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**COOPERATION BETWEEN ARGENTINA  
AND BRAZIL: THE POLITICAL AND  
ECONOMIC DETERMINANTS**

by

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December, 1997

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AND ECONOMIC DETERMINANTS**

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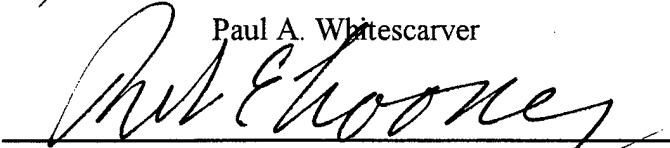
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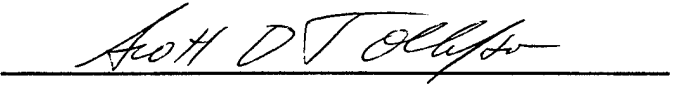
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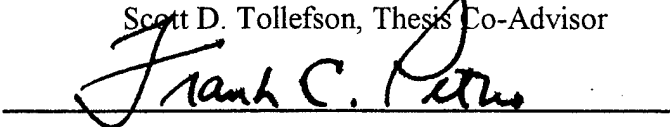
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## ABSTRACT

The political climate between Argentina and Brazil has changed from one of conflict to one of cooperation. The purpose of this thesis is to explain cooperation between Argentina and Brazil. A single qualitative case study is used to test three competing hypotheses: (1) the transition to democracy by Argentina (1983) and Brazil (1985) promotes cooperation; (2) the external economic environment forces cooperation; and (3) both the transition to democracy and the economic environment have forced cooperation between the two countries.

The findings are that the global market and the need to compete in it is the driving force for cooperation between Argentina and Brazil, but it is evident that the transition to democracy by both countries played a role in the intensification of cooperation that began in 1985.



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## EXECUTIVE SUMMARY

The political climate between Argentina and Brazil has changed from one of conflict to one of cooperation. Argentina and Brazil are experiencing cooperation that is unprecedented since both became independent in the beginning of the 19<sup>th</sup> century. Prior to 1985, each country's heads of state had only visited the other country but three times. Since 1986 there have been many visits between Argentinean and Brazilian leaders. Increased cooperation between the two countries began with the transition to civilian-led governments. Argentine President Raúl Alfonsín (1983-1989) and his Brazilian counterpart, José Sarney (1985-1990) signed various agreements on nuclear and commercial cooperation issues. As of 1991 both Argentina and Brazil are members of the fourth largest trading bloc in the world, Mercado Común del Cono Sur (Mercosur), and have participated in joint military exercises.

The purpose of this thesis is to explain cooperation between Argentina and Brazil. A single qualitative case study is used to test three competing hypotheses: (1) the transition to democracy by Argentina (1983) and Brazil (1985) promotes cooperation; (2) the external economic environment forces cooperation; and (3) both the transition to democracy and the economic environment have forced cooperation between the two countries.

The thesis found that neither Argentina or Brazil has a fully consolidated democracy. Furthermore, the democratic norms that comprise the underlying mechanism for democratic peace have not fully matured in Argentina and Brazil. Without the

consolidation of democracy, it is questionable whether the cooperation between Argentina and Brazil can be a result of the democratization process.

The second hypothesis stated that the economic environment in which Argentina and Brazil compete has promoted cooperation between the two countries. Cooperation between Argentina and Brazil began with joint naval exercises in 1978, but the bulk of the agreements signed by the two countries began in 1985 starting with the Foz do Iguacu agreement, a joint declaration of nuclear policy. The Argentinean-Brazilian Integration and Cooperation agreement followed in 1986, adding economic issues to the 1985 bilateral agreement. Argentina and Brazil had placed greater emphasis on competing globally, liberalized their respective markets to some extent, and were truly on a path to greater cooperation.

Furthermore, the findings of this thesis determined that the global market economy and the rules of that system strongly influenced the decision by Argentina and Brazil to begin an integration process. Each agreement after 1986 between Argentina and Brazil had ties to increased economic integration between the two countries. The Treaty of Asuncion (1991