>GBR</td>
<td>United Kingdom</td>
<td>2,435,174</td>
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<tr>
<td>BRA</td>
<td>Brazil</td>
<td>2,252,664</td>
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<tr>
<td>RUS</td>
<td>Russian Federation</td>
<td>2,014,776</td>
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<tr>
<td>ITA</td>
<td>Italy</td>
<td>2,013,263</td>
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<tr>
<td>IND</td>
<td>India</td>
<td>1,841,717</td>
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</tbody>
</table>

In 2012, Brazil had GDP valued at $2.223 trillion, making this Latin American giant the seventh largest economy in the world. Russia’s GDP in 2012 was $2.015 trillion. India’s GDP for 2012 was $1.842 trillion. China’s GDP in 2012 was $8.358 trillion, making it the second largest economy after the US.

**European Union**

Since the great recession of 2008 brought on the global credit crunch, the European Union was profoundly impacted as a whole, and on individual country basis.

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Comprised of 28 diverse member nations, recovery in the Eurozone has been difficult. The public’s response to austerity measures introduced to prevent financial ruin caused social unrest in Greece and other countries. The Economist graph demonstrated how member countries performed in 2013 in comparison percent change in 2012.\textsuperscript{41} As seen on the map, Southern Mediterranean countries in red performed below -2%.

\begin{center}
\textbf{Annual GDP forecast}\textsuperscript{1}
\begin{tabular}{c|c}
\hline
2013, % change on previous year & \\
\hline
4.0 and above (green) & \\
2.0 to 3.9 & \\
0.0 to 1.9 & \\
-0.1 to -1.9 & \\
Below -2.0 & \\
\hline
\end{tabular}
\end{center}

Taken from The Economist, the bar graph below shows the dip that dragged the world’s economies in first quarter of 2008 and lasting until second quarter of 2009.\textsuperscript{42

\begin{center}
\includegraphics[width=\textwidth]{map.png}
\end{center}

\begin{itemize}
\item \textsuperscript{41}“Taking Europe's pulse.” Economist.com. July 18th 2013
\item \textsuperscript{42}“World GDP.” The Economist online. Jun 26, 2012.
\end{itemize}
According to the United Nations’ *World Economic Situation and Prospects 2013* report, the outlook for the remainder of the current year and forecasts into 2014 are not slated to exhibit phenomenal growth; instead economic outlook is predicted to be subdued and to expand modestly especially in the developed countries. 43

For an expanded list of world’s leading economies, take a look at the bar graph from Oppenheimer’s John Stoltzfus. 44

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For an interactive graphic of world’s largest economies starting from 2001 and forecasting through 2018, please visit CNNMoney.  

If hard economic data is not enough, take note of this; the 2011 *Financial Times* reported that Italian luxury yacht builder, Ferretti, was increasing its Brazilian workforce since many native CEOs are making more than their counterparts in New York and London which demonstrates level of personal wealth of being able to afford luxury yachts. And in China where Western luxury brands are doing extremely well among the Chinese consumers who are not only able to afford high marked items, but are becoming increasingly aware of the notion of lifestyle brands.

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Chapter 4 -- Rise of the BRICs

In 2001, Jim O’Neill, former Chairman of Goldman Sachs Asset Management created the acclaimed term and along with his colleagues published much research about the emerging economies of Brazil, Russia, India and China. Since then, O’Neill retired from his executive position at Goldman Sachs, but not without reviewing his very first BRIC report and more than a decade later concluding that the term remains valid. In O’Neill’s initial report, he states that “world policymaking forums should be re-organised and in particular, the G7 should be adjusted to incorporate BRIC representatives.” In his final reflections on the topic before retiring from Goldman Sachs, O’Neill states that global policymakers did not take steps to adjust the complex world mechanisms in which BRICs are viewed as key players.

Road to success

Brazil

Larry Rohter, author of Brazil on the Rise writes that during the second half of the 20th century Brazil was one of the biggest clients of the International Monetary Fund. Today, Brazil has elevated itself to a creditor of the IMF, rather than a client. Such drastic change in a relatively short amount of time is all thanks to clever efforts of fiscal reform by several administrations, most notably Fernando Henrique Cardoso and Luiz Inácio Lula da Silva or “Lula.”

Before we even get to discuss Brazil’s induction into the BRIC acronym and ultimately current position on the global stage, we first must trace its success in reigning in the unmanageable economy that was the predecessor to today’s economic powerhouse.

When Jose Sarney assumed the presidency in 1985, it was the first time in 21 years that a civilian and not a member of the military regime came to power. According to Manuel Da Fonseca, the new government inherited an aspect of the military days which is “complete disregard for fiscal and monetary policies.” For example, the Central Bank was not created until 1964. Additionally, the new civilian government created a substantial bureaucracy at the federal, state and local levels. To support the newly formed bureaucracy, the government spending increased exponentially which directly contributed to the growing deficit. The single biggest problem facing the Sarney administration was skyrocketing inflation. The president attempted to fix the dire situation by introducing the Cruzado Plan on February 28, 1986. Under this plan, a new currency was introduced – the cruado, all the prices were legally fixed and the exchange rate was frozen. Moreover, contracts, payments and wages were subjected to conversion as well. Long story short, the Cruzado Plan came to a halt within the same year it was initiated. To their credit, Brazilian politicians quickly replaced the old plan with the Bresser Plan, which suffered the same fate as its predecessor and failed by the end of 1987. The government took a coffee break trying to figure what’s the next best solution and rolled out the Plano Verao on January 15, 1989. By the following year, Plano Verao

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was out and the Collor Plan was in by March 1990. The list is rounded off with the February 1991 introduction of Collor II, the last plan before Plano Real.

In his article, David Samuels outlines actors contributing to the chronic economic rut, they are: (1) central government spending, which increased faster than revenue, (2) the federal government’s assumption of the states’ debts, and, (3) state-owned banks that gave loans to governors for their political objectives never to see their money again. According to Samuels, Brazilian politicians could not care less about the state of the economy until Fernando Henrique Cardoso became the country’s minister of finance in 1993. “Cardoso’s team was the first to take the relationship between inflation, macroeconomic stability and fiscal profligacy (at all levels of the government) seriously, and thus the Real Plan aimed not simply to ‘control’ inflation (as previous plans had succeeded in doing, at least in the short term) but to bring fiscal balance to both national and subnational government accounts and thus keep inflation in check in the long term.”

Peter Flynn writes that before the Plano Real took off, on June 4, 1993, Cardoso announced a Program of Immediate Action to stabilize the economy. As part of this program, Cardoso reduced the 1993 budget by $6 billion dollars, went after tax evaders, put the privatization program on the fast track and recovered $40 billion dollars that was owed to the federal government by state governments. He also controlled state banks to prevent them from printing more money.

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53 Ibid. 551.
However, before Plano Real was to take place, politicians as well as the Congress had to come on board to conduct a constitutional review that was essential for stabilization and reconstruction of the economy. To get the process going, Flynn lists seven key issues that Congress decided to resolve: (1) fiscal reform, (2) reduction of taxes, (3) changing the distribution of income and expenses between the federal government, state and municipalities, (4) figuring out state monopolies, (5) reforming the social security system, (6) reforming the electoral and party systems and (7) government workers and their job stability.

Flynn went on to write that by December 1993, Cardoso was able to announce his plans for the monumental stabilization effort which was to be phased in three stages. “The first was to win Congress’ support for fiscal measures, to eliminate the budget deficit in 1994 and to achieve a balanced budget as a condition for success of the anti-inflationary measures. This was mainly to be done through the creation of Fundo Social de Emergencia (FSE), the Emergency Social Fund. The second stage, envisaged for March 1994, would be the introduction of a new index, Unidade Real de Valor (URV), while the third would be the introduction of a new currency.” 55

Cardoso was elected President in 1994; his victory helped Plano Real to accomplish some of its objectives. The administration began cracking down on all those activities that kept Brazil trapped in perpetual economic trouble. Samuels writes that the Camata Law passed in 1995 requiring states to limit their payroll expenses or risk losing federal funds beginning January 1999. In June 1998, Cardoso went further with the National Monetary Council by forbidding subnational governments from seeking foreign debt. The President’s strict decree on states did not stop there; when the state of Mina

55 Ibid. 404.
Gerais defaulted on its debt to the central government in early 1999, Cardoso blocked all federal transfers and pulled all remaining money out of the bank to cover some of the bank’s debt payments. This move earned the president and his Plan respect among both peers and constituents. The author goes on to write that, Cardoso took major steps to alleviate the problem caused by state banks; in 1994, state banks in Rio de Janeiro and Sao Paulo were in need of a bailout. Cardoso took a hard stance and declared that state banks will not be continuously bailed out without the government assuming a degree of leverage. At first, Congress disagreed with this decree but ultimately caved in and made room for bank privatization. This meant that state governors could no longer take money from banks without ever having to repay the funds. Privatization created desperately needed accountability in Brazil. Moreover, Samuels writes that Cardoso’s ambitious plan worked towards accumulating budget surpluses; needless to say this was not without flack. The president was blamed for not spending more money on social programs and infrastructure.

The previously mentioned author, Manuel Da Fonseca makes an interesting note in his article; he writes that the currency change had a psychological aspect in Plano Real. Brazil has gone through various currency changes before, but none were as swift as the one with the real under Cardoso. The author argues that this was done to “convince Brazilians that inflation had indeed been wiped out together with the old bills.”

Likewise, pegging the real to the dollar was meant to convince the population that their new money was just as strong as the dollar. According to Manuel Da Fonseca, there are three major contributions that aided the success of Plano Real. The first contribution was the process of opening up the Brazilian economy to foreign direct investment. The second

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56 Ibid. 632.
contribution that helped to drive down the inflation, was the 1992 agreement between international creditors and large Brazilian companies which gave the opportunity for Brazilian businesses to raise money in international markets. And finally, the third and the last contribution was reduction of state owned enterprises through privatization.

