

The influence of nationalism in Mercosur and in South America – can the regional integration project survive?

A influência do nacionalismo no Mercosul e na América do Sul – poderá a integração regional sobreviver?

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Introduction

Nationalism has been on the rise in Latin America during the last few years. Nationalizations of energy resources in Evo Morales' Bolivia and the fiery anti-American and anti-imperialist rhetoric of Venezuela's president Hugo Chávez are the most notable examples of this tendency.

In Brazil, a number of analysts of the country's foreign relations see this development as highly problematic and have argued that it may well lead to a crisis of Mercosur.

It has been argued that even though it seems plausible that leftist governments in South America will have a propensity to support South American regionalism politically there is a possible structural conflict involved in the cooperation between South American governments headed by the political left and the nationalist developmental ideology and policies that characterize this type of government.¹ Others have argued that, contrary to the Brazilian government's upbeat rhetoric about the success of Mercosur and South American regional integration, Mercosur is actually facing a crisis.² Inside Brazil, the government's regional policy has created strong controversy. Critics find that the Brazilian policy towards countries such as Bolivia, Argentina and Venezuela is costly and based more on the government's ideological position on the political left than on a rational approach to defending the national interest. The ideological position is seen as hurting Brazil's relations to the United States³ and potentially as a threat to Mercosur's cohesion.⁴

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1 OLIVEIRA, Amâncio Jorge de; OÑUKI, Janine; VEIGA, João Paulo C. Política Externa e Negociações Internacionais. *Revista Brasileira de Comercio Exterior*, Vol. 87, 2006, p. 29-33.

2 COSTA, Cláudia. Aos 15 anos, sinais da idade. *Indústria Brasileira*, Agosto 2006. CNI, Brasília.

3 ABREU, Marcelo de Paiva. Mais do mesmo na política externa. *O Estado de São Paulo*, June 19th 2006.

4 RIOS, Sandra P.; VEIGA, Pedro da Motta. América do Sul: A Integração Pode Sobreviver ao Nacionalismo Económico? *RBCE*, No. 88, julho-setembro de 2006. Funcex/LATN, Rio de Janeiro.

The question raised in this paper is therefore if the new nationalist turn in South America will get in the way of regional integration? In the analysis I emphasize Brazil's relations to the other Mercosur members and to Bolivia that may soon become a member of Mercosur. The wider South American integration project is also brought into the analysis.

The reason for the focus on Brazil is that it is the most powerful member in Mercosur. It has a GDP that represents more than 50% of total South American GDP, a population and a territory about half the regional total.⁵ Brazil is furthermore actively promoting a regional leadership role for the country and also sees this as away to gain a more prominent role in the world.⁶

Conceptual clarification

The concept of nationalism is used in a conventional fashion in the present analysis, i.e. as a strong inclination towards jealously guarding national autonomy and taking actions that fall short of a cooperative attitude towards foreign actors, e.g. by nationalizing private companies. In this way it is possible to distinguish governments on a scale from very nationalist to internationalist. Used in this way, nationalism is often considered a negative force.

Nationalism can also be understood in another much broader sense denoting a predisposition to defend the national interest. This is less controversial. In fact, it is widely seen as what one should expect from one's government. From this view it is obvious that when a country joins a regional grouping it does so exactly to defend the national interest.⁷ The nationalist interest can be pursued in very different ways, however, either by pursuing strongly nationalist policies or more internationalist policies of integration in the global economy. Understood in this way, nationalism is a complex theme. It is a complex and ambiguous task to define national interests and since the definition of the national interest is permanently contested, but a state and its people are the only ones who can defend national interests in the international sphere.

How then is the national interest defined? There are two ways of accounting for this process. One approach emphasizes state autonomy arguing that political elites define national interests. The second perspective argues that the definition of the national interest, although it is formulated at the level of political elites, ultimately depends on the constellation of social forces in society and on perceptions of how national interests are best defended in a context of globalization. This

5 GUIMARÃES, Samuel P. *Brasil na era dos gigantes*. Rio de Janeiro: Contrapontos 2006.

6 LIMA, María Regina Soares de; HIRST, Mônica. Brazil as an intermediate state and regional power: action, choice and responsibilities. *International Affairs* 82, I, 2006.

7 PEÑA, Félix. As qualidades de um Mercosul possível. *POLÍTICA EXTERNA, Vol 15, No 3. Dezembro/ Janeiro/ Fevereiro 2006-2007*. p. 145-153. GACINT/USP.

position builds on a relational theory of the state.⁸ The analysis developed in this article takes the last position. In practice the approach taken is to emphasize ideas at the level of political elites while taking into consideration the social and political context in which policy making elites develop and implement their strategies.

Context and background

The recent interest in nationalism in Latin America runs parallel to the interest in Latin America's recent turn to the political left. In recent years leftist governments have won elections in most of South America. This fact has implications for their development strategies and therefore also for South American regional integration.

There is a tendency amongst analysts to divide these leftist governments into two different types. One type is exemplified by the Brazilian government led by the Workers' Party (PT) and Lula or the Chilean government. This type is considered as pragmatic, sensible and realist. It has moderated the traditional anti-Americanism of the Latin American left wing and focuses instead on substance and the achievement of concrete development results. The other type is exemplified by the Bolivian government of Evo Morales and the Venezuelan government of Hugo Chávez.. Castañeda argues that this type of leftist government has roots in populist or nationalistic parties and movements and is characterized by an aggressive rhetoric against the United States. According to Castañeda the leaders in this type of government focus more on gaining power and on populist rhetoric than on the achievement of concrete development results.⁹

This dualist approach seems overly one-sided and un-nuanced. A more nuanced approach should not rule out that Castañeda's "bad left" may be successful in promoting development goals effectively. It does not simply assume opportunistic motivations of leaders of the "bad left" but instead focuses on partisan motivations. Finally, a more nuanced approach should seek to explain why the left-wing governments in South America take the concrete and varied forms that they do. One should look for answers to this by looking at the historical background that led to the election of leftist governments, and it is relevant to consider structural characteristics of different national economies and of their international insertion when one wants to explain the form taken by concrete governments.

It is largely the emergence of the more radical second type of leftist governments that has led to the sudden interest in nationalism in Latin America. New left-wing governments with radical change-oriented agendas have emerged. It is uncertain what economic model they aim at. Will they turn into communist authoritarian states like Cuba, or are they moving towards some other model?

