

## “We can’t remain outside”

*The international affairs director of the São Paulo State Federation of Industries (Fiesp), Thomaz Zanotto, believes Brazil has to take part in the discussions on the new global governance which have arisen as a result of the negotiations on the Trans-Pacific Partnership (TPP)*

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**I**t has been a long time since a business news item has raised as much interest as the announcement last October that 12 countries, including Brazil’s neighbors Chile, Peru and Mexico, with the United States and Japan leading the way, agreed on the biggest trade partnership in history, the Trans-Pacific Partnership, better known as the TPP. In this interview, the director of the International Relations and Foreign Trade Department of the São Paulo State Federation of Industries (Fiesp), Thomaz Zanotto, warns that Brazil cannot remain on the sidelines of a group that has not just created the world’s biggest free trade zone, involving 40% of global GDP, but one that will also rewrite the trade rules for the 21st century thanks to its unprecedented reach. “A new global governance is being discussed at a very fast speed,” said Zanotto about the agreement that will be signed next February in New Zealand. “We would prefer the government to give the lead in this process but if it does not show the way forward then we will.”

**Why did Fiesp decide to publish a full-page announcement in the newspapers to alert the public to the impacts of the TPP?**

This should be seen against a more general backdrop in which there is a change in the framework of how business leaders behave. The chance of applying band aids with

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the government and trying to offset problems by little agreements has ended. We now want to discuss the kind of country we want. We see that we have reached such a point that there will be no recovery from this crisis unless we reformulate the whole country. As part of this, Fiesp’s international area decided

to hold an internal discussion and concluded that, whether we want it or not, we are entering a new economic political cycle at world level. A new global governance is being discussed at a very fast speed. Meanwhile, Brazil that spends all its time complaining that it did not take part in the post-War global governance discussion – the structuring of the large bodies like the United Nations Security Council and the International Monetary Fund – is now seeing that this is happening again and, once again, will remain outside. The fact is that we are not outside. We are inside. Only we are not participating. At the end of the day, these are the rules that will be valid for us as well.

**What are the immediate consequences of this agreement for Brazil?**

There will be a very quick revocation of 18,000 tariffs within this bloc which could have a direct economic impact on Brazilian exports. The Japanese gave the Australians a meat quota and if they buy coffee now, they will buy it from Vietnam and no longer from Brazil. The same



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goes for shoes. The Financial Times and other newspapers have drawn attention to the geo-economic consequences of the TPP. The trade part is certainly important but the reach of this new arrangement goes much further. This is precisely the question which appears in that announcement we put in the newspapers. A new world center is rising rapidly which will have a very strong impact on world decisions. I'm talking about an expanded Asia – the Asean countries, China and India. This will be the world's fastest-growing region in the coming two decades. It is actually the only region in the world that will have considerable growth. The rest will experience the so-called new normal – a period marked by low growth, low inflation and a low increase in consumption.

**In what ways is the TPP a different trade agreement from those that have been made until recently?**

First of all, in its reach. If we go back 10 years in time, the World Trade Organization's Doha Round, for example, that now looks Jurassic, was a round of talks that only dealt with access to markets – tariffs and subsidies. It did not discuss services and other things. The TPP, known as the agreement of the 21st century, is a fourth generation accord. Of course it deals with trade, tariffs and access to the market but it also deals with services, the transfer of Internet data, the location of data centers and patents. In other words, it is an agreement that has an exceptional reach which caught us a little by surprise because we did not know this was even being discussed.

**Are there other surprises in the points that have been announced?**

The agreement enters into the

domestic policies of countries, something that would have been unthinkable 10 years ago. Do you want to make an agreement with me Vietnam? OK, well your labor unions will have to be really free and no longer a pretend association that is actually run by the Communist Party.

**It was an attempt to create equal conditions for all among the signatory countries, is that so?**

Exactly, that's the nub of the question. To give one example, Vietnam has to provide clear rules on how its labor unions operate, for the

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question of the SOEs (State-Owned Enterprises), how they will function, what kind of subsidies they can have and under what rules they will play. Brunei agreed to ban child labor. Slave labor is being combatted, as is trafficking in wild animals and predatory fishing. All this is aimed at China to an extent.

**In what sense?**

China is still not part of the agreement although it is the world's second-largest economy. However, it still does not have the ability to exercise its power and tell others what to do. Nevertheless, the time will come when it will have its own aircraft carriers. Therefore, the countries that signed up wrote the rules

for global government so that when China does join, the other members will be able to say: "Great, China, you are warmly welcome providing you follow the rules practiced here".