Authors Dornbusch and Cline point out that as a result of Plano Real some positive changes have been experienced by the people of Brazil. Wages for all workers increased and especially for the poor which led to major income redistribution. Such outcome would be welcome in any country, but this was especially helpful for those Brazilians who live in extreme poverty. Expectedly, consumption levels climbed up.

In the last year of his second term, Fernando Henrique Cardoso sat down for an interview with Miguel Caldas to reflect on the administration’s accomplishments as well as the monumental changes Brazil experienced throughout the years of his presidency. Citing Machiavelli, a Renaissance man with many credentials, Cardoso said that implementing reforms in Brazil was without a doubt difficult. However, the president is quoted saying that “Brazil is now a mature country. It has become politically, socially, and economically mature.” In this quote, Cardoso was referring to political and economic factors; additionally, several quality of life indicators such as literacy rates have gone up and infant mortality rates have declined. Brazil also has universal health coverage, thus improving the life of every citizen. When asked what is the single most important area where Brazil should improve, the president replied social inequality – in other words, spreading the wealth. Ultimately, the president believes that social mobility is the key to Brazil’s long-term success.

Russia

The mere thought of Russia, invokes scenic images of vastness and wilderness; land-wise, it is the largest country in the world with nine time zones. With its rich and at times turbulent history, Russia remains affixed on the radars of many governments across the globe.

In its heyday, the country was formally known as the Union of Soviet Socialist Republics (USSR) and exerted a tremendous amount of influence in Eastern Europe and across the world among its allies. Such tremendous influence around the globe did not go on without tensions from an equally powerful country, the United States. Shortly after WWII, the US and USSR were locked in a hostile period commonly referred to as the Cold War. Outright hostility between the two hegemons lasted until the collapse of the Soviet Union in 1991. The collapse of the Soviet Union ushered in a multitude of political and economic reforms. Before entering a market economy by launching democratization and privatization, the Soviet Union and its satellite states operated on a command economy. Without much preparation, satellite republics reverted back to being independent states leaving Russia to enter the market economy with the rest of the world.

In 2001, Jim O’Neill, the brain behind the concept of the BRICs noticed that all drastic domestic reforms that took place in Brazil, Russia, India and China were over and done with. These five countries were eager to join the developed world in globalization; all five of them demonstrated a clear interest in becoming major players on the worldwide stage. At the invitation of G-7 member countries, Russia was invited to join the group, thereby expanding the exclusive club to G-8 in 1997. At the time, the invitation extended to Russia was one of the means by which the developed countries
could encourage the newly disintegrated Soviet republic to become a free market liberal democracy. 58

In his book, The Growth Map: Economic Opportunity in the BRICs and Beyond, O’Neill explains why he included Russia in his original 2001 research paper for Goldman Sachs’s Global Economics series. O’Neill states that when he first coined the term and presented the concept to the world, it was met with skepticism. However, the 2008 global credit crunch that contributed to the collapse of numerous companies and banks, demonstrated the BRIC economies withstood the calamities, thereby supporting O’Neill’s original thesis.

In the case of Russia, the author writes that many times he has to come to the defense of his original thought to include the country in the acronym. He states that he regularly receives emails from people explaining to him that Russia does not belong within the group. Surely, the evidence does point to the fact that Russia is faced with significant challenges; low birth rate, heavy reliance on oil and gas for exports, corruption and lack of law and order. However, O’Neill is highly optimistic of Russia’s bright future, he writes, “it has the potential to have a higher GDP per capita than the other BRICs, and even higher than all the other European countries.” 59 Furthermore, he states that “Russia does not need dramatic growth rates. It just needs to avoid crises. If it were to achieve this, its GDP could overtake that of Italy as soon as 2017, and in the decade 2020 to 2030 steadily sweep past France, the UK and ultimately Germany.” 60

58 Smith, Gordon. “G7 to G8 to G20: Charting the evolution of and emerging challenges in global governance.” CIGI. June 8, 2011.
60 Ibid 60.
O’Neill dedicates a good chunk of his writing on Russia’s areas of unlimited potential, among them are; Skolkovo Innovation Center just outside Moscow that is being developed as the next Silicon Valley style for technology innovation. Historically, Russia has been very strong in math and science, churning out world-class engineers and physicists. The author is confident that with the right approach and investment, Russia could produce groundbreaking innovations.

Russia’s natural endowment of oil and gas deposits is enviable. According to U.S. Energy Information Administration: 61

- Russia holds the world's largest natural gas reserves, the second-largest coal reserves, and the ninth-largest crude oil reserves.
- Russia was the largest producer of crude oil in 2011. During the year, crude oil production averaged about 9.8 million bbl/d.
- Russia's Transneft holds a monopoly over Russia's pipeline network, however pipeline exports have been displaced somewhat by seaborne exports over the last year.
- Russia holds the largest natural gas reserves in the world, and is the largest producer and exporter of dry natural gas.
- Russia is one of the top producers and consumers of electric power in the world, with more than 220 million kilowatts of installed generation capacity.

Clearly, Russia has a firm grip on oil and gas production and while it is making profit from the sale of natural resources to its neighbors, the author believes that more opportunity lies in developing other industries. Among O’Neill’s other prescriptions, is

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for policymakers to foster a secure and trustworthy environment for foreign investors. He believes Russia is in an optimal position to become the next motor manufacturing hub. Russia’s geographic location places it close to Europe, the Middle East and Asia, which would aid in the transportation of exports.

Developing other strong industries would also protect Russia from the international market shocks every time the price of an oil barrel goes down. O’Neill cites his personal conversation with Andrey Kostin, the president and CEO of VTB, one of two most powerful banks in the country who sees Moscow becoming the prime city for regional finance and banking.

Similar to its BRIC cousins, since the collapse of Soviet Union, Russia’s consumer culture has taken off. O’Neill argues that more foreign multinationals entering the space, would tremendously aid in Russia’s development. Finally, what would a country be without modern infrastructure; the author notes that on one of his trips to Russia, his plane along with others sat on the tarmac for 14 hours after boarding. Needless to say, such major dysfunction at an international airport should not be happening to a country poised for economic greatness.

To finish off this passage about Russia, it would be really interesting to see how the country will present itself to the world and what will the reaction be in the wake of the 2014 Winter Sochi Olympics. China famously used their moment in 2008 as coming out party to the world, showcasing its awe-inspiring achievements.

INDIA

Fareed Zakaria, author of *The Post American World* who emigrated from India to the US to attend college in 1982 provides a unique insight of his homeland. In his book,
Zakaria describes India before it became synonymous with calling centers and booming Silicon Valley type-towns. The author depicts India of the 1970s as a country “marked by mass protests, riots, secessionist movements, insurgencies, and the suspension of democracy. Underneath it all was a dismal economy, one that combined meager growth with ever-worsening inflation.” ⁶² According the author, sentiment of young professional Indians circa late ‘80s, early ‘90s was that in order to succeed and create a prosperous life one could only accomplish that outside of India. By the time 1997 rolled around, things have dramatically changed in India, and they have changed for the better.

Zakaria offers statistics that certainly explain why India became part of the BRIC acronym. First, the national economy grew “at 6.9 percent over the entire decade and 8.5 percent in the second half of it.” ⁶³ Second, “over the past fifteen years, India has been the second-fastest-growing country in the world, only behind China.” ⁶⁴ As reported by Zakaria, by the default of failed family planning, India unlike many other countries around has plenty of young people, in other words plenty of workers.

Fareed Zakaria’s profound understanding of his country’s strengths and weaknesses, explains why India’s path to economic stardom relied heavily on services rather on product manufacturing. He goes on to write that unlike China, India’s government will not displace countless number of people for the sake of an infrastructure project meant to lure foreign investors. Because of that, India admittedly suffers from less than stellar roads or ports. In the absence of expansive infrastructure, India will “export software and services, things that you can send over wires rather than on roads.” ⁶⁵ This sentiment is

⁶³ Ibid 130.
⁶⁴ Ibid 131.
⁶⁵ Ibid 135.
demonstrated in the make up of India’s GDP; 50% services, 25% industry and 25% agriculture. 66

Ignatius Chithelen, author of “Outsourcing to India” explains why information technology (IT) outsourcing gained momentum in the 1990s and particularly how the U.S. was at the forefront of this movement, thereby contributing to building the Indian IT industry. 67 At the center of Chithelen’s argument is the Y2K problem that he believes was the catalyst for millions of jobs to be sent over to India’s booming IT industry. Without doubt, the U.S. was attracted to India not only because the labor costs were so much less compared to those at home, but also because the Indian population speaks fluent English making business transactions that much easier. According to the author, prior to the mid-1990s, Indian companies were already being hired to do code work which American professionals despised doing, calling it tedious and underpaid. Then, right before the start of the new millennium worldwide fears of mass computer meltdown sparked shortage of IT staff in the U.S., prompting American companies to lobby the government to increase the number of visas issued to foreign IT workers mainly of Indian descent.

A great stepping stone article to understand the types of jobs that are outsourced is S. Ramani’s “IT Enabled Services; Growing Form of Telework” in which he lists the types of jobs that are commonly outsourced to India, among them are; medical transcriptions, billing for medical insurance and back office accounting. 68 The clients for these jobs are typically in the health care sector including hospitals and individual doctors from the U.S.

66 Ibid 135.
Among the very big work items that U.S. clients typically outsource to India are the medical transcriptions required by U.S. laws to be produced by doctors. Additionally, India’s vast labor force handles a multitude of U.S. medical billing claims that are scanned to them and the staff in Chennai handles all the paperwork. Likewise, outsourcing companies in India to handle hospital accounting including the paperwork required by medical insurance companies. The author writes that initially, outsourcing of accounting work began very cautiously, but in a short amount of time Indian companies gained the trust of their American clients and today entire accounting departments are stationed in India and for audits, the department is flown out to Chennai since all records are maintained there and not in the U.S.