8 PALAN, Ronen; ABBOTT, Jason; DEANS, Phil. *State Strategies in the global political economy*. Pinter: London 1996.

9 CASTAÑEDA, Jorge. Latin America's Two Left Wings. *Newsweek International*, January 2006.

Will they have success or will they falter as predicted by Castañeda? Recently, countries such as Venezuela and Argentina have had strong economic growth while pursuing policies far from the neo-liberal model.

Cuba and Venezuela have started ALBA, the Bolivarian Alternative for the Americas and has been joined by Bolivia and Nicaragua after left-wing governments won elections in these countries. ALBA is presented as an alternative to US-sponsored neo-liberalism and to the Pan-American Free Trade Area of the Americas (FTAA). According to ALBA's internet site¹⁰ ALBA is the people's project in opposition to the FTAA that is the project of capitalist elites and it emphasizes the need to reduce existing asymmetries in Latin America. This is conceptualized with the concept of "cooperative advantage" as a guiding principle in opposition to the principle of "comparative advantage" defended by liberal economic theory. The current Brazilian government with its national and global change agenda of "humanism and solidarity"¹¹ thus has elements in common with the ALBA project. However, its main objective is to strengthen the unity of South America. Mexico's entrance in NAFTA has been important in Brazil's strategy of creating a strong South America with Brazil as a leading force. However, the overall strategy of the Brazilian government is a kind of intermediate position on the scale from ALBA to FTAA (ALCA). It pursues an intermediate strategy of "competitive advantage" and managed globalization. An important expression of this is found in the formulation of its industrial policy where the government points out seven sectors of strategic importance to the Brazilian economy that should be supported actively through state policies.¹² Today the ideal of liberalism has lost ground, and after the late 1990s with their financial crises in the developing world a post-liberal agenda has gained pre-eminence at the international level.¹³ This tendency is clear in much of South America and also in Brazil. The model that inspires Brazil today seems largely inspired by the successful development experiences in China and much of Asia, particularly South-East Asia. These countries have built their successful development models through strategic state involvement in the economy¹⁴, with an emphasis on industrialization and international competitiveness. This has led to the strengthening of beliefs in a more active and strategically oriented state involvement in the economy and a state engaged in providing public goods.¹⁵

10 <http://www.alternativabolivariana.org>. Accessed 29.4.2007.

11 DREITENFUS, Ricardo. O Brasil e suas relações internacionais. *Carta Internacional*, Vol. 2, Número 1, Março 2007. http://www.usp.br/cartainternacional/modx/assets/docs/CartaInter_2007-01.pdf, p. 11-21.

12 MDIC. www.desenvolvimento.gov.br/sitio/ascom/ascom/politindteccomexterior.php. Accessed 29.4.2007.

13 RIOS, Sandra P.; VEIGA, Pedro da Motta. AMÉRICA DO SUL: a integração pode sobreviver ao nacionalismo econômico? RBCE, No. 88, julho-setembro de 2006. FUNCEX/LATN. Rio de Janeiro.

14 GUIMARÃES, Samuel P. *Desafios brasileiros na era dos gigantes*. Contraponto. Rio de Janeiro, 2006.

15 For a discussion of this issue, see: IGLESIAS, Enrique. Economic paradigms and the role of the state in Latin America. *CEPAL REVIEW* No. 90, DECEMBER 2006. CEPAL: Santiago 2006.

Why has there been a leftist turn in South American politics in recent years?

In order to explain this question it is useful to briefly look at developments that preceded the shift.

In the 1980s to early 1990s Latin American countries embarked on liberal market-led reform. Neo-liberal reforms were however not particularly successful in assuring sustainable development and several countries faced major development crises again around the turn of the century. GDP stagnated or fell and poverty and inequality rose in a context of financial crisis similar to the context in which neo-liberal reforms had first been introduced. This experience had an impact in perceptions of which development oriented policies may be useful in the globalization context. Maybe neo-liberal policies of free trade, financial deregulation, privatization and fiscal stringency were not necessarily the right solution.

Argentina and Uruguay saw their GDP fall by almost 11% in 2002 alone¹⁶. In Bolivia the poverty rate was at 62.4% in 2002, and the percentage of poor was substantially higher in the rural areas dominated by indigenous groups. Neo-liberal policies in the period from 1985 to 2005 at the end of the day did not produce desired results.¹⁷ In 2002, Brazil faced stagnation and its risk rating rose to record high levels during the presidential election in 2002 as financial investors worried about a possible victory of the leftist PT led by Lula who criticized neo-liberal policies and the US vision for the FTAA during his campaign.

At the same time, development problems were on the rise in a number of countries and fostered political instability. Paulo Roberto de Almeida recently argued that the situation in a number of Andean countries including Bolivia, Ecuador and Peru came close to being that of “*failed states*”¹⁸, that is states with intense levels of social, economic and political instability and low levels of development. A good example of such a state would be Iraq today, but a number of African countries characterized by civil strife also fit the definition. Liberalization and privatizations during the neo-liberal period had failed to produce broadly shared development. In many cases foreign investors controlled large parts of strategic natural resources as in the case of the Bolivian and Venezuelan energy sector. A widespread perception took hold in many South American countries that the neo-liberal model only favoured economic elites. This led to different responses in different countries but also a general trend of emphasizing poverty reduction, social inclusion and reducing social inequality.

16 ECLAC. *Preliminary overview of the economies of Latin America and the Caribbean, 2003*. ECLAC: Santiago 2003.

17 ECLAC. *Statistical Yearbook for Latin America and the Caribbean, 2004*. ECLAC: Santiago 2005.

18 ALMEIDA, Paulo Roberto de. América do Sul: rumo à desintegração política e à fragmentação econômica? *CARTA INTERNACIONAL, JULHO 2006*. NUPRI/USP.

The shift in political orientation towards more nationalist and more socially oriented policies was therefore basically provoked by the unsuccessful development experiences associated with neo-liberal strategies.

This is relevant when it comes to regional integration in Mercosur and in South America more broadly. Raúl Bernal-Meza¹⁹ argues that the crisis experienced by Argentina in the first years of the new millennium showed the defeat of neo-liberalism and called for a revision of Mercosur's nature and of the relationship between Argentina and Brazil. He further argues that the situation faced by Argentina in 2002 should be seen as a crisis of the state and its relations to society where more than 30% of the population had entered the ranks of the extremely poor after 12 years of neo-liberal reforms. Therefore, Bernal-Meza argues for a new model of national development and a new direction in Mercosur towards a space for cooperation with solidarity in which Argentina and Brazil should remain the strategic axis in a solid and unified Mercosur with a common vision in external policy.

