

Can Lula get what Lula wants?

While the major focus of most of us these last several weeks has been the election here in the United States as the two major parties battle for control of the House and the Senate, the recent election of Luiz Inacio Lula da Silva (Lula) as President of Brazil may also have an impact on US trade and agricultural policy. Lula, the Workers' Party candidate defeated the ruling Social Democratic candidate Jose Serra. Depending on one's perceptions the election of Lula can be seen as anything from the establishment of an axis of evil in Latin America to the great hope of the downtrodden of the western hemisphere.

With negotiations on the Free Trade Agreement of the Americas, large U.S. farm subsidy payments and protective U.S. steel tariffs not to mention continued WTO negotiations under consideration, the election of Lula could change the complexion of these discussions. After all, Brazil has a land mass larger than the contiguous United States and a population of nearly 200 million. In agricultural markets, particularly soybeans, Brazil is already challenging the leadership of the U.S. in world markets. Under Lula, Brazil could begin to use its size to challenge the leadership of the United States in other areas as well.

What all of this portends for agricultural markets is unclear at this time, but it is an issue we cannot ignore. The Agricultural Policy Analysis Center's Associate Director, Dr. Daniel De La Torre Ugarte has some insights into the historical challenges facing leftist governments in Latin America. If Lula can successfully meet these challenges, Lula's mark on the hemisphere has the potential to be significant. If not he may be destined to become a footnote in the pages of history.

The first challenge Lula faces is to maintain the support of his voter base in the long run in view of the high expectations of those who elected him as President. Many of the issues that he campaigned on can not be solved in a short period of time. The question then becomes whether

or not his supporters will become disillusioned and withdraw their support for his leadership.

Because his agenda requires some structural changes in Brazil, Lula's second challenge will be to develop the support of the current economic establishment. At the very least he will need to avoid their outright opposition. How the established power brokers in Brazil respond to Lula's activities will be very important.

The third challenge will be for Lula to find ways to reassure foreign investors that their investments in Brazil are secure or at least at no greater risk than they were under the previous government. If foreign investors withdraw their capital support in great numbers, Lula will find it more difficult to advance his objectives.

The next major challenge is an extension of the previous one. Lula will need to maintain an ongoing working relationship with the World Bank and the International Monetary Fund. He inherits a country that is already in technical default on its debts. So far no sanctions for this have been imposed by Brazil's lenders. If Lula can avoid frightening these two institutions he may have a chance to work for the implementation of the agenda he was elected on.

In meeting these challenges Lula is walking a tight rope with his constituents on one end of the balance pole and the local establishment, foreign lenders, and the international financial community on the other. He will have to keep these forces in balance, otherwise one end or the other will knock him off the high wire.

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