According to the author, U.S. companies are gaining tremendous financial benefits when they are sending much of their work abroad.

Large companies that require the services of more than a hundred knowledge workers invariably explore the possibilities of using telework abroad. When the expenditure exceeds a few hundred salaries, it becomes profitable for these companies to open a foreign office in another country, to manage the outsourcing at that end. 69

The second development that has received plenty of attention has been the gradual change from simple to complicated work tasks that American clients entrust to companies in India. It has been several years before this really took hold but it started out with Indian workers demanding to be taken seriously by their bosses. Indians wanted more responsibility in their assignments which slowly but surely led them to higher-level management and strategy jobs, areas which Americans always believed were safe. These days, Indian workers talk directly with clients. Americans were hesitant at first, but

69 Ibid 2307.
eventually gave in under persistent claims that talking to clients directly saves time and money. A cultural change has occurred as well; in the past Indians worked odd hours to accommodate the U.S. workday, which is slowly chipping away as more Americans are rushing to get to their offices on this side of the Atlantic to catch the Indian ‘coworkers’ at the end of their day.  

This has evolved to the point that Infosys, one of the largest Indian based outsourcing companies aims to raise its profile in the U.S. by going after high-end consulting. The Indian company even hired nearly 1,000 workers in the U.S. to solidify their position in the American market.  

Perhaps the most unintended and in some ways surprising effect outsourcing created is reverse migration. Ever since the 1980s, the U.S. has been ranked as the primary destination for Indian immigration. Interestingly enough, American firms outsourcing large volumes of work to India created plenty of job opportunities back home. According an Indian newspaper, the cities of Karnataka, Gujarat and Maharashtra are the top three places for expatriates to return to when coming home. 

However, India’s big elephant in the room remains the number of people living in poverty. The World Bank report states that poverty is especially bad in rural areas; 3 out of 4 people, or 77% of all people living in villages are poor. Poverty reduction goals have been lessened by rapid population growth; population growth caused poverty rates to climb up, making it harder to eradicate extreme poverty. The World Bank puts India’s total poverty numbers at 240 million rural poor and 72 million urban poor. 

The World Bank’s Data Visualization App shows the level of India’s poverty in 1984; 55.51 percent of population was living on $1.25 a day. Followed by 2012 data that shows that the percent of population living on $1.25 a day was reduced to is 32.68.  

China

Thanks to the Great Leap Forward, the development policies of the late 1970s, and particularly Deng Xiaoping’s Four Modernizations, China has lifted itself out of the Third World and now rivals the First World countries. Throughout the development process, China has advanced itself with rapid domestic industrialization, most notably in the manufacturing and steel production sectors. Likewise, China has taken steps unnatural to its political ideology such as the creation of Special Economic Zones (SEZ), the sovereign wealth fund, and operating a host of state owned companies and corporations while opening up to inward Foreign Direct Investment (FDI), thus transforming itself from a planned economy to state-run hyper-capitalism. All these efforts have brought China to its current number two place among the world’s largest economies.

In the era of globalization, China’s competitive advantage has become its cheap labor force. Investors make huge profits by employing China’s abundant levels of cheap industrial labor manufacturing staple goods widely consumed in the West. China’s cheap unskilled labor comes from having a massive population. Apart from India, China’s leveraging on its massive, unskilled labor force has created a competitive advantage unmatched by any other country. Given how closed off China remained for decades, general statistical information is hard to obtain. A 2004 article by *BusinessWeek* reveals that the cost of a factory worker is close to 0.64 cents an hour. However, the wages are expected to be slightly higher in cities and industrial areas due to the large presence of skilled workers. 75

According to the American Enterprise Institute for Public Policy Research, from 1997 to 2002, 60% of US Foreign Direct Investment (FDI) going to China was concentrated in manufacturing. Only 8-10% went to real estate development. Moreover, looking at FDI in terms of geography, most of the US FDI that went into China went into the south and coastal areas; Guandong, Jiansu, Shandong. 76

Special Economic Zones (SEZs) have become one the biggest drivers in liberalization and the development of the Chinese economy since their creation in the 1980s. Since that time, Chinese SEZs have taken off in size, manufacturing consumer staples by the tons. Known to bring colossal revenues, Chinese leadership has gone to scale with this strategy, using it to leverage its ability to seize the opportunities provided by globalization. The expansion of SEZs served as a launching pad into world markets. Cheap manufacturing labor was the competitive advantage offered by Chinese SEZs.

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China’s achievements within the past 30+ years are truly remarkable. Present-day, China enjoys its global status as a major economic player in regional and international trade, however it must be noted that the country was able to do that only after liberalization, trade promotion and foreign investment. As a result of major policy changes spanning three decades and the accession into World Trade Organization (WTO), China has become the hub for foreign investments, which has propelled its GDP to enviable heights.

Barry Naughton, the author of *The Chinese Economy: Transitions and Growth* devotes his book to the transformation steps taken by China in order to enter the modern global economy. In the book, Naughton covers China’s early reforms starting shortly after World War II and the institutional change that came to be known as the post-1970s ‘Reform and Opening’ period. 77

In pursuit of its goal to rapidly develop, China went through several significant stages of reforms. First, it was the Big Push strategy, which started after 1949 and was characterized by tight government control of the economy in which a big portion of investment went into the construction of new factories. Naughton writes that most of the government investment went into industry and industrial investments; more than 80% went to heavy industry. During this time, several new industries were created to produce electric generating equipment, chemical fertilizer, and vehicles.

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Hong Kong and Taiwan, two of China’s most important trading regions underwent massive industrialization beginning with light consumer goods manufacturing and further along upgrading to heavy industry. In retrospect, it is obvious that Soviet-style heavy industry first adopted in China derailed the country from a more natural path in light manufacturing. Naughton writes that,

after 1979, the People’s Republic of China finally reoriented its development strategy and modified the Big Push strategy, it discovered that there were many unexploited opportunities in light manufacturing and export markets. China returned to those neglected opportunities, often in collaboration with businesses from Hong Kong or Taiwan.\footnote{Ibid 59.}

Taking place from 1958 to 1960, Great Leap Forward timeframe is regarded as a highly unstable and tragic period in Chinese politics. Naughton describes the Great Leap Forward as an intensification of the Big Push strategy; in rough terms, the policy did transfer the focus from agriculture to industrialization. The author writes that in rural areas millions of workers were nearly forced to work in factories and pressured to produce industrial output to rival Britain and the U.S. By 1959, local food shortages started to appear due to the workforce drainage in the agricultural sector. The problem continued to get worse as harvests were declining and food reserves were running out. By the end of the year, local food shortages were turning into regional shortages and in 1960 China was fully immersed in a famine. The famine essentially ended the policy of the Great Leap Forward and made room for Deng Xioping’s Four Modernizations that began in 1978.

During the transformation process, it came to light that the Soviet-style command economy was in desperate need of reform. It started in 1978, years after the tragic events...
brought on by the flawed design of the Great Leap Forward. The Chinese Communist Party deemed it necessary to pursue a new development policy. At the Third Plenum of the 11th Central Committee, Deng Xioping officially launched the new development policy, in what came to be known as the Four Modernizations. Under Deng’s leadership the new policy set out to modernize agriculture, industry, technology and defense.

In 1980, two years after the start of the new policy, Richard Baum, editor of *China’s Four Modernization: The New Technological Revolution* writes that,

> the Four Modernizations campaign continues to represent an unprecedented commitment to the wholesale upgrading of China’s economic and technological capabilities ... In the long run, however, the P.R.C.’s goals of becoming a modern, socialist country by the year 2000 clearly depends on expanded economic production made possible by the acquisition of modern high technology. This technology will, it is hoped facilitate the exploration and development of China’s vast energy resources; upgrade China’s iron, steel and machine-building industries; mechanize, fertilize and irrigate China’s 500,000 rural villages; and modernize China’s antiquated infrastructure of transportation and communications.  

More than three decades after Baum has given his prescription for China’s long-term success, it is clear that the PRC has gone above and beyond having successfully accomplished the objectives set under the iconic Four Modernizations. In many respects, China has caught up with many developed countries within these three decades. Not only has China made significant strides in technological and industrial capabilities, but it has become one of the leaders in allocating funds for strategic Research and Development initiatives.

China’s problem was that its domestic economy was completely isolated from the world economy. Foreign-trade reforms were necessary in order for China to be on the same page with other market economies. Naughton goes over the very first reforms that

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Chinese government officials decided to tackle; the southern provinces of Guangdong and Fujian were the first ones to experience open trade channels beginning in 1978. The coastal provinces benefited from the close proximity to Hong Kong; this initial experiment transformed the provinces into vital export sites.

Next on the government agenda was to do the same with the rest of the Chinese mainland. In 1984, Chinese officials presented the liberalization policy that would equate them with the rest of the world in the trade system. The new trade policy also included the following reform elements: devaluation, demonopolization of the foreign-trade regime, significant changes in pricing principles, creation of a system of tariffs and non-tariff barriers and lastly, import substitution and export promotion. The import substitution and export promotion element included in the trade reform enabled China to move away from a planned trading system. Thanks to the new trade reform, state-run firms were now becoming aware and conscious of the role of profits and revenue.

Naughton covers another milestone in China’s path in embracing capitalism, the December 11th, 2001, acceptance into the World Trade Organization (WTO). During the Uruguay Round which created the WTO in 1996, trade liberalization was achieved by the “Grand Bargain.” The term basically means that the developing countries would have an easier time assessing the light manufacturing markets of the developed countries, and in return the developing countries promised to guard the corporations of the developed countries in their markets. By the time that China was up for its accession, the “Grand Bargain” was practically a requirement in order to be granted the WTO membership. By being granted membership into the WTO, China addressed the concerns of all parties involved by honoring the required “Grand Bargain.” Moreover, there were the tariffs that
needed to be lowered in preparation for the WTO membership, a matter which China began to tackle years in advance.