This position was shared by Brazil. An expression of this can be found in the Buenos Aires Consensus, in which Kirchner and Lula express a common vision for Argentina and Brazil's insertion in the global economy and the principles that should guide development oriented policies inside the countries and their external relations.²⁰

On the basis of this contextual background analysis I shall now turn to the question addressed in this article. *Is nationalism likely to get in the way of regional integration in Mercosur and in South America?*

Mercosur and South American integration in the strategy of the Lula Government

From the outset it was clear that the Lula government emphasized South American regionalism in its development strategy. In his inauguration speech, Lula thus announced:

The greatest priority of our foreign policy during my government will be the building of a politically stable, prosperous and united South America, founded upon the ideals of democracy and social justice. To this end, decisive action is required to vitalize Mercosur...²¹

In this way, Mercosur is seen as the column of South American integration. The argument for a revitalized Mercosur and a more socially just model seems

19 BERNAL-MEZA, Raúl. La crisis argentina: Su impacto en las Relaciones Bilaterales Argentino-Brasileños y Sobre el MERCOSUR. *CADERNOS PROLAM/USP, AÑO I VOLUME I, 2002*. <http://www.usp.br/prolam/cadernos.htm> Disponibilidade 29.4.2007.

20 Buenos Aires Consensus. Accessed May 6th from <http://www.embarg.org.br/CONSENSO.HTM>.

21 SILVA, Luiz Inácio Lula da. A New Course for Brazil. http://www.mre.gov.br/ingles/politica_externa/discursos/discursos_detalhe.asp?ID_DISCURSOS=2068. Accessed May 5th, 2007.

in line with Raúl Bernal-Meza's call for changing the nature of Mercosur by putting emphasis on cooperation with solidarity along with the maintenance of Argentina and Brazil as the strategic axis. This vision was shared by the Brazilian government.²²

Prior to the election of Lula, Mercosur had gone through its deepest crisis as the member countries went through severe economic downturns that led to a drastic reduction in intra-Mercosur trade. After having increased fast from Mercosur's outset to 1998 where intra-regional trade reached a record level of above US\$ 20 billion, intra-regional trade lost steam as a consequence of national crises, and by 2002 at the bottom of this trend it had fallen to just above US\$ 10 billion. From constituting 25.3% of total trade in 1998, intra-Mercosur trade in 2002 was down at 11.4%.²³ Clearly balance-of-payments problems and external financial vulnerability was at the heart of this problem, but it led to a crisis of the common external tariff and intra-Mercosur free trade rules. Particularly, Argentina broke rules, sometimes unilaterally, creating conflict in the block and a growing number of trade disputes. Most of the issues were sorted out at the end of 2002 when the governments agreed on the Olivos Protocol on dispute settlement in Mercosur.²⁴

In spite of the many problems affecting the Mercosur countries and Mercosur's model of integration, the block stayed intact. In fact, one could even say that the crisis led to a stronger emphasis on Mercosur and South American cooperation in the case of Argentina that had been very interested in the US proposal of a Pan-American regional block during the Menem years (1989-1999). In the case of the Lula government it defined Argentina as a prioritized strategic partner and argued that the strong interdependence between South American countries means that they share a common destiny and that they should seek to cooperate closely with a view of strengthening democratic stability and economic development. The argument is based on the idea that Brazil cannot develop in a good way if its neighbours are affected by serious internal instability and crisis and that South America, if it want to get a bigger say in international for a, should unite. Even Brazil is not big enough on its own to gain a strong international voice.²⁵ The strategy of Brazil is to gain a central regional role as a way to strengthen its development potential and competitive insertion in the global economy and as a way to strengthen Brazil's political weight at the global level as South America's leading country. It is also a way to establish a sphere of influence of Brazil in South America and to reduce the relative influence of

22 See, GUIMARÃES, Samuel P. *Op. cit.*

23 CEPAL, *Latin America and the Caribbean in the world economy, 2005-2006*. CEPAL 2006, p. 81.

24 CEPAL. *Latin America and the Caribbean in the world economy, 2001-2002*. CEPAL 2003, p. 156-161.

25 AMORIM, Celso. Conceitos e estratégias da diplomacia do Governo Lula. *Diplomacia, Estratégia, Política*. Vol. I, No 1, 2004, p. 41-48.

the United States. In this respect, Mercosur and FTAA are at the center of US-Brazilian relations and strategies in the region.²⁶

This emphasis on Mercosur is nothing new in Brazil and South American cooperation also gained some emphasis during the Cardoso government with its initiative of South American presidential summits and regional energy and infrastructure integration in August 2000. South American regionalism is widely accepted in Brazil at this shallow level of cooperation. However, there are a number of differences regarding how it should be translated into political practice and on how to judge the Lula government's actual strategy in the area. Has it been rational or ideological, has it produced good or bad results and has it been balanced or characterized by a focus on cooperation with other leftist governments?²⁷

Critics find that there is a lack of consistency in the many initiatives taken by the government. It has largely lost control of the process and thus overestimated its capacity to be a regional leader.²⁸ Others find that regional integration is moving forward with the understandable difficulties one should expect from such a process. Antonio Lassance thus argues that South American integration is at an advanced stage in spite of the challenges it poses.²⁹

Samuel Pinheiro Guimarães has argued that one should expect considerable difficulties in the process of reaching the goals set out in Lula's inauguration speech since the regional environment in South America is characterized by tensions and by political and economic instability.³⁰ Therefore, Brazil needs to be patient and gradually work towards South American unity and in doing so it must take a non-hegemonic attitude and introduce concrete and effective instruments aimed at reducing asymmetries between Brazil and Argentina, these two countries and Paraguay and Uruguay and finally between Mercosur and the rest of South American countries.³¹ The emphasis on asymmetries is important he argues because regional integration first and foremost is a political process. It is therefore of pivotal importance that outcomes of regional integration are perceived to be balanced.³² The argument is based on the idea that governments join regional groupings in order to pursue national interests. This argument is also defended in the present analysis. In a similar vein it has been argued that the preservation and advancement of political integration must be pushed forward by national logics that find projection in the regional space, but that one should

26 See, e.g. BANDEIRA, Moniz. Brasil, Estados Unidos y los procesos de integración regional. *NUEVA SOCIEDAD* 186, Agosto 2003, p. 149. Caracas.