**Is Brazil prepared to participate in a game with these new rules?**

Do you know why we chose to put an announcement in the newspapers? Because we saw that the Brazilian government, for all the reasons that are known and others, is still running a 1.0 program in this business while these people are running a 5.0 program. We wanted to give a wake-up call saying a revolution is going on and when this happens you lead, follow or get out of the way. This is the message we are conveying. We went to the Itamaraty, in various places and said we cannot remain out of this agreement because if we stay out of it, Brazil will miss the boat once again. We are still in 1946 or 1947 in terms of global governance and foreign trade. Everything is being redrawn again. Brazil has the conditions to sit at the table and give its input. However, once again we are outside because part of the government is paralyzed. Another part is doing something else that I don't really understand. If it is the Bolivarian caliphate, then obviously it did not work. This change will only come about with an order from above.

**Do you believe in the government's convictions in this respect?**

President Dilma Rousseff has various notions about this. She talks a lot about science, technology and innovation and pushed the question of relations with United States very strongly. However, she has a foreign affairs secretary who lives in the 19th century. We would prefer the government to give the lead in this

process but if it does not show the way forward then we will

**What is industry suggesting that Brazil do?**

Brazil should analyze and create mechanisms of consultation and exchanging information to see what these agreements are about and whether they are of interest to the country or not. Our first impression is that they are in our interest. We believe it will be more advantageous for the country than the best we can achieve in a bilateral, bi-regional agreement with the US for example.

**What would be the best way for Brazil to integrate itself in a regional agreement of this kind?**

The US has managed to give trade conditions to its partners that it would never give in a bilateral agreement. To such an extent that some countries that already have bilateral agreements with the US are asking to upgrade to the TPP because the conditions are better. The Americans managed to get Japan on board, a country that has made no significant agreement for 20 years because they were flexible in the agricultural question and gave Japan 30 years to remove subsidies.

**But what concrete benefits could Brazil have in an agreement like this, as it is not a Pacific country?**

Those countries that are in the TPP represent almost US\$ 53 billion in exports for Brazil. This is not peanuts. Our exports are now falling but we are talking here about around 20% of exports. We already have agreements with all the countries in South America that have joined and will join the TTP. Colombia will enter in the next stage. We already have agreements in which tariffs will be abolished by 2018 and 2019.

We will have a trade zone with Peru and Chile, both signatory countries to the TTP. The agreements are on trade but they are also on governance and a series of other subjects, such as, for example, the question of the use of hormones in cattle, patents etc.

**Why do you believe this new kind of order would be positive for Brazil?**

Brazil has already delivered a large part of the internal policies requirements that are in the agreement. We already have a sophisticated labor law which is, in fact, too

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burdensome. Slave labor is a crime in Brazil and trafficking in wild animal can lead to a prison sentence. The question of fishing is highly regulated, as is the whole environmental issue. This facilitates an agreement that involves countries like Malaysia, for example. Industry did not want an arrangement like this in the past because child labor was practiced there and there was no minimum wage but now there is. A higher level playing field, as the American call it, has been introduced. This is a rule of the game at a higher level that applies to everyone and allows everyone to compete except those who do not respect the environment, use child labor and have plants with slave-like labor conditions.

**Why would the countries that are in the TPP be interested in Brazil joining?**

People look at Brazil and know it is a country that will be stronger in a short time, in two or three years. The weight is greater when you add Argentina and the other Mercosul countries. We are essential in solving the world's food problem. Brazil has an asset that will be the main flashpoint from now on which is water. Professors from an American university told us a year and a half ago that Brazil would be the next focus of global industrial investment due to its water reserves. I answered: "I know, a cow drinks 50,000 liters of water and a ton of soybeans needs so many liters of water". They answered: "No, we are not talking about agribusiness. Making a microchip requires 40,000 liters of pure water. Billions of microchips are needed and China will not be able to make them if it does not have water close by".

**Has Brazil received any signs?**

We spoke recently to the chief lawyer of the US Trade Representative (USTR) who was enthusiastic about the possibility of Brazil joining the TPP. The Japanese Ambassador spoke to one of our directors and also showed pleasure at this possibility. We recently had a meeting with the equivalent body to Fiesp in Chile (Sofofa). They are enthusiastic and we have already agreed how to set up this mechanism. As I said it is time to act. From our side, we cannot wait for the situations related to Congressional leader Eduardo Cunha, President Dilma Rousseff and foreign affairs secretary Marco Aurélio Garcia, to be resolved while everybody else is beginning to change their minds and decide what the world will look like in the 21st century. ■