Exactly 30 years after Baum’s book was published, all indicators points to the fact that China was able to do just what the author thought was necessary and as first proposed by Deng in 1978. In his writing, Baum put primary emphasis on technology acquisition as the ultimate key to long-term success. Furthermore, continued success, the editor wrote would depend on China’s ability earn foreign exchange and investment capital to rapidly expand the four designated areas. Baum suggested that investment capital lies in rapid expansion of export- oriented light industries such as textiles, clothing and handicrafts.

Naughton’s book was written decades after Baum, but the two authors share a common understanding that in a global economy, trade and investment are intertwined. Naughton argues that in China, growth in GDP and trade is a direct result of foreign investment.

China’s gradual transition to capitalism resulted in a dual track system in which the old system was slowly being phased out while the new system was slowly introduced. First used in price-reform, the dual track system was later extended to cover other areas in the economy such as the creation of Special Economic Zones. Fan Gang the author of, “Incremental Changes and Dual-Track Transition: Understanding the Case of China” argues that gradual reform and the adoption of the dual track system was the most favorable approach for China, the results of which proved to be most appropriate. The author explains that, at the end of 1978 when gradualism was adopted it was because a big portion of leadership and the society were not in favor of any reforms. Moreover,
gradual reform, characterized by tackling easy problems first and harder ones later, prevailed simply because in 1978 very few people had a clear idea of how to go about implementing market reforms.

The author makes a strong argument for gradualism saying that,

gradualism is more possible in an underdeveloped (under-industrialized) economy with a huge surplus rural labor force like China ... The preexistence of a repressed sector – peasant agriculture as in China – in which people earned a stagnant subsistence income and had a strong demand for change and new opportunities, provided a labor force that was ready to pursue new economic activities.  

Gang explains that “China’s gradual reform also has been characterized by gradual changing of its reform objectives ... the Chinese had neither a clear idea nor consensus about where to go. What the Chinese knew was merely that the conventional centrally-planned system was not working well and that some changes were necessary in order to promote economic growth. Consequently, China has proceeded through a lengthy path of readjusting reform objectives, from ‘a planned economy with some market adjustment,’ to ‘a combination of plan and market,’ and now to ‘a socialist market economy.’

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Chapter 5 -- Cooperation among the BRICs

Jim O’Neill’s 2001 combination of four distinct countries, not only created a special group for the emerging economies, but it also created an exclusive club for the four countries. The BRICs were not immediately recognized by the international community; Russia joined the G7 in 1997, by the group’s invitation. Brazil, China and India did not join the group until it was expanded to the G20 in 1999. Members of the G-8 came to an understanding that it would be unfair to make sweeping global decisions without the involvement of the world’s largest emerging economies.

Of the existing BRICs, only Russia and China have permanent seats on the United Nations’ Security Council. Russia and China’s permanent seats are the direct result of the Bretton Woods institution that granted the Allied forces power in the post-World War II era. The three other remaining seats currently belong to the United States, France, and United Kingdom. Fast-forward to contemporary times when World War II is a distant memory, Germany and Japan that were formally shunned and prohibited from military build up are now leading economies. In 2013, Germany and Japan are fully developed nations, both part of the G8 and G20 and are actively seeking a greater role on the Security Council.

It is quite evident that with their economic might and increasing power within their respective regions that the two remaining BRICs (Brazil and India) are also eager to join the United Nations Security Council apparatus. As recently as this past September, India expressed dissatisfaction that UN reforms are so slow that they even do not come to a review. India has been at the helm of the UN reform initiative for quite some time now and is growing impatient with the pace of developments. “India's ambassador to the U.N.,
Asoke Mukerji, told reporters Monday that more than 120 of 193 U.N. member states support changes to the current structure.  

Interestingly enough, the BRICs’ quest to be formally recognized by the international community on par with other countries, leads them to turn to each other for economic and political opportunities. On the one side, BRICs do not have much in common. Two of them are democratic; Brazil and India. China is not democratic, while Russia is borderline democratic. But in reality, their differences actually bring them together in an unusual sense. Additionally, BRICs are keen to see the value in each other, thereby building close ties and facilitating cooperation. It might be beneficial for the U.S. to take note and perhaps explore ways in which close relations can be developed between the U.S. and the BRIC countries.

Since being introduced to the world as O’Neill’s brainchild, the BRICS forged a brotherly bond that is celebrated every year at their annual BRIC summit. The last BRIC summit took place in Durban, South Africa on March 27, 2013. Prior to that, summits took place in; New Delhi, India (2012), Sanya on the island of Hainan, China (2011), Brasilia, Brazil (2010) and Yekaterinburg, Russia (2009).

Together, BRICs are launching several ambitious objectives to solidify their position in the world. One such project is the BRIC Development Bank, which will be infused with a substantial figure to jump-start the new institution. It has been speculated that every BRIC country will be expected to make an initial $10 billion contribution. Apart from this, no particular details have been released as to what currency the bank will use, who will receive loans or when it will open. But if one thing is clear, it is that the

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founding countries will collectively own the bank. Concrete objectives are being finalized, but the move itself sends a clear message to the international community, that BRICs are consolidating their resources and power as a single unit. In September, it has been reported that the BRICs decided to capitalize the bank with $100 billion with the following contribution breakdown: $5 billion from South Africa, $18 billion from Russia, Brazil, India and $41 billion from China.  

Conceivably, as an extension of their new bank initiative, it was announced at their last summit that the BRICs are taking steps to co-finance infrastructure and ‘green energy’ projects on the African continent. All four countries have serious interests in various African countries. With China’s involvement being the most pronounced at the moment.

Historically, Russia and China have had similar ideologies. Having embraced globalization and with it, capitalism, the case is not the same for both counties domestically. Recently, China experienced a rare exchange of power at the highest leadership level. Shortly after assuming his post, it was reported that the new Chinese leader, Xi Jinping had chosen Moscow as the destination of his first foreign visit as president. It should be noted that the Chinese presidential visit to Moscow comes before an official visit to Washington, signaling the priority placed on Sino-Russian ties.

In October 2013 it was announced that Russian and Chinese energy companies will join forces to explore energy reserves in eastern Siberia. In a joint memorandum, heads of energy companies agreed to explore and produce oil and gas in Russia’s coldest

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83 “BRICS agree to capitalize development bank at $100bn.” RT. September 5, 2013.
84 “BRICS will sign an agreement to co-finance infrastructural projects in African countries.” Voice of Russia, Interfax. March 27, 2013.
region. The companies, Russia’s Rosneft and China National Petroleum Corp. (CNPC) will form a joint venture, “with Rosneft taking 51% and CNPC holding the rest” as reported by the Wall Street Journal. 86 A statement issued by CNPC said, “The oil produced will be used to meet the energy demand in eastern Russia and then exported to China and other Asia-Pacific countries through the Russia-China crude pipeline.”

Being the biggest of the BRICs economy and demand-wise, China facilitates new trade by reaching out to create lucrative partnerships. Russian Prime Minister Dmitriy Medvedev visiting Beijing in late October and announced that “Russia will supply additional 10 million metric tons of crude oil to China a year over the next decade … the deal will be worth $85 billion.” 87

The global credit crisis of 2008 is still very fresh in the collective memory of the international community. In 2012, Brazil and China partnered up for a $30 billion currency swap meant to protect each other’s economy in the event that another credit crunch would occur. As described by Forbes, the idea is to allow each BRIC country to tap into their own foreign cash reserves to starve off liquidity shortage. This particular currency swap between Brazil and China is worth approximately 190 billion yuan, 60 billion real or 30 billion USD. 88 Among the BRICs, Brazil and China lead the pack is creating safety net, specific to their needs.

At the same time of the Brazilian-Chinese currency swap, the two nations also announced the signing of trade agreements. Brazil is particularly looking to sell its Embraer aircraft products to China, one of the biggest markets for commercial and

executive aviation. For Brazil, China is the biggest export market, with this agreement presenting more opportunity to sell Brazilian iron ore, oil and soybeans. It is likely that joint ventures will follow this agreement, as both countries are sure to capitalize on their partnership.  

Apart from BRIC summits that have taken place since 2009, most recently there was a RIC summit held in New Delhi on November 10th for leaders of Russia, India and China. “RIC, formed more than a decade ago, is focused on strategic issues of multilateral cooperation and democratic international relations.” At the RIC Summit, Chinese foreign minister Wang Yi invited Russia and India to further deepen their ties with each other by,

Firstly, increasing strategic trust and regarding each other as true strategic partner rather than rival. Secondly, coordinating in major international affairs to safeguard their own interests and promoting democratization of international relations as well as the construction of a multipolar world. Thirdly, playing a major role in building the Silk Route Economic Corridor and Asia-European Continental Bridge.

Over the past decade, trade between the BRICs and North America, Europe and Japan has grown by almost 300% to more than $2 trillion. Over the same time period, trade between the BRIC nations themselves has increased by 1,000% to almost $320 billion, data from the International Trade Center show.

BRICs are keen to see the value in each other’s markets and consumer base, prompting for a high volume of exports among the group. Take a look at the chart of figures among the key trading partners in 2011.

90 “RIC foreign ministers to discuss trade, politics.” The BRICs Post. November 9, 2013.
91 “China asks India, Russia to join economic Silk Route.” The BRICs Post. November 11, 2013.
Another reason why the BRICs are turning to each other for increased trade is because each country is growing in its own unique way and their needs for investment, development and raw resources are coming from within the group. BRICs are becoming self-feeding group. They turn to each other for raw materials, natural resources and start-up capital. China is Brazil’s second largest market for exports. China is Russia’s fourth largest market for exports; this figure will surely grow and move up since oil and natural gas agreements have been made between Russia’s and China’s biggest oil companies. The case between India and China is similar to that of Russia and China. It is very probable that trade between India and China will increase following the initiative put forth at the RIC Summit this past November.

