



LAC Focus: The Outlook for Brazil-US Relations



Coordinadora Regional de Investigaciones Económicas y Sociales

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Abstract

Rex W. Tillerson, the Trump Administration's recently confirmed Secretary of State, is charged with carrying out a foreign policy whose defining principle of "America First" has rattled rivals and allies alike. Despite his lack of diplomatic experience, a look at Tillerson's personal history can shed light on how he might handle the challenge. Brazil, although unlikely to feature high on the American agenda, is looking north as it seeks to revive its struggling economy – it will do its best to keep relations normal and attract new investments. Although market access may be limited if protectionist measures are enacted, an inward-looking America also presents Brazil with new opportunities. Two of Brasilia's bargaining chips – an opening of the offshore oil sector and the development of a strategically located satellite launch base – could have significant economic and geopolitical implications.



The Author

Stephan Mothe is a market analyst at Euromonitor International and an independent researcher based in Rio de Janeiro. He holds a master's degree in International Development from Tsinghua University. His research focuses on Sino-Latin American relations, and more particularly on Sino-Brazilian relations. He is currently interested in triangular relations between Latin America, China and the United States. His work has been published in the African Review of Economics and Finance, The Diplomat, the South China Morning Post, China Daily and Open Canada.

On February 1st, 2017, Rex W. Tillerson was confirmed as the Trump Administration's Secretary of State with 56 votes for and 43 against, the largest opposition in the American Senate's history. Apparently as unpopular as the president he serves, the former ExxonMobil CEO will now be responsible for carrying out a foreign policy whose defining principle is "America First".

Since assuming the presidency less than two weeks ago, President Trump has shown a willingness to follow up on the incendiary rhetoric he employed so deftly during the campaign. He has unsettled allies and rivals alike, scrapping the Trans-Pacific Partnership, escalating tensions with Mexico and China, promising to move the American Embassy in Israel to Jerusalem, and imposing an entry ban on citizens of select Muslim-majority countries. At the same time, he has maintained his uncritical attitude towards Russia and to its president, Vladimir Putin. Sorting out the conflicts of interest presented by the global scope of his business operations has not been a priority.

By the time Tillerson received his confirmation, Trump had been taking a hands on approach to foreign policy, issuing executive orders with limited consultation and oversight. His team, composed of chief strategist Steven Bannon, National Security Advisor Michael Flynn, Defense Secretary James Mattis and CIA director Mike Pompeo, has so far displayed contradictory opinions, and the Administration has not yet nominated any deputies or undersecretaries, jeopardizing interagency coordination. Moreover, much of the State Department's top leadership have quit their posts in protest, and rank-and-file diplomats collected nearly a thousand signatures in a dissent memo regarding the entry ban. Tillerson steps into this maelstrom uncertain of where he will fit in the President's pecking order and aware that those under his command may not be completely behind him.

In the face of such challenging and complex circumstances, it is worth looking at Tillerson's history to shed some light on how he might handle them.

What we know

Given Exxon's high profile in global affairs, much of Tillerson's career has played out in public. Born in Texas, he joined the oil giant in 1975 and worked his way up the ranks to eventually lead the company. Despite never having served in government, he has extensive experience dealing with foreign authorities, and his name was supported by former Secretary of Defense Robert Gates and former Secretary of State Condoleezza Rice. While at Exxon's international department, Tillerson relied on the company's renowned intelligence unit as he oversaw operations in more than 50 countries.

Those operations were not always aligned with the White House's directives. In the mid-2000s, Exxon's royalty payments to Chad's authoritarian government dwarfed American aid and military spending, limiting Washington's direct influence. In Iraq, Exxon bypassed the national government in Baghdad and ignored State Department policy to cut a deal directly with the Kurdistan Regional Government, later explaining that he "had to do what was best for his

shareholders.” Although deals to develop projects in Siberia and the Arctic with Rosneft, Russia’s state-owned oil company, were halted due to the sanctions imposed following the Russian annexation of Crimea in 2014, Tillerson retains an excellent reputation with the Kremlin: President Vladimir Putin presented him with an Order of Friendship medal in 2013. Tillerson has spoken openly against the sanctions, something which puts him at odds with National Security Advisor James Mattis, who has harshly criticized Russia’s aggression against the Ukraine and accused Putin of trying to break up NATO.

In terms of negotiation style, Tillerson is known as a hard-charger, willing to use physical intimidation, storm out of meetings and bend the rules in order to further his objectives. Whether that approach will be effective in diplomatic circles remains unclear. Although Trump may have selected Tillerson in order to promote a “reset” with Russia, the new Secretary of State will also have to manage the strained relationship with Mexico, rising tensions with China, North Korean nuclear proliferation, the various conflicts in the Middle East, and America’s alliances and commitments. There is also the very real prospect that he may have to act as a “firefighter”,

putting out the flames ignited by a volatile White House.

