The Brazil-US benign neglect myth

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WEEKS OF SPECULATION came to an end when President Dilma Rousseff decided to postpone her state visit to the United States in October due to allegations that the US National Security Agency has been intercepting government communications. The decision definitely struck a nerve, especially because it would have been the first state visit of a Brazilian head of state to the US in nearly two decades.

The goal of the trip was to find something that would catapult bilateral engagement to a new level, perhaps a roadmap for a trade agreement or talks on UN Security Council reform. Now policy makers in Brasilia and Washington are working to prevent the relationship from deteriorating even further.

For starters, the risks to US companies operating in sensitive sectors with political and even operational constraints have increased considerably. This is chiefly the case in defense, telecom/IT, and energy sectors. Cooperation in defense will most likely be affected, with Boeing’s chances of securing a contract to sell fighter jets to the Brazilian Air Force now significantly reduced. The caveat is that a decision on the bidding process is not imminent, given the fiscal constraints the Brazilian government is currently facing. That is why, instead of openly disqualifying Boeing, Rousseff opted to delay the entire process.

In the energy sector, major American oil companies decided to skip the first deep sea oil bid round, in part to avoid what would probably be a political firestorm if they won. After all, Petrobras was one of the targets of NSA eavesdropping (although the real reason here may have had more to do with certain aspects of the way the oil sector is regulated than with the NSA episode).

Finally, telecoms/IT is the sector most likely to feel the impact of the NSA scandal. Spying revelations reinvigorated the government’s push to approve regulations for the Internet in Brazil and to require Internet companies to house Brazilian user data within the country, which would raise costs for companies even though it would not prevent them from also housing copies of the data abroad. Such a policy would serve two purposes: It would give the government a political victory and it would also allow the government and courts to subpoena Brazilian user data.

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While expectations of more positive developments between Brazil and the US will certainly shift to the negative, the good news is that the uptick in nationalist sentiment in Brasilia is unlikely to escalate into a full-blown trade war. US will certainly shift to the negative, the good news is that the uptick in nationalist sentiment in Brasilia is unlikely to escalate into a full-blown trade war. In the near term, no new major policy overtures are expected. Furthermore, increased tensions will not be enough to disrupt most current negotiations on the bilateral business agenda, such as efforts to streamline visa issuance and to enhance cooperation on taxation issues. Negotiations on most of these topics tend to progress at a technocratic level, independent of presidential diplomacy.

More importantly, intertwined interests between American companies operating in Brazil and Brazilian companies operating in the US are likely to continue to set the tone for talks on most issues on the economic and commercial agenda once the dust of the incident settles—and barring any new NSA revelations.

Until then, both countries stand to lose from the episode. For the Obama administration, closer rapport with Brazil could have added a fresh and more positive item into a troubled foreign policy repertoire. For Brasilia, deeper engagement with the US would give the Rousseff government an opportunity to enhance an otherwise unimpressive diplomatic record. For a country that aspires to climb the ladder of global power, recognition and even support from the world’s enduring “lone superpower” is crucial.

For the last two decades or so, Brazil-US relations have been markedly bumpy. Differences with respect to the Colombian drug problem, Brazil’s nuclear and space programs, hemispheric free trade negotiations, Chavez’s Venezuela, Honduras’s coup de état, and Iran’s nuclear program, among others, have resulted not in a policy of benign neglect but in what some have called a paradoxical disconnect between the two largest economies and democracies in the hemisphere. In the end, despite many shared values, mutual distrust continues to hamper deeper engagement.

The NSA eavesdropping scandal is blatant proof of that mistrust on the US side. The question now is whether the information collected over the years confirms much of its suspicion of Brazil.

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