Russia’s President Putin also encourages trade increases within the group. In an article from the Russian perspective, it is stated that Russia’s trade with the BRICS
partners stood at record $105 billion. “And that’s not the limit,” states Putin. 93 The Russian president is optimistic following the BRICs Summit in South Africa. He believes that the future ahead lies in green economy initiatives and infrastructure projects in Africa.

93 “Russia seeks a rise in mutual trade inside BRICS – Putin.” The Voice of Russia. March 27, 2013.
Chapter 6  
Weaknesses in US relations with Brazil and China

Ralph Waldo Emerson, American writer of the 19th century once said, “our strength grows out of our weakness.” 94 I firmly believe that the US relationship with Brazil and China can only become stronger and deeper. Analysis reveals that the U.S. relationship with both countries is characterized by common interests and opportunities.

It is important to review several weaknesses that are central to the US-Brazilian relationship. One of the greater shortcomings is the absence of a tax treaty. Brazil is the only country with such a large economy with whom the U.S. does not have a bilateral tax treaty. A tax treaty would serve a logical first step toward a deeper economic relationship ripe for investments. 95

One way to reason in this situation is to turn to Howard Liebman’s article, in which he states that developing and developed countries do not enter into tax treaties since the much-needed tax revenue for the developing countries will go away once the double-tax treaty is enacted. The author continues that in some cases, developing countries are willing to enter tax treaties with developed countries as the means to access foreign direct investment. Buried in footnotes, Liebman briefly mentions that between 1965 and 1967, the Treasury Department negotiated tax treaties among other countries.

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including Brazil, but the treaty was never approved in the Senate due to a domestic recession which discouraged foreign investment, thus the treaty never came to fruition. \(^{96}\)

Interestingly enough, according to the IRS website, the U.S. has tax treaties with China signed in 1984, India signed in 1989 and Russia signed in 1992. \(^{97}\) It is puzzling that no such treaty exists between the U.S. and the South American giant, when in 2013 Brazil was the 6\(^{th}\) largest global economy valued at $2.5 trillion according to CNN Money. \(^{98}\) To that extent, at the end of his book, Jim O’Neill refers to BRIC countries as no longer emerging but as growth markets, a point to keep in mind throughout the rest of this thesis. \(^{99}\)

On the consular side, the U.S. relationship with Brazil lacks ease in business travel and tourism. The visa restrictions and few offices that process visa requests for the Brazilians seeking to come to the U.S. is a real point of concern in order for U.S. – Brazilian ties to grow deeper. At the moment, the U.S. visa renewal process is lengthy, turning away visitors wishing to visit America or engage in commerce. \(^{100}\)

Mahmut Yasar, David Lisner and Roderick Rejesus examine the impact of the US Visa Waiver Program (VWP) on bilateral trade in their 2012 “Bilateral Trade Impacts of Temporary Foreign Visitor Policy” article. \(^{101}\) The bureau of Consular Affairs defines VWP as a program that “allows citizens of participating countries to travel to the United


\(^{100}\) “Brazilian-American Relations: one step at a time.” The Economist. April 14, 2012.

States without a visa for stays of 90 days or less.” ¹⁰² Unlike with a tax treaty, the US VWP does not apply to any BRIC country thereby supporting the negative impact on trade claim. Addressing the benefits of VWP, the authors write that not only it encourages international trade and tourism, but it also eases the workload at consulates and embassies. The authors argue that a “less restrictive temporary foreign visitor policy (like VWP) tends to strongly increase US bilateral trade, especially US exports to VWP countries.” ¹⁰³

Intriguingly, the US has a VWP program with two South American countries – Argentina and Uruguay. Entries in the program occurred in 1996 and 1999, respectively. It is difficult not to wonder why Brazil is not part of the list.

At first glance, Heike Alberts’ article doesn’t strike one as being directly relevant to the discussion at hand, however, analyzing the article yields telling thoughts. “Beyond the headlines: changing patterns in international student enrollment in the United States” proposes to conceptualize inflows of international students as foreign policy assets and states that their academic stays in the US is economically advantageous. ¹⁰⁴

Alberts examines the data of international students at US universities after the attacks of September 11 between 2004/2005. Alberts’ reveals that rates of international student enrollment dropped from Muslim countries mostly in the Middle East, but also from Pakistan, Malaysia and Indonesia. Student visas were especially scrutinized for students attempting to study biochemistry or aerospace engineering. Also at this time, the

¹⁰³ Ibid. 516
author writes that enrollment decreased up to 20% from Germany, Spain and Brazil. He goes onto write that Brazil, Germany and Japan exhibited pattern of substantial decline.

The reason why I present the finding of Alberts’ article is because of his arguments advocating reversing the declining trend of international student enrollment and how that can be to the US benefit. The author’s endorsement of international students attending US universities appears throughout different part of the article, but are conveniently summarized here in bullet points:

• Students’ strong ties to home counties creates transnational connections. 105

• “International students are often catalysts of academic cooperation and the exchange of expertise across international borders.” 106

• “While the US subsidizes international students through graduate assistantships, it actually gains more from them economically because most graduate international students pay tuition and all students spend money on living expenses, with estimates ranging from 11 to 13 billion dollars a year.” 107

• Recruiting international students from Arab and Muslim countries is a useful tool to improve international relations and demonstrate good.” 108

Alberts states that “Former international students are desirable permanent immigrants since they are both highly skilled and already adjusted to life in the United States, so that a decline in international student numbers has wider repercussions for the global competitiveness of the United States.” 109 Similar to the thoughts expressed by Mahmut Yasar, David Lisner and Roderick Rejesus, Alberts’s goes to write that “the U.S.

105 Ibid 141
106 Ibid 141
107 Ibid 143
108 Ibid 144
109 Ibid 152
government needs to make a serious commitment to cutting red tape and implementing visa regulations that are fair and transparent and can be handled efficiently.”

Already enjoying a thriving aircraft industry, Brazil is looking to build up its aerospace industry via increased bilateral ties with China. The announcement of Chinese-Brazilian partnership first came in 2008 from then newly appointed head of Brazilian Space Agency (BSA), Carlos Ganem. According to Reuters, “Brazil's space program is seeking to reduce the country's dependence on U.S. and European space equipment and launch vehicles and expand the domestic aerospace industry.” Although the outcome was unsuccessful, the two countries tested a satellite launched from China in December of 2013. As reported, the Chinese-Brazilian space initiative is aimed to monitor land use and deforestation in the Amazon.

To finish off the discussion on the US-Brazilian relationship, it appears that ties are not very deep and neither side is particularly eager to make substantial advances. Relations are cordial but lack the closeness that is present in other bilateral groupings. A commentary by Peter Hakim supports this position: when asked where do US-Brazilian relations stand today, Hakim had the following response,

The United States is making important diplomatic gestures, but no critical shifts in policy direction toward Brazil are visible so far … The sense in Washington is that whatever the United States does, the U.S.-Brazil relationship will not change much. It will remain amiable and civil without major conflict, but a close, productive partnership is not in the cards … the U.S.-Brazil relationship is like vanilla ice cream--sweet, but rather bland--with few new opportunities, but no significant tensions or conflicts.

110 Ibid 152
The relationship suffered a recent blow with the revelations by former NSA contractor Edward Snowden that the US government was spying on Dilma Rousseff’s communications and the national oil company, Petrobas. Rousseff’s response was not to “postpone” but rather cancel her upcoming state visit to Washington. Since then, no date was announced for the 2\textsuperscript{nd} trip. Diplomatic relations cooled and the incident had a ripple effect on pending defense contracts between Brazilian government and US corporations.

\textbf{Sino-American Relations}

Unlike the US relationship with Brazil, Chinese leaders and their American counterparts are vocal and more likely to exchange thoughts on ways to improve relations. Take for example, Chinese Foreign Minister Wang Yi reviewing the Sino-American relations for a newspaper article in which he called for concrete policies turned into practical solutions. The foreign minister urged to build strategic mutual trust and keep close engagement between not limited to senior leaders, but rather extending to all levels. Yi expressed a desire for more communication and coordination between China and the US on regional issues. The Chinese also would like for the US to show more sensitivity and territorial integrity for China’s sovereign issues with Taiwan and Tibet. Finally, the Foreign Minister aspires to see the two countries further advance bilateral investment treaty negotiations to achieve an early breakthrough.\textsuperscript{114}

When speaking of territorial integrity for China’s sovereign issues, Foreign Minister Wang Yi is referring to the stretch of two island chains -- Paracels and the Spratlys that China believes belong to them, but this opinion is contested by Vietnam and

the Philippines. Although claims are not confirmed, the island chains are believed to be endowed with natural resources of oil and natural gas. Malaysia and Brunei also claim relation to the islands due to the proximity of special economic zones. There have been attempts to resolve the highly contested topic, but mostly behind closed doors. According to the BBC, “in July 2010, when US Secretary of State Hillary Clinton became involved in the debate and called for a binding code of conduct, China was not pleased. The Chinese Foreign Ministry dismissed her suggestion as an attack on China.”

Courtesy of BBC, here is an image of map showing the islands in question.

In their article, “A New Great-Power Relationship with Beijing,” Douglas H. Paal and Paul Haenle outline foreign policy and diplomatic challenges that exist between the US and China. The authors argue that in order for the US to have good relations with other Asian nations, the US must first pick the right approach with Beijing. The biggest challenges ahead are; deficit of trust, regional tension over territorial disputes as well as US/Chinese domestic hurdles. Possible solutions to these challenges would be; to deepen military to military interaction. The US should refrain from stating that the

Chinese manipulate their currency; investments made by the Chinese on American soil should not trigger the alarm on national security and finally, both should avoid partaking in unhealthy competition.  