27 RIOS, Sandra P.; VEIGA, Pedro Da Motta. *Op.cit.*

28 *Ibid.*

29 LASSANCE, Antonio. *Ondas e mares da América do Sul*. Unpublished at the time of writing, May 2007.

30 *Op. cit.*, p. 388. Samuel Pinheiro Guimarães is the secretary general of foreign relations in the Brazilian government.

31 *Ibid.*, p. 406-407.

32 *Ibid.*, p. 383.

not assume that the strengthening of a nationalist logic weakens the chances of supranational integration.³³

This is the issue that shall be studied below. I analyze Brazil's relations to Uruguay, Argentina, Bolivia and Venezuela and draw in other relevant elements relevant to South American integration such as the trade agreement between the Andes Community (CAN) and Mercosur, the construction of the South American Community of Nations (CASA) and the recent South American Energy Summit. The aim is thus to study Mercosur's internal cohesion and expansion as well as the wider project of South American unity. The Brazilian government's diplomacy is active at both levels and according to Amorim South American integration is moving forward at two different speeds, a faster speed at the level of Mercosur and a slower pace at the level of CASA.³⁴

Uruguay

Uruguay and Paraguay have been dissatisfied with the way Mercosur has been moving forward. From 1998 when the member states' economies started losing steam, the relative weight of Mercosur in Uruguay's export profile has also been reduced drastically from 60% in 1998 to 23% in 2006.³⁵ In a letter to Lula written on September 8th 2006, Uruguay's president Tabaré Vázquez sets out by confirming that Mercosur is a priority for Uruguay but that there are different problems in the block. He emphasizes that asymmetries between the member countries have increased and points out that this has had serious social and economic costs for Uruguay especially in terms of the loss of whole industrial sectors in the economy. Based on this he calls for changes in Mercosur that would respond to the needs and interests of the smaller members, amongst this the right for the smaller members to make bilateral trade agreements with the United States.³⁶

Uruguay's criticism of Mercosur and wish to make a trade agreement with the United States created speculation about Uruguay's possible exit from Mercosur. Was it likely that Uruguay would leave Mercosur and join the examples of Chile, Peru and Columbia that all have bilateral trade agreements with the United States that are inspired by the principles contained in NAFTA that the United States also defended for the FTAA?

There were other reasons why such an outcome was not unlikely. Rios and Veiga point out that Uruguay's dissatisfaction also stems from the bilateral

33 LASSANCE, Antonio. *Op. cit.*

34 AMORIM, Celso. Aula Magna aos Alunos do Instituto Rio Branco (IRBr), Brasília, August 4th 2006. *POLÍTICA EXTERNA BRASILEIRA Volume II: Discursos, artigos e entrevistas do Ministro Celso Amorim (2003-2006)*. Ministry of Foreign Relations, Brasília 2007.

35 COSTA, Cláudia. *Op. cit.*

36 VÁZQUEZ, Tabaré. Carta de Tabaré Vázquez ao presidente Lula. Translated by Miriam Xavier to the Portuguese. *POLÍTICA EXTERNA, Vol. 15, no 3, Dezembro/Janeiro/Fevereiro 2006-2007*, p. 169-171.

conflict between Argentina and Uruguay over the instalment of two cellulose factories close to the Rio Uruguay and the common border. Brazil and Argentina were also perceived to emphasize their bilateral relations and not paying enough attention to the interests of the smaller countries.³⁷ In other words, there was not enough attention in the big countries at assuring a balanced development that could assure the block's internal cohesion.

One example of this is the introduction of the MAC (Mechanism for Competitive Adaptation) in 2006. Argentina had pressed for this policy, but Uruguay, Paraguay and the Brazilian business sector were against this new institutional development according to Costa.³⁸

Celso Amorim recognized the problem and promised a “New Deal” for Mercosur’s small members in mid-2006, and a structural fund (Focem) aimed at reducing asymmetries has been introduced.³⁹ During a visit by Lula to Uruguay in February 2007 shortly before US president George Bush’s visit in Uruguay, Lula and Vázquez signed a number of agreements aimed at reducing asymmetries and fostering economic development. Lula offered an investment package to Uruguay in which amongst other things Petrobrás would invest in a number of projects in the energy sector and the Brazilian multinational Carmargo Corrêa would invest in a cement factory. The package also included policies that should facilitate Uruguayan exports to Brazil and thus counteract Uruguay’s trade deficit with Brazil and credit facilities from BNDES that should help finance investment projects.⁴⁰ In an interview given to the newspaper Financial Times briefly before Lula’s visit in Uruguay, Celso Amorim argued that even though there had been attempts to diminish asymmetries between Brazil and Uruguay after Brazil’s devaluation in 1999, this had not helped enough and Uruguayan exports never rose to the level prior to the devaluation. Therefore, there was a need for more affirmative action in order to strengthen Mercosur.⁴¹

It is still not clear how this new Brazilian initiative will work out. However, it can be seen as an example of Brazil’s doctrine of showing solidarity and fighting asymmetries in its relationship to Mercosur partners and other South American countries. This doctrine has been further advanced recently by the Brazilian government that is planning to intensify its efforts to reduce Brazil’s export surplus in South America by undertaking trade missions that aim at identifying potential exporters in other South American countries. Brazil’s trade surplus in South America reached US\$ 10.6 billion in 2006.⁴²

37 RIOS, Sandra Polónia; VEIGA, Pedro da Motta. *Op. cit.*, p. 8.

38 COSTA, Cláudia. *Op. cit.*

39 *Ibid.*

40 Folha de São Paulo, 24.2.2007. Contra EUA, Lula oferece ”pacote” ao Uruguay. Accessed from the internet 26-02-2007 from Folha on-line, <http://tools.folha.com.br/print?site=emcimadahora&url=http%3A%2F%2Fwww1.fol...>

41 Interview of Celso Amorim by Financial Times, Brasília 22.2.2007. Accessed from the internet 13-04-2007 on http://www.mre.gov.br/portugues/politica_externa/discursos/discurso_detalhe3asp?l...