Because Tillerson’s international experience appears limited to energy markets, it is unsurprising



that much of the criticism against him has focused on his career at Exxon. Environmentalists have accused the company of working to undermine climate science while it was under his leadership, and Raymond Offenheiser, president of Oxfam America, has questioned Tillerson’s ability to “balance the pressure to transact short-term deals against his larger responsibility to strengthen the rules and institutions that protect economic hope and fundamental human rights for so many on the planet.” Others note that Tillerson accepts the consensus on climate change and has previously spoken in favor of a carbon tax. They hope that Tillerson can persuade Trump to adhere to the Paris Accords, albeit with a focus on natural gas and alternative carbon capture technologies, rather than divestment from fossil fuels.

Described as a “hard-eyed realist” by Robert Gates, Tillerson can be expected to be a staunch defender of American interests – including its newfound prominence in global energy markets – although how he balances Washington’s broad international engagements with Trump’s isolationist preferences remains to be seen. It is sensible to assume that he might begin by paring down America’s priorities, defining relationships and issues that can be considered priorities. It is reasonable to assume that this list will include mediation between Russia and

Europe, counterterrorism operations in the Middle East, and checking China's hold on the South China Sea. Aside from Mexico, it is unlikely that Latin America – and Brazil in particular – will feature highly on that list, yet there could be points of contention with the region on matters of immigration, trade and geopolitics.

The view from Brazil

Last July, Brazilian Foreign Minister José Serra described a possible Trump victory as a “nightmare”, but following Trump's victory, he indicated a willingness to work with the new government. He highlighted as positive the fact that Brazil wasn't an issue for either party during the campaign and expressed hope that Trump's victory wouldn't lead to greater protectionism. An official statement by the Ministry of Foreign Affairs, reiterated the readiness to work together and noted similarities between Brazil and the United States: “We are multi-ethnic societies, inspired by democratic values and the respect for human rights, in search of prosperity, liberty, justice and dignity for all.”

Initially the Ministry adopted a “wait and see” approach regarding the possible enactment of protectionist measures. An internal document outlined the most likely scenario following a Trump victory, namely an increase in nationalism, protectionism, and investments in defense, coupled with greater difficulties in technology transfer programs, already considered exceedingly complex. Tentative partnerships in the defense industry, now at their initial stages, are expected to have a hard time moving forward. The outlook is considered negative for Brazil, which depends on the United States for nearly 30% of its exports, which, as opposed to those to China, are notably diversified and include many industrialized products.

For Sérgio Amaral, Brazil's current ambassador to Washington, though, the impact of a Trump presidency on Brazil could be small. In fact, he estimates that Trump's pro-business approach might be good for US-Brazil relations, highlighting the fact that Brazilians have invested US\$24 billion into American assets in the past few years, creating an estimated 80,000 jobs. He noted that bilateral relations have been marked by a history of continuity, regardless of the parties in power, and that America's trade surplus with Brazil might generate a more positive view of the country from the White House. In the ambassador's opinion, the sacrifices undertaken by the Brazilian government and society in order to resume economic growth and balance the budget are also making the Brazil more attractive to American companies, many of which have already expressed interest in making new investments and inroads into the Brazilian market. The ambassador also mentioned ongoing talks about the Alcântara launch base in Maranhão, previously developed jointly with the Ukraine, but in which the Americans would now be interested.

Considering the prospect of American protectionism, Trump's rejection of the Trans-Pacific Partnership represents a decision that may actually open up opportunities for Brazil, which was not projected to be a part of the deal. Instead, Amaral argues, Brazil could now pursue more integration between Mercosur and its neighbors in the Pacific Alliance, or, assuming a decreased relevance for Mercosur, bilateral agreements with countries including the United States.

The move also presents opportunities for China, however. According to Oliver Stuenkel, a professor of International Relations at Getulio Vargas Foundation (FGV) in São Paulo, Chinese President Xi Jinping's visit to Peru for last November's APEC Summit was perfectly timed and "projected China as a bastion of stability, predictability and openness". This inversion of roles – "the unprecedented combination of the United States as a source of uncertainty and China as a potential stabilizer" – has important implications. With China now leading the Regional Comprehensive Economic Partnership (RCEP) initiative, Latin American countries left hanging by



the American about-face may find an alternative means to engage with global markets.

Aware of these assessments, on December 13th, the same day that Tillerson's nomination was announced, Brazilian President Michel Temer called then President-elect Donald Trump to speak of a US-Brazil agenda for economic growth built on an

increase of bilateral investments; a meeting between both countries' economic teams could take place in February. During the call, Temer also repeated his congratulations on Trump's electoral victory, while Trump offered Temer encouragement to undertake the measures and reforms necessary to promote growth in Brazil.