In regard to China, the U.S. has been on a trajectory of consistent efforts to forge a closer relationship. The two nations came a long way; such level of cooperation has not been seen since diplomatic relations resumed in 1979. Yet there is still a way to go as evidenced in scholarly literature and news developments. Undoubtedly it will take effort on both sides, but the potential is boundless.

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Chapter 7
The Case for cooperation with China

China’s economic rise was marked not only by wealth accumulation, but also by the level of engagement with other countries: China has become very involved on the African continent and in Latin America. Well aware of their economic and political significance to the world, a moment of significance in Sino-American relations came in the summer of 2013 when a very personal meeting transpired between President Obama and President Xi Jinping in California. Taking place in Sunnylands, the desert retreat in Rancho Mirage built by Walter H. Annenberg, the meeting was void of talking points and scripted speeches; it was a one-on-one conversations amid olive trees and sunsets. 117

Despite their ideological differences, China and the U.S. have been valuable partners to one another. In 2013, China was America’s 2nd largest trading partner, after Canada accounting for 14.5% of total trade volume. 118 As for China, according to data released by the General Administration of Customs on Jan 10, 2014, the US was China’s largest trade partner, accounting for $521 billion. 119 Additionally, holding on to $1273.5 billion worth of U.S. treasury notes, China is the single largest holder of US securities. 120 This chapter will outline other areas in which US and China have common interests and why it is important to cooperate with this particular member of the BRIC family.

120 “Major Foreign Holders of Treasury Securities.” Department of the Treasury/Federal Reserve Board. March 17, 2014
Judging from the qualitative news content, China and the US already share numerous common interests and the Chinese are taking advantage of opportunities presented in America. A snapshot of the news content reveals a relationship characterized by large business deals, joint ventures and high value investments.

US government officials and business leaders totaled a delegation of 86 representatives from Montgomery, Maryland to tour China on a 10 day visit in hopes of attracting Chinese investment and “establishing links with companies in biotechnology and life sciences,” as reported by China Daily.  

In October 2013, the governor of Vermont turned to the Chinese in search of investors to finance the state’s development projects. In return for investment in Northern Vermont, Governor Shumlin offered foreign investors “EB-5 (Employment based visa, Category 5) program, which grants special visas to foreigners who invest $1 million in the US or at least $500,000 for specially defined areas, and create or preserve at least 10 full-time jobs.”  

Another US state to enjoy friendly relations with China is Iowa. The state of Iowa and the Chinese province of Hebei have long-standing ties going back to 1985. In October 2013, Hebei sent 200 Chinese to Iowa to celebrate the 30th anniversary with its sister city. Throughout their 30-year relationship, the cities exchanged 40 groups to deepen the connection. Marking the milestone anniversary date proved to be profitable for the sister cities; “Hebei Huayu Poultry Breeding Co. signed a letter of intent with Des

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Moines-based Hy-Line International for a joint venture project valued at $371 million.”

According to *China Daily*, US real estate is one area where the Chinese do not require visits from business delegations to spur interest. Citing a report produced by ULI, a non-profit research organization and accounting firm PriceWaterhouseCoopers LLP, the newspaper states that “Chinese investment in US and other overseas real-estate markets has grown as China’s leadership maintains residential-property curbs aimed at holding down skyrocketing prices.”

On the scholarly front, several academics argue that one of the most important relationships that the US can maintain is the one with China. David Lampton, author of “The Faces of Chinese Power” rallies Americans to properly assess Chinese power. He claims American policy makers tend to either underestimate China as a buyer, importer and investor or exaggerate China as a seller and exporter. Lampton writes that such an approach cannot be more detrimental to our own success. Lampton aims to correct this train of thought by citing that while China appears to be manufacturing lots of products, what most people do not realize is that various products are being shipped to China for assembly, a low profit activity. On the other hand, Chinese investments in Latin America and Africa are substantial and growing.

Evaluating the prospects of the relationship, Lampton writes “for the US, the rise of China can mean only one thing: engagement. Washington has no choice. China is too

big, too important, too dynamic, and has too many other nations with an interest in cooperating with it to be pushed around.”

Deborah Welch Larson and Alexei Shevchenko propose a unique take on cooperation with China and Russia (for the purposes of this paper we will focus only on China). The authors of “Status Seekers: Chinese and Russian Response to US Primacy” write that in order to have positive, cooperative and mutually beneficial relations with China, the US must recognize China for what it is. It is obvious that US and Chinese political systems differ and Chinese views are not always in unison with Western ideas, which is why the authors argue that “China will be more likely to participate in global governance if the US can find ways to recognize their distinctive status and identities.”

Moreover, the authors write that the US needs China and Russia “to curb proliferation of WMD, control terrorism, maintain stable energy supplies, and stabilize Eurasia.”

To add to that, Larson and Shevchenko further write that the “US needs to work with China to stabilize security relationships in the Asia-Pacific region, head off regional rivalries and prevent dangerous conflict resulting form a North Korean implosion.”

In their commentary, Larson and Shevchenko write that immediately after the 9/11 terrorist attacks, China has proved itself to be of assistance. Using its close relations with Pakistan, China urged President Musharraf to cooperate with US efforts in Afghanistan. Further to that, China aided in tracking terrorist financing and shared intelligence.

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127 Ibid 126
129 Ibid 64
130 Ibid 64-65
Several other points that are part of the authors’ greater argument imply a noticeable pattern in which China will contribute in addressing global issues if such actions will enhance their prestige. Their argument is based on the belief that the key to a meaningful relationship with both China and Russia is in understanding their respective identities and giving proper recognition in areas such as territorial size, culture, history, resources (natural and human capital).

In closing, Larson and Shevchenko note that “As the US ability to achieve its goals unilaterally declines, the US must learn how to treat China and Russia in ways other than rivals or junior partners if it is to obtain their cooperation.”  

Larson and Shevchenko’s recommendation for the US is to “remain attentive to China’s status concerns, because Beijing is increasingly sensitive about its relative position and role in international gatherings such as the newly important G-20 and to the US naval presence in Chinese coastal waters, claiming the area as part of its sphere of influence.”

The US and China already have a well-established relationship based on the snapshot of news coverage written above. Additionally, the two countries joined forces to combat wildlife trafficking and Americans are stepping out of their comfort zones to learn Mandarin. A group of Chinese teachers came to the US as part of the Chinese Guest Teacher Program, a collaboration between the College Board and China's Confucius Institute. According to China Daily USA, the largest concentration of Chinese teachers is in Ohio, Utah and North Carolina.

131 Ibid 95
132 Ibid 87
In like manner, there are a number of potentially exciting initiatives that can be anticipated in this fruitful relationship. They are: bilateral investment treaty, proposed during the most recent US-China Strategic and Economic Dialogue\textsuperscript{135} and American infrastructure upgrades financed by Chinese investors.\textsuperscript{136}

\textsuperscript{135} Chunying, Cai. “Dialogue promotes economic relations.” \textit{China Daily USA}. October 23, 2013

\textsuperscript{136} Barris, Michael. “Report: China could profit rebuilding US.” \textit{China Daily USA}. October 24, 2013
Chapter 8
The Case for cooperation with Brazil

It is a paradox that the US is engaged and maintains high-level talks with a non-democratic China half a world away, while there is little sense of urgency to promote a high-level dialogue with democratic Brazil just 4,544 miles away from the US. There are too many positives in Brazil for the bilateral relations not to be thriving. Just a few examples are Brazil’s strong currency, solid political system and growing middle class ripe for US products and services. In this chapter, I propose for the US relations with Brazil to follow the trajectory of relations that the US is currently developing with China: that is close economic and cultural ties.

Most recently, US-Brazilian relations suffered a set back when former NSA contractor Edward Snowden revealed that the US has been spying on the communications of millions of Brazilians, including that of the President Dilma Rousseff. The then scheduled Brazilian state visit to Washington DC was postponed as was reported in the press, however, there have been no announcements of rescheduling. This episode in US-Brazilian bilateral relations warrants analyzing what’s at stake. This chapter will outline opportunities and areas of contention between the two states that need to be addressed.

Since ending its military dictatorship in the 1980s, Brazil has been steadily climbing the ladder to political and most notably fiscal stability. It wasn’t an easy road, but Brazil was able to overcome hyperinflation, currency volatility and the debt trap. According to the World Bank, in 2012, Brazil is the world's seventh wealthiest economy valued at US$ 2.253 trillion based on GDP. It is also the largest country in area and
population in Latin America and the Caribbean. Due to its large and growing economy, Brazil has been included in the BRIC grouping along with Russia, India and China, which has been a launch pad for the country’s global governance reach. I argue that cultivating deep ties to Brazil will prove to be beneficial for the US politically and in terms of business. Brazil exerts regional influence as well as international; the later is evident in the country’s bid to join the United Nations Security Council.

Juan De Onis, author of “Brazil’s Big Moment: A South American Giant Wakes Up” writes in great detail what makes Brazil the land of the plenty. Although not completely without issues (corruption, low levels of domestic savings, underachievement in public education, much needed tax and labor reforms) De Onis praises years of sound political and economic efforts that led to a prosperous nation today. He outlines several big-ticket items that Brazil has going for itself. At the top of the list is the newly discovered offshore deepwater oil that is hidden under three to four miles below the surface and covered by thick layers of salt. Second to oil discovery is Brazil’s existing mining industry. Brazil is the world’s second largest producer of iron ore after Australia. In 2013, Brazil exported 329,640,000 tons of iron ore valued at $32 billion 490 million, of this amount 170 million tons was sold to China. Third, Brazil has been blessed with a rich agricultural endowment that encompasses solar power, fresh water, fertile soil and a warm climate enabling it to produce crops year around. De Onis writes that Brazil has become “a world leader in production of soybeans, corn, sugar cane,

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animal proteins, cotton, orange juice and tropical fruits, as well as cellulose and wood products.” Further to that, the author credits Brazil’s agricultural prowess with two interchanging factors: demographic shift from rural to urban living and technological advances where researchers learned to adapt exotic plants and foreign animals to their tropical conditions. De Onis continues this train of thought labeling Brazil a potential global breadbasket. He writes that China and India are already major importers of Brazilian soybeans. Russian, the EU and even the Middle East enjoy Brazilian grown poultry, pork and beef.