42 LEO, Sergio. Governo planeja reduzir superávit com países da região. *Valor Econômico*, April 27, 2007.

The renewed emphasis on trade balance is an instrument in working for the reduction of asymmetries and for creating a prosperous South America. Brazil's export has grown substantially during the Lula government reaching just above US\$ 41 billion in 2006. This has helped to stabilize the economy and has reduced the foreign debt/export ratio from 3.6 in 1999 to 0.6 in 2006.⁴³ Brazil's emphasis on creating large export surpluses during the first Lula government has been essential in assuring this positive result and may also to some degree explain the relative lack of attention given to trade asymmetries in Mercosur. Another factor may also have been that the government's emphasis on creating South American unity provoked a reduced attention to internal cohesion in Mercosur. The PSCI policy aimed at reducing Brazilian trade surpluses with other South American countries including Mercosur members seems visionary and as a useful tool in creating growth in South America and an improved image of Brazil that could improve its possibilities of a leadership role in a more united South America. As the trade figures show, Brazil now has more space to undertake such an uncommon policy of actively seeking to increase imports and reduce own export surpluses. Although such a strategy could be criticized as being overly ideological by not emphasizing Brazil's own business possibilities, such a criticism does not seem valid. Growing exports in other South American countries should increase their import capacity and agreements such as the ones reached between Brazil and Uruguay help Brazilian businesses to expand their activities regionally.

Brazil's support to Uruguay may help Uruguay on its growth path and reduce asymmetries in Mercosur. For now, the cooperative attitude has been useful in maintaining Uruguay inside Mercosur and in increasing cohesion.

Argentina

The Lula government has been criticized for being too willing to accommodate Argentina's complaints within Mercosur.⁴⁴ Critics see Argentina as a free rider in Mercosur, a country that is not giving enough priority to Mercosur but instead pursues an egotistical and nationalist trade policy. José Guilhon De Albuquerque finds that Brazil's willingness to accommodate Argentina hurts the interests of Brazilian business. This policy is wrong-headed and based on Brazil's political agenda of strengthening South American integration and Brazilian leadership.⁴⁵

Paulo Nogueira Batista Jr., disagrees with this criticism of Argentina's posture and Brazil's response to it. He argues that the Kirchner government's use of protectionist measures and arguments for these are acceptable and quite similar to the arguments Brazil uses in trade negotiations with the developed countries when Brazil faces asymmetrical outcomes. Brazil has consistently had bilateral

43 MDIC/SICEX. *Brazilian Trade Balance: Consolidated Data, January-December 2006*. MDIC/SICEX 2007.

44 ABREU, Marcelo de Paiva. Além do amadorismo. *O Estado de São Paulo*, December 4, 2006.

45 CAMPOS, Iris W.; FILHO, Roberto M. Objetivos conflitantes. *Indústria Brasileira*, Maio 2005, p. 10-15. CNI.

surpluses with Argentina during the last years and Argentina is eager to assure the survival of its industrial sectors after having experienced a serious process of de-industrialization in the period from 1990 to 2001. Therefore, Argentina's use of protectionist policies is not an indication of Mercosur's crisis but rather of the crisis of the liberal conception of integration of the 1990s.⁴⁶

Seen in this light, Brazil's accommodating policy line follows the government's overall concern for reducing asymmetries between Brazil and its South American trade partners. It is also a way to avoid a major outfall between the two countries that could hurt Brazil's strategy of South American unity created on the basis of Mercosur in which Argentina and Brazil form the axis.

It would potentially be highly risky for Brazil to take a tough principled stand against Argentina to defend the short-term interests of Brazilian business. Such a policy could get in the way of the strategic partnership between the two countries and create an anti-Brazilian atmosphere in Argentina that has a long tradition of rivalry with Brazil and that is sceptical of Brazil's wish to become a regional leader. From this perspective then, Brazil's policy towards Argentina can be considered pragmatic and rational.

On the other hand, unilateral measures from Argentina are also problematic. In this sense the introduction of the MAC is an advance, since it institutionalizes the use of safeguard mechanisms along lines agreed upon, at least between Argentina and Brazil. It is understandable that Argentina after its deep crisis in 2001 and 2002 felt a need to defend its industrial structure, but it would be good for Mercosur if solutions to such problems could be found through dialogue and consensus between all Mercosur partners. Unilateral nationalist responses based on differences in interest and in perceptions about how to advance the national interest in a context of regional integration can create setbacks in the integration process. When such unilateral actions are taken, though, an attitude of dialogue and negotiation seems the way forward. The opposite could obstruct the regional integration process. It is conceivable, of course, that unilateral measures take an intolerable scope and character, but this has not been the case in the relationship to Argentina. The Brazilian government has found that Brazil's large exports to Argentina and Argentina's difficulties in the industrial sector means that Brazil should be pragmatic towards Argentina.⁴⁷

Bolivia

Bolivia may well become the sixth member of Mercosur. Negotiations are under way. Bolivia, however, has pursued nationalist policies of nationalization

46 BATISTA Jr., Paulo N. A América do Sul em Movimento. November 2006. Accessed from the internet on May 5, 2007. <http://www.usp.br/fau/ensino/graduacao/arq...>

47 VEJA. Interview with Celso Amorim. "Não intervenção e não indiferença". *Veja*, August 24th 2005, p. 313-327. In *POLÍTICA EXTERNA BRASILEIRA, Volume II: Discursos, artigos e entrevistas do Ministro Celso Amorim (2003-2006)*. Ministry of Foreign Relations, Brasília 2007.

of energy resources quite forcefully, apparently without much concern for the impact of such policies on neighbouring countries such as Brazil. On the first of May in 2006, Evo Morales declared the nationalization of hydrocarbons and gave foreign companies including Petrobrás 180 days to make new agreements with Bolivia. In order to deal diplomatically with this issue, the presidents of Bolivia, Brazil, Argentina and Venezuela met to discuss the measure on May fourth. In an interview after the meeting, Lula recognized that Bolivia had a right to define its policies in the energy area with autonomy and that Brazil should take a cooperative attitude. He further argued that what might look like an insurmountable conflict was rather the result of the consolidation of a democratic process in South America and expressed a willingness to discuss with Chávez and Kirchner what the three governments could do together to contribute to Bolivia's development and work towards unity in Mercosur and South America.⁴⁸