On Christmas Day, Temer published an essay in the *Estado de São Paulo* newspaper outlining his Administration's foreign policy achievements and objectives. Terming his style "presidential diplomacy", he declared that Brazilian foreign policy should follow the values and interests of Brazilian society, rather than those of any party or government. His first international visits were intended to restore the world's confidence in Brazil in order to court investments, growth and jobs by presenting the country's domestic reform agenda. There was a focus on neighboring countries, but also on the "universality" of Brazilian relations. Temer listed his trips to the United States, China, India and Japan, reflecting the importance given to Asia and to traditional partners. The president also pledged to support multilateralism as a response to isolationism and intolerance, and restated Brazil's commitment to collaborating with the international community on refugees and migrants, climate change and the environment, and human rights. He celebrated the election of António Guterres as secretary general of the United Nations, the first Portuguese speaker to hold the position. And he congratulated Foreign Minister José Serra for his pragmatism in searching for cooperation opportunities and solutions to Brazil's problems.

January was mostly uneventful for Brazil-US relations, until the sixth day of Trump's presidency. On January 26th, in a sign of Latin American solidarity, the Ministry of Foreign Affairs released an official statement condemning "the idea" of building a wall on the Mexico-US border. The statement was careful not to attack Trump directly, but stressed a belief that "issues among

friendly nations... should be solved through dialogue and the construction of spaces of understanding". On the same day, the White House announced that it intended to impose a 20% tariff on imports from Mexico in order to cover the costs of construction, leading Mexican President Enrique Peña Nieto to withdraw from a meeting planned for January 31st.

Prospects for 2017

Given what we have seen so far, some possibilities for Brazil-US relations in 2017 may be projected.

First, Tillerson must acclimate to his first stint in public service, while honing his chemistry with America's new president and his coterie of advisors and cabinet members, the intelligence community, and his own diplomatic corps. As he does this, he will begin to stake out the White House's official position on matters such as trade, multilateralism, Russian and Chinese expansionism, the Iran deal, cyber-security, human rights, climate change, and regional affairs, among other issues. On regional affairs, the focus will lie on immigration from Central America via Mexico, the normalization of relations with Cuba and what to do about a collapsing Venezuela. Regarding other countries, Brazil included, the White House is likely to push a pragmatic line stressing the need for trade with the region to more clearly benefit American interests, not unlike the agenda currently pursued by the Itamaraty.

During that time, Brazilian diplomats will be looking for assurances that relations with the United States will remain normal. They will do what it takes to keep the country under Donald Trump's radar – and clear of his contempt – and assure those around the president that the relationship between both countries benefits the United States. They will highlight Brazilian investment and job creation in the US, and America's consistent trade surplus. They will also paint recent developments in Brasília as a "move in the right direction", an effort to return to economic orthodoxy with a balanced budget, streamlined bureaucracy, and a desire to integrate more profoundly with global trade and investment chains. They will paint the current political instability as an inevitable byproduct of a transition period which will result in strengthened institutions and renewed commitment to international norms. Simultaneously, they will pursue a revitalization of trade, seeking opportunities for Brazilian companies to export more, while encouraging American companies to make investments that will help pull the Brazilian economy out of its current slump, especially through projects that generate employment.

Two points in particular may provide Brasília with valuable bargaining chips. The first relates to energy markets, a topic that Rex Tillerson will be well equipped to handle. Since the Brazilian Congress revoked the requirement that Petrobras participate in all pre-salt offshore operations and consortia (not coincidentally a project proposed by Foreign Minister José Serra and vigorously opposed by left-wing parties) and loosened local content regulations, the sector has opened up copious opportunities for foreign companies. Last July, Petrobras sold the Carcará offshore field to Norway's Statoil for US\$2.5 billion, and American companies will likely be interested in similar deals. The second point regards the Alcântara launch base, through which the US could reestablish a strategic presence in South America and scientific, technical and defense cooperation with Brazil. A potential American hand at the base may provide a clear

response to concerns about China's own PLA-operated space base in Neuquén, in the Argentine Patagonia. Much has been written lately about the healthy relations China holds with numerous countries in America's historical "sphere of influence", and if Trump and Tillerson are geopolitically inclined, the Alcântara base would be a logical move.



Overall, it is unlikely that any major shifts will occur in Brazil-US relations, given a general aversion to altering a comfortable status quo; Latin American solidarity may have its limits. The rapprochement suggested by Serra in his inaugural speech will focus more on trade and investment than on defense or international politics. Moreover, Brazil does not see its relationships with the United States and China as zero-sum games, and will pursue both rather than sacrifice one for the other. Despite Trump's aggressive stance against China, pragmatism at both Foggy Bottom and Itamaraty should allow cooler heads to prevail.