Among Brazil’s other notable achievements is being a leader in biofuels which include ethanol and biodiesel. Extracted from alcohol fuel from sugar cane and from oilseeds of soybeans, palm nuts and castor beans, both ethanol and biodiesel are environmentally friendly as they burn with lower emissions of carbon dioxide in comparison to coal or oil. De Onis writes, “Brazil is also trying to break into European markets with sugar-cane alcohol as an alternative fuel.”

Leslie Elliot Armijo and Sean Burges, authors of “Brazil, the Entrepreneurial and Democratic BRIC” argue that Brazil’s material capabilities have a lot to offer to the US and suggest “that it is in the interests of the US to welcome Brazil’s new global prominence.” In their article, Armijo and Burges lay out a number of things that Brazil has going for itself. After renouncing its secret nuclear program in the 1990s, Brazil redirected itself to pursue a space program with China. Brazil and China are collaborating on earth-imaging satellites. The program is said to explore the vast Amazonian terrain

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141 De Onis. Pg. 113.
142 De Onis. pg. 115
and manage land use. Further to that, the authors write that with the discovery of new oil deposits in 2007, Brazil became a net energy exporter. The new deposits are located below the ocean floor and are believed to be larger than reserves in Venezuela. The natural resource endowments do not end with oil or biofuels (which Brazil has plenty of), Brazil also has an abundance of water and gets 80% of its electricity from hydroelectric generators.

Peter Hakim starts off his Foreign Affairs “The Reluctant Partner” article with the strong conviction that the US should develop close ties with Brazil. Published in 2004, he writes, “The Bush Administration has no more important task in the hemisphere than to cultivate a constructive working relationship with Brazil. As Latin America’s largest and most influential country, Brazil will determine, to a large extent, whether the United States is able to advance its foreign policy agenda in Latin America, and on some issues it will affect US success outside the region.” 144 He further stresses that “The main test of the relationship will not be whether Brazil and the United States can find areas of cooperation, but whether they are able to accommodate their divergent interests and goals, tolerate different practical perspectives and, in the end, avoid conflict.” 145

Brazils political take regionally and internationally

Since doing away with military rule, contemporary Brazilians enjoy democracy. Elliot Armijo and Burges credit Brazilian democracy for the country’s international and regional regard from neighbors and other emerging powers alike. Further to that, they write that,

145 Hakim. Pg. 114
Brazil’s political leaders are well aware of their country’s financial strength and have actively sought greater participation in global financial governance, through office-holding in a variety of transnational public and public-private financial industry organizations. Brazil ardently desires greater representation in the international lending institutions and UNSC. 146

To add to that, Armijo and Burges further write that US, China and the UK now have regular bilateral policy consultation with Brazil at the deputy ministerial level.

In his article, De Onis recommends for the US and Brazil to cooperate closely together since Brazil has a track record of supporting worthy initiatives such as sending UN peacekeeping force in Haiti. Moreover, the author suggests that the two countries cooperate in the area of ensuring global food security, as well as important issues having to do with energy, education, poverty and health. De Onis sees the two countries coming together with Brazilian know-how and American financing.

**Issues in the US-Brazilian Relationship**

Brazil’s reluctance to enter into a free trade agreement with the US has been a source of contention. According to Elliot Armijo and Burges, “there are thus political in addition to commercial reasons for Brazil’s unwillingness to embrace to the American vision of the Free Trade Area of the Americas (FTAA) inaugurated in 1994.” 147 Instead Brazil tends to focus on Mercosur, a customs union for goods and services in South America. Established in 1991 by Argentina, Brazil, Paraguay and Uruguay under the Treaty of Asuncion, in 2013 Mercosur represented 2% of world trade or $340 billion USD in merchandise exports. 148

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146 Elliot Armijo and Burges. Pg. 34.
147 Elliot Armijo and Burges pg. 25
Perhaps the US-Brazilian relationship was complicated when during the negotiations for the Free Trade Area of the Americas (FTAA), “the US laid down two conditions. One was that all countries involved should negotiate individually and not as groups such Mercosur. Secondly, as and when there is progress in some areas of negotiations, these should be implemented without waiting for agreement on other issues.”  

This is when Brazil led other Latin American countries to reject conditions laid forth by the US, causing the US to ultimately dissipate the agreement.

De Onis also touches on an area where the US and Brazil clash. He states that when Brazil began promoting the use of ethanol as an international commodity, the US enacted trade barriers in form of tariffs and began subsidizing its own ethanol made from corn. Brazil did its best to see US subsidies reduced and even argued the case in the Doha Round of international trade negotiations but came away with little success.  

Peter Hakim mentions other prickly topics when it comes to the US-Brazilian relationship. Brazil’s former president, Lula, had a friendly relationship with Cuba and in his visit to the island in September 2005, he made it clear that he will not meet with anti-Castro activists or bring up any issues. Besides Cuba, Brazil’s involvement with Venezuela, attempts to foster bilateral ties, both economic and political, is a difficult task to balance given US views on Venezuela.  

Peter Dauvergne and Deborah Barros Leal Farias cover another instance of difference when in 2001, US called for a panel at the WTO, claiming that Brazil’s 1996
law violated intellectual property rights patent laws in relation to providing health
services. According to WTO, the dispute was settled on July 5, 2001.  

**Global Trade**

Brazil maintains extensive and diverse trade relations. It is actively trading in a
d multitud e of products and raw materials on the world market.

Larry Rohter, author of *Brazil on the Rise*, provides a detailed account of
measures taken to make Brazil into the emerging power that it has become. Rohter states
that it was due to the 16 years of market-friendly policies that stressed financial discipline
and opening up to the rest of the world that made Brazil ready for economic stardom. He
writes that inflation was persistent and almost plague-like. Brazil’s currency was changed
several times to escape the ever-rising inflation, but there was no success until the
introduction of Plano Real by Fernando Henrique Cardoso in 1994.

Rohter writes, “Brazil’s factories, most of which are concentrated in the Sao-
Paulo-Rio de Janeiro-Belo Horizonte triangle in the southeast or the far south of the
country, manufacture millions of cars, television sets, refrigerators, and cellular
telephones. Brazil is also among world leaders in the production of chemicals and
fertilizers; transportation equipment such as ships, rail cars, and locomotives; steel,
cement, footwear, electronics, automobile parts, and paper products.”

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151 Brazil — Measures Affecting Patent Protection. DISPUTE SETTLEMENT: DISPUTE DS199. World
153 Rohter. Pg. 146.
It might be surprising but the subway cars that run throughout the five boroughs of New York City are cast in Lapa, Brazil. Skilled welders in Brazil work for 60 days by hand to complete the 23-step process that produces one body shell of what will become a subway car. A Brazilian factory manufactures the skeleton from carbon steel. After completing rigorous testing, the subway shells travel by land and sea to Cornell, New York, where they undergo another month of assembly and electrical wiring before being released to the MTA.

An example of Brazilian ingenuity and success by far has to be aircraft manufacturer Embraer. According to Rohter, Embraer established in 1969, began by manufacturing training craft for the Brazilian air force that owned and ran the company. Today, Embraer is the third largest air-craft manufacturer, only after Boeing and Airbus. The company rose to success by deciding to focus on building smaller commercial planes suitable for regional travel.

Similar to De Onis, Rohter agrees that Brazil has the capacity to become the breadbasket to the world since its tropical climate allows cultivating round-the-year crops. In fact, it was this national strategy to focus on agriculture that allowed the Brazilian economy to outperform itself year after year.

Riordan Roett, author of *The New Brazil* writes, “Brazil has pushed for the G-20 to replace the G-7.” To that extent, the author notes that former President Lula has been actively lobbying for Brazil to have greater international decision-making at the International Monetary Fund and the World Bank, not to mention the United Nations.

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Brazil’s prestige grew when Sao Paulo’s stock and commodity exchanges merged and thus created one of the biggest private capital markets in the world. 157

Socially conscious

Roett highlights Brazil’s success in making significant strides to reduce poverty. He writes, “the Gini index that measures a country’s income inequality proves that millions have moved out of poverty into an emerging middle sector in Brazilian economy.” 158 This success was accomplished thanks to the highly effective Bolsa Familia cash transfer program. An article published in The Rio Times states, “Over the past ten years, 35 million people joined the middle class in Brazil, which in 2002 represented 38 percent of the population of the country. Today, 104 million Brazilians, or 53 percent of the population, are in the middle class.” 159

Brazil not only cares about moving its own citizens out of poverty and ensure that their children have a healthy and educated upbringing, a cornerstone of the Bolsa Familia, but the country also provide affordable medicine to other poor populations throughout the world. Since 1999, Brazil has been institutionally advancing the production of generic medicines insuring poor populations with life saving treatments. According to Viswanathan, Indian pharmaceutical companies contributed to this noble mission at the invitation of the Brazilian government. Furthermore, Roett praises Brazil

157 De Onis. pg. 122.
158 Roett. Pg. 144.
for having “become a pioneer and role model for the developing world in the anti-
HIV/AIDS strategy of guaranteeing universal access to retroviral medication.” \(^\text{160}\)

A takeaway from Peter Hakim’s article is that to Brazil’s credit, Lula and his predecessors did not aggressively challenge US intentions in Latin America. Hakim writes, “It has not questioned the US vision for hemispheric free trade arrangements, enhanced security cooperation, or the collective defense of democracy; in fact, it has formally committed to working with Washington in each of these areas.” \(^\text{161}\) Moreover, Brazil is not like Argentina once was; it does not want to foster a warm relationship with the US; Brazil has a track record of acting and projecting independent thoughts and actions. Hakim recommends approaching Brazil for its feedback on a wide scope of issues and giving them some serious thought. Lastly, Hakim sees the two powers cooperating on issues on which they share a similar outlook, they are; health and education, poverty, science and technology.