This attitude provoked a nationalist reaction in Brazil particularly from those who wanted Brazil to work more towards a free trade agreement with the United States, according to Batista Jr.⁴⁹ Marcelo de Paiva Abreu criticized the government's posture strongly arguing that the government should adopt more defensive policies towards Evo Morales and Chávez and that it ought not have accepted Chávez as a part in the negotiation over the response to Bolivia's nationalizations. Abreu is strongly critical of the closer ties between Brazil and Chávez who he believes has an unacceptable posture towards the Bush government⁵⁰ It can be argued that the posture taken by the Lula government seemed in line with ALBA's ideological doctrine but also in line with its own doctrine of "humanism and solidarity" and fight against asymmetries. The government was criticized for an overly ideological and political approach to the matter rather than a more rational approach emphasizing economic interests. However, as Amorim argues in an interview in October 2006 when negotiations about the new conditions for exploration of energy were taking place, Brazil recognized Bolivia's right to nationalize their energy resources, something that Bolivia had already decided to do in a referendum under the previous government in 2004. Therefore, it was not in Brazil's interest with a more radical response, what was important was to reach a fair negotiated agreement, and such an agreement was getting closer.⁵¹ The agreement that was eventually reached was criticized by the opposition newspaper *O Estado de São Paulo* in an editorial. According to the newspaper, Petrobrás gave in to the pressure from Bolivia and accepted a bad deal.⁵² Ricardo Dreitenfuss, however, argues along the lines of the government. According to

48 Interview with president Lula on the occasion of the meeting between Brazil, Argentina, Bolivia and Venezuela in Puerto Iguazú, Argentina, May 4th, 2006. Accessed from the internet on April 13th, 2007. http://www.mre.gov.br/portugues/politica_externa*/discursos/discurso_detalhe3.asp?l...

49 *Op. cit.*

50 ABREU, Marcelo de P. Mais do mesmo na política externa. *O Estado de São Paulo*, June 19th, 2006.

51 PINTO, Paulo S. Aonde nos leva a política externa. *Indústria Brasileira*, October 2006, p. 12-17. CNI.

52 Estado de São Paulo. Petrobrás cede tudo. *Estado de São Paulo*, October 31st 2006.

him, the government's reaction was adequate and built on the defence of Brazil's national interests. There was no use in a strongly negative reaction against Bolivia. This would only increase the problem and was likely to lead to the implosion of South American cooperation. Similarly he defended Brazil's policy of solidarity and humanism.⁵³ From this perspective then, Brazil's reaction can be seen as being at the same time pragmatic and rational *and* ideological in a positive sense.

In 2007, Bolivia has furthered its activist and nationalist policy. On the first of May in 2007, the Bolivian government declared that Petrobrás' two refineries in the country are to be nationalized. The aim is to assure Bolivia's control in the energy sector and to increase the revenues of the government. At the moment, Petrobrás and the Bolivian government are negotiating the price to be paid for the refineries and the energy stocked up there. Bolivia is offering a price much lower than the one demanded by Petrobrás. The company negotiates with a view of reaching an agreement in order to avoid damage to bilateral relations, and at the same time the Brazilian government is defending a similar posture as in October 2006, namely that a fair price needs to be found. The implicit threat is that if such an agreement is not found Brazil may revoke promised economic aid and perhaps suspend the agreement reached in February 2007 on Brazilian gas exports from Bolivia that allowed a sizeable increase in Bolivia's gas income.⁵⁴

The bilateral relationship between Bolivia and Brazil shows that Brazil cannot control the integration process in spite of its superior power resources. It also shows that the heterogeneity in South America makes regional integration and South American unity a highly challenging goal to reach. However, Lula's argument that the conflict should mainly be seen as a result of a democratic process in South America seems valid. The Bolivian population favours nationalization as does the Venezuelan government. The short time loss Petrobrás and Brazil will have to accept can best be turned to long term gains if the government maintains its posture of acceptance of Bolivia's nationalization policy and at the same time seeks to negotiate as good a deal as possible. This is exactly the posture taken by the Brazilian government. The threat of sanctions is likely to mainly focus on pacifying domestic criticisms of a too soft approach, although it cannot be ruled out that Brazil may carry out the sanctions. This however would be likely to create a crisis in the relationship to Bolivia and Venezuela that is Bolivia's ally. It does not seem likely that the Lula government will risk such a development that would bring the ambition of South American unity to an abrupt end.

53 DREITENFUSS, Ricardo. O Brasil e suas relações internacionais. *Carta Internacional, Volume 2, Número 1, Março de 2007*, p. 11-24. Accessed from the internet on May 5th 2007 on http://www.usp.br/cartainternacional/modx/assets/docs/CartaInter_2007-01.pdf

54 BRITO, Agnaldo. Bolívia oferece à Petrobrás 1/3 do valor das refinarias. *O Estado de São Paulo, May 4th 2007*.

Venezuela

Venezuela's entry into Mercosur in July 2006 is probably the most controversial aspect of Brazil's in Brazil's foreign policy inside Brazil. Venezuela's president Hugo Chávez has an aggressive discourse towards the United States and multinationals.

In his presidential campaign in 2006 he campaigned on a platform of introducing socialism of the 21st century in Venezuela, and he likes to call US President Bush Mister Danger. Chávez won the elections wide a wide margin, largely due to Venezuela's economic growth and efforts at social inclusion⁵⁵ much like Lula did in 2006. He has started on a program of nationalizations in different economic sectors and on the first of May he paralleled Evo Morales' nationalizations in Bolivia when he consolidated the nationalization in the oil sector when he mandated to occupy four oil companies operating in the oil rich Orinoco River. The measure affected four multinational oil companies and will mean that the Venezuelan state-owned oil giant PDVSA will have at least 60% of the shares in the four companies. During the event where Chávez presented the measure he celebrated that with this measure Venezuela closed down the opening of the oil sector undertaken in the 1990s, arguing that the opening was an attempt by imperialism to take possession of one of the worlds largest oil reserves.⁵⁶

Pedro da Motta Veiga sees the acceptance of Venezuela as a full member of Mercosur as the biggest mistake in Brazil's poor South America policy.⁵⁷ On the other extreme, Moniz Bandeira argued in early 2006 that Venezuela's planned entry into Mercosur, though it would not please the Bush government, it would strengthen Mercosur's bargaining power. He argued that Mercosur should not keep out any South American country and that Venezuela had an enormous strategic importance for a number of reasons. It has large oil reserves, it would give Brazil access to the Caribbean and it shares a long border with Brazil in the Amazon. Together with Argentina and Brazil, Venezuela is planning to construct an enormous gas pipeline that will go through the three countries. All of these aspects could benefit Mercosur.⁵⁸

The Brazilian government finds that the relationship with Chávez Venezuela is good. In an interview shortly after Chávez the announcements of a number of privatizations in January 2007, Brazil's foreign minister Celso Amorim argues that Chávez and Venezuela work well from the perspective of Brazilian interests

55 LÓPEZ MAYA, Margarita; LANDER, Luis E. Venezuela: em direção ao socialismo do século XXI?. *POLÍTICA EXTERNA*, Vol. 15, No. 4, Março/Abril/Maio 2007, p. 7-22.