Peter Dauvergne and Deborah Barros Leal Farias’ article contributes a great deal in understanding Brazil’s foreign policy, their work supports the argument of this thesis by demonstrating that Brazil is a peace-loving country with a strong development voice which has potential to act as an equal partner to the US. In their “The Rise of Brazil as a Global Development Power,” they point out that Brazil’s foreign policy is not driven by a military-industrial complex, as is the case with other BRICS and other global powers. They cite one of the foremost scholarly leaders, Joseph Nye and his concept of ‘soft

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\(^{160}\) R. Viswanathan. Pg. 686.  
\(^{161}\) Hakim. Pg. 122.
power’ as the main tool utilized by Brazil to advance its agenda and gain international influence. ¹⁶²

Evidence supporting Brazil as a non-military power is its lack of a nuclear program and the absence of an extensive arm buildup. In modern times, the only times Brazil was involved in military conflicts was during World War I and World War II. In the post-war era and with the founding of the United Nations, Brazil has participated in peacekeeping missions.

Referring to former president Lula, the authors write that “His goal was to increase Brazil’s ‘weight’ in international affairs through coalition building in order to ‘soft balance’ against the structures that he saw as detrimental … President Lula has resorted to a strategy commonly used by ‘middle power’ countries that rely on multilateralism, coalition-building, and other such methods to achieve systematic influence.” ¹⁶³

Touching on Brazil’s successful poverty reduction, the authors claim that the country could very well be an international voice for development. Further, Brazil has been successfully employing Technical Cooperation agreements in its relations with other Latin American countries. Unlike other agreements, TC agreements do not lend any funds contingent with conditionalities, rather these agreements strictly focus on exchanging knowledge and practices.

¹⁶³ Peter Dauvergne and Deborah Barros Leal Farias, pg. 906.
Chapter 9 -- Policy Prescriptions

The previous chapters outlined the BRIC countries and which particular attributes, unique to their environments, allowed each country to develop and flourish -- thereby contributing generously to the global economy. I have argued that two of the BRICs, China and Brazil are especially suitable for close economic and political cooperation, and doing so would only be in the best interest and objectives of the US. In last year’s commentary to the New York Times, Jim O’Neill expressed his belief that the US will soon benefit from the apparent change in the global economy and emergence of wealth in disperse regions of the world. 164

An Oxford Economics study on travel industry trends, commissioned by Amadeus, a leading provider of advanced technology solutions for the global travel industry predicts that in the next ten years, the four original BRICs will lead the growth in civil aviation. Graphs below show upward trend in international air travel among three of the BRICs. China is not on the list. 165

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Additionally, the BRICs contributed significantly to worldwide volume of exports in merchandise. Latin American Mercosur alone accounted for $340 US billion or 2% of world merchandise exports.\footnote{World Trade Developments. World Trade Organization. International Trade Statistics of 2013.}
Increased cooperation with China and Brazil should be high on our foreign policy objectives, yet there is a lot to be done domestically. Experts in field of political science and economics suggest a multitude of ways to refocus back on the US while cooperating and developing beneficial relationships with other comparable partners around the globe.

Numerous international studies scholars were named in this thesis to support my argument and in this final chapter I would like to showcase arguments by other scholars who argue that multilateralism is not only the best approach for the US at this time. Given how times change, it could be the only approach in modern international relations. Judging by the title of his book, *The Paradox of American Power: Why the World’s Only Superpower Can’t Go It Alone*, Joseph Nye Jr. inspires us to imbed cooperation in American foreign policy and wide spread global initiatives. In his book, he writes that following the disintegration of the USSR, Americans became too comfortable believing that no other country could now challenge us. The US entered a time when domestic affairs took precedence over fine-tuned foreign policy. The author writes that by 2001 the rest of the world viewed the US as selfishly absorbed in its own interests and most alarmingly at the expense of everyone else. Naming international financial stability, terrorism and global climate change as just a few areas where the US is advised to cooperate with others countries, Nye adds “ironically, our desire to go it alone may ultimately weaken us.”

In his article, *This Time It's Real: The End of Unipolarity and the "Pax Americana,“* Christopher Layne really goes against the grain by making a case for his opinions that are vastly different of those from leading American policy makers and

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168 Nye. Pg. xiii
international relations/security scholars. The article is based on the prime premise that unipolarity is over and the era of American domination in world politics is quickly dwindling down. Layne anchors his argument in the global economic downturn that began in 2008, an event he labels the Great Recession. He claims that the Recession demonstrated two things: one, a shift of power and wealth from West to East and two, it cast a shadow of uncertainty on the American economy and financial system. In part, Layne bases this article on his earlier work with Kenneth Waltz in which they both argued that in the post-Cold War era, unipolarity would only be temporary, but it would give rise to multipolarity in which other countries would rival the US.

Layne writes, “Some twenty years after the Cold War’s end, it now is evident that both the 1980s declinists and the unipolar pessimists were right after all. The Unipolar Era has ended and the Unipolar Exit has begun.” The author lists two factors that are to blame for the decline: one, shift of power from the Western countries to Asian and two, the domestic fiscal crisis endangering the dollar reserve currency status. One of the author’s examples of this dire domestic situation is having borrowed funds from abroad to finance wars in Iraq and Afghanistan, instead of raising taxes to pay for wars. Besides waning economic and financial factors, Layne adds that US military preeminence will be challenged as well. He states, “the ascent of new great powers is the strongest evidence of unipolarity’s end.”

170 Layne. Pg. 204
171 Layne 205.
The most worrisome are Layne’s words describing the situation ahead, “for the foreseeable future, the US will depend on capital flows from abroad both to finance its deficit spending and private consumption and to maintain the dollar’s position as the international economic system’s reserve currency.” The author leaves us with the thought that in the next ten to fifteen years, the US should be concerned with accepting the reality of its decline and dealing with the end of unipolarity.

Robert D. Atkinson and Stephen J. Ezell, authors of Innovation Economics: The Race for Global Advantage advocate for the US to adopt a national policy of innovation which in accordance with their definition, spurs innovation in all categories, not just in the traditional business sense. To be precise, they wish to see new and improved practices in retail, logistics, hospitality, healthcare, professional and financial services.  

Atkinson and Ezell describe innovation as “vitally important because it drives economic, employment, and income growth, quality of life improvements and the competitiveness of nations.” Further, they state that innovation is closely associated with competitiveness of companies and national economies. Their theory holds that failing to innovate within a company will lead to failure on a larger, national scale. If unresolved, failing to innovate could lead to ‘structural economic crises.’ Touching on specifically the US, the authors state that policymakers must push for innovation not just in new start-ups but at well established firms as well. Why go to great lengths in order to get ahead? Atkinson and Ezell write that “Since the late 1990s, dozens of countries – small and large, rich and poor, North and South – have created and implemented national

173 Atkinson and Ezell. Pg. 130.
innovation strategies designed to boost the potential of their economies to produce a stream of commercially successful innovations.”

In their book, Atkinson and Ezell dedicate a chapter to recommendations as to how the US can alleviate the lack of once robust innovation. First and foremost, they voice their concern if America can recognize this vital need before time runs out and we won’t be able to catch up. They outline five objectives to be reached by 2020, they are:

1) Eliminate the trade deficit
2) Add two million jobs in technology industries
3) Raise the rate of productivity growth by 50%
4) Spread IT into government, transportation, health care and education systems.
5) Develop clean energy sources that would be cheaper than fuel, without the subsidies

Atkinson and Ezell conclude the chapter with the thought that Washington needs to consciously put America first, above any other countries in order to succeed in innovation. However, Atkinson and Ezell point out that this could only be done when Washington faces the reality of how we compare against other countries. The nuts and bolts of such realization should award funding to R&D, support for commercialization, technology adoption, education and training.

\(^{174}\) Atkinson and Ezell. Pg. 133.
\(^{175}\) Atkinson and Ezell. Pg. 239
Going forward, the US cannot afford to be brash in our relations with Brazil.

Following the revelations made public by former NSA contractor Edward Snowden, US-Brazilian relations took a hit evidenced by Brazil’s decision to purchase fighter jets from Swedish Saab rather than US Boeing. The deal with Saab will cost Brazil $4.5 billion and will produce 36 fighter jets over the next ten years. Obviously this is a sizable loss for Boeing and the American GDP. The announcement to go with Saab coincided with high tensions between Washington and Brasilia over the US spying allegations on the personal communications of President Dilma Rouseff and Petrobas, the national oil company. 176

Since then, the then upcoming Brazilian State visit to Washington has been postponed, however, many international affairs experts called it a cancelation. This is not the first time that Brazil has expressed discontent with the US; in a 2009 a poll designed to measure global opinion showed that the US received the lowest marks in its global relations with other countries. “The United States received the least favorable views from Argentina, Turkey, Mexico, Russia and Brazil.” 177

This thesis set out to analyze how the existing relationship between the U.S. and Brazil, and similarly the relationship between the U.S. and China can be constructed in a way that would be most beneficial for America. It has been the argument of this paper, that to date, the U.S. has not been managing its relationship with Brazil and China as effectively as it could be. A great deal of research reveals that there is much more room for growth in the US bilateral relations with Brazil and China. To be specific, it will be to our advantage to devise a double-tax treaty with Brazil and to ease restrictions on travel, be it for tourism or business. Likewise, Sino-American relations will benefit from more

communication and coordination on regional issues. Finally, investment treaty negotiations deserve serious attention.
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