56 MAISONNAVE, Fabiano. Chávez e Evo consolidam nacionalização. *Folha de São Paulo*, 2 de maio de 2007.

57 VEIGA, Pedro da Motta. Por que erramos tanto na América do Sul?. *RBCA*, No. 90, janeiro-março 2007. FUNCEX/LATN. Rio de Janeiro 2007.

58 BANDEIRA, Luiz Alberto Moniz. Venezuela é indispensável. *Revista Espaço Acadêmico*, No 56, Janeiro 2006. Accessed on January 25th 2007 from <http://www.espacoacademico.com.br/056/56bandeira.htm>.

pointing out that Brazil exported for almost US\$ 4 billion to Venezuela in 2006 and that Brazil has a large export surplus with Venezuela. He further argued that he did not find that Venezuela's economic model and Brazil's were incompatible, but that they should not expect to export their economic model to Brazil.⁵⁹ In fact, Venezuela is working very well for Brazilian business interests. In 2006, exports to Venezuela increased by 61.7% in comparison to 2005. This represents the highest percentage expansion amongst Brazil's 12 largest export markets where Venezuela is now the tenth biggest.⁶⁰ Apart from exports, Brazilian investments have also growing considerably in Venezuela in recent years and a number of common projects are in the planning.⁶¹

The relationship with Venezuela seems to work quite well, although it would seem that Venezuela's entry into Mercosur may complicate the block's international trade negotiations. Some fear that it will make a trade agreement with the United States even harder to get. On the other hand this may not be a big problem as Brazil seems content with the "FTAA lite" agreement entered in 2003. Also, Brazil is negotiating ways to cooperate with the United States in the area of bio-energy that has become a strategic sector at the top of the Lula government's priorities in recent months. There is, of course, a possibility that Venezuela will gain a central role maybe even competing with Brazil to be the one setting the agenda in Mercosur. On the other hand, the agenda of Brazil and Venezuela have a number of points in common such as emphasis on social policy, construction of a multipolar world order and energy integration in South America. They differ on the economic model and on the relative weight of the state in the economy, and while Chávez is aggressive in his criticisms of US president George Bush, the Lula government has another approach. Brazilian leaders criticize US policies that they think are wrong-headed and negotiate interests firmly but there is a good relationship between Lula and Bush and the two countries seek to cooperate. One could also consider if the alternative to including Chávez in Mercosur would be better. Probably not. In fact there is a danger that an explicit exclusion of Venezuela could harm South American regional integration and push countries like Bolivia and Ecuador away from Mercosur. It is also possible that it will have a moderating factor on Chávez to have to negotiate inside Mercosur where he will have to respect the opinions and interests of the other member countries even if he does not agree with them.

59 CANTANHÊDE, Eliane. Chávez "funciona muito bem para Brasil", afirma Amorim. *Folha On-Line*, January 17th 2007. Accessed on January 19th from <http://tools.folha.com.br/print?site=emcidahora&url=http%3A%2F%2Fwww1.fol...>

60 MDIC/SICEX. *Op. cit.*, p. 21.

61 MENDIBLE ZURITA, Alejandro. Venezuela-Brasil: una relación geoestratégica privilegiada. *Carta Internacional*, Julho 2006, p. 11-23. Accessed on May 6th from <http://www.usp.br/cartainternacional/modx/index.php?id=59>

Mercosur-CAN, CASA and Energy Summits

Apart from policies aimed at strengthening the internal cohesion in Mercosur and the enlargement with Venezuela's entry, a number of other initiatives aiming at South American unity have been pursued with Brazil as a leading actor. In fact, it has been argued that the dominating current of thinking with regard to South American integration during the first presidency of Lula has been the one that has prioritized the expansion of Mercosur and the creation of the South American Community of Nations (CASA). The less influential current emphasized the deepening of Mercosur. The creation of the Mercosur Parliament and the Olivos Protocol on dispute settlement are part of that agenda, which has had some influence as well.⁶²

The free trade agreement between Mercosur and the Andean Community (CAN) was introduced in 2005. The Brazilian national industrial federation finds that the agreement is unbalanced and favours the market access to Mercosur of the Andean countries over Mercosur's market access.⁶³

Veiga and Rios point criticize the agreement in the sense that the advantages Mercosur that the agreement gives Mercosur do not equal the more substantial advantages reached by the United States in its bilateral free trade agreements with Peru and Colombia.⁶⁴ Batista Jr. points out that these bilateral agreements are incompatible with Mercosur since the bilateral agreements include rules in government procurement, investments and the service sector that the Mercosur country were unwilling to agree to in the FTAA negotiations.⁶⁵ The Brazilian government sees the CAN-Mercosur agreement in a more positive light. Amorim argues that the agreement was a step in the way towards South American free trade and that it was the basis that made it possible to create CASA⁶⁶, and that all asymmetries and sensibilities of the Andes countries were taken into concern.⁶⁷ He further argues that CASA with its focus on infrastructure integration helps create one big and integrated area, a *South American Circle* (in his words), tying the whole continent together. He envisions that CASA should lead to a South

62 SARAIVA, Miriam G. O Segundo mandato de Lula e política externa: poucas novidades. *Carta Internacional*, Vol 2, No. 1, Março 2007. Accessed May 6th from <http://www.usp.br/cartainternacional/modx/index.php?id=70>

63 COSTA, Cláudia. Muita negociação, poucos resultados. *Indústria Brasileira*, Fevereiro 2007. CNI, Brasília.

64 RIOS, Sonia Polónia; Veiga, Pedro da Motta. *Op. cit.*

65 BATISTA JR. *Op. cit.*

66 AMORIM, Celso. Discurso na XIII Reunião do Conselho de Ministros da Associação Latino-Americana de Integração (ALADI). Montevideo, 18 de outubro de 2004. *POLÍTICA EXTERNA BRASILEIRA Volume II: Discursos, artigos e entrevistas do Ministro Celso Amorim (2003-2006)*, p. 37-39. Foreign Ministry, Brasília 2007.

67 AMORIM, Celso. Discurso na III Reunião de Canceleiros da Comunidade Sul-Americana de Nações (CASA), Santiago, 24 de novembro de 2006. *POLÍTICA EXTERNA BRASILEIRA Volume II: Discursos, artigos e entrevistas do Ministro Celso Amorim (2003-2006)*, p. 118-121. Foreign Ministry, Brasília 2007.

American union in the future and argues for the institutionalization of CASA with the creation of a permanent secretariat.

Amorim's arguments again show the emphasis given to agreements that seek to deal with asymmetries and protect weaker economies. Furthermore, it seems clear that while the long term goal envisioned by the Brazilian government may be a South American economic and political union then the short term goal is to integrate South America through infrastructure projects as a way to increase the continent's international competitiveness through the systemic upgrading of the economic system that infrastructure integration creates. Even if South America never may turn out to reach the degree of political integration and unity that Amorim seems to envision, infrastructure integration could increase the overall efficiency of the South American economy and thereby contribute to the priority strategic goal of creating a prosperous South America. Even if Peru and Colombia (and Chile) maintain free trade agreements with the United States that are incompatible with Mercosur, trade and investment agreements and infrastructure projects could create common benefits for South American nations.

Recently, a new initiative in the realm of South American integration was set in motion, namely the first South American Energy Summit. The meeting took place in mid-April 2007 on the Venezuelan Isla Margarita. The topic of the summit was cooperation and integration in the energy sector in South America. In an interview after the meeting Lula argued for the institutionalization of this initiative through the creation of a permanent secretariat. He argued that energy is the key to the development of the region and underlined that he believed that renewable energy such as ethanol and bio-diesel could be the way out of poverty for the poorest countries in the world, including poor South American countries, arguing that a strategy aimed at producing renewable energy should not get in the way of the production of food and that the world's nutrition problems were not caused by the lack of food but by the lack of income.⁶⁸ It is too early to say which results this new initiative will give. However, it does seem that it is another step in the direction of more integration in South America.

Conclusion

South American integration seems to be moving forward surprisingly fast in spite of conflicts and occasional setbacks. Some think that the many initiatives show a lack of strategy. However, there seems to be coherence between the different initiatives. They all point toward creating closer economic and political ties between South American nations.

⁶⁸ SILVA, Luiz Inácio Lula da. Interview given by president Lula at the I South American Energy Summit on Isla Margarita, Venezuela, April 17th 2007. Accessed on April 20th from http://mre.gov.br/portugues/politica_externa/discursos/discurso_detalhe3.asp?I..

Mercosur has been deepened and expanded in recent years in spite of the challenges posed by the recent development crisis. A strong emphasis on “solidarity” and on reducing asymmetries is helping to create internal cohesion in spite of Mercosur’s heterogeneity and different domestic and external policies. Thus, nationalism does not seem to create overly serious problems in the integration process. Brazil has taken a pragmatic approach and it seems that Mercosur is slowly creating new regulations and rules that may help reduce the use of unilateral measures.

Difficulties are larger when it comes to the case of Bolivia. Bolivia has taken several unilateral measures that have hurt Brazilian interests and has shown that Brazil finds it difficult to translate its superior power resources into actual influence. Brazil has taken a pragmatic and patient approach to the conflicts with Bolivia and has thus avoided a major setback that could create problems between Brazil and other South American countries, particularly Venezuela. As the biggest economy and as the only Portuguese speaking country in the region Brazil has to step carefully to avoid being seen in a negative light. Although, Bolivia’s actions find internal legitimacy and initially also external legitimacy, the newest round of nationalizations seems unnecessarily aggressive, and Bolivia may run the risk of scaring foreign investors away. The same may be the case in Venezuela. However, so far it seems that the different types of economic models chosen by different countries is not getting in the way of closer integration. Nationalism does not seem to get in the way of regional integration in Mercosur and in South America.

An increased level of South American cooperation can also be observed in countries that do not pursue radical leftist and nationalist policies. However, it may turn out to be difficult to reach ever higher levels of integration with the countries that have bilateral free trade agreements with the United States that are incompatible with Mercosur. This, though, does not mean that higher levels of cooperation and coordination in different areas such as trade, investments, infrastructure and energy cannot be reached. It seems that this is already happening.

Brazilian nationalism has the potential of creating problems for regional integration. In Brazil, foreign policy has become a major issue of debate in civil society and there is a minority opinion that is highly critical of Brazil’s cooperation with Venezuela and the weak response to nationalizations in Bolivia. In this group, which is represented by industrial interest groups and parts of the political opposition such as the PSDB, there is scepticism towards the Lula government’s strong emphasis on fighting asymmetries between South American countries and its emphasis on South American integration, even with the “bad” nationalist leftist governments, and South-South cooperation. The opinion is that this policy is overly ideological and irrational and that a more rational policy would be to seek an international insertion that emphasizes cooperation with the EU and the United States more. The last elections in Brazil indicate, though, that

the government has a strong mandate to pursue its agenda. The doctrine put out by Samuel Pinheiro Guimarães guided the government's actions and has been successful in maintaining integration moving forward in spite of the challenges. Brazil is essential to the continued widening and deepening of regional integration in South America. Brazil's decisive role largely stems from its superior economic resources and diplomatic skill. If Brazil is able to maintain its policies there are chances that South America will move towards higher economic prosperity creation through a systemic strengthening of South American economies. If this happens, it is likely that perceptions of South American integration and Brazil's role in it will gradually become more and more positive in neighbouring countries making the continuity of South American integration likely.

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Abstract

The article discusses if nationalism is getting in the way of regional integration through a Brazilian prism due to Brazil's pivotal role in regional integration in Mercosur and South America.

Resumo

No artigo se discute o papel do nacionalismo na integração regional, a partir da perspectiva do Brasil, considerando o seu papel protagônico nos processos de integração do Mercosul e da América do Sul.

Palavras-chave: Nacionalismo, Mercosul, América do Sul, Integração Regional, Governos de esquerda.

Key words: Nationalism, Mercosur, South American, Regional integration, left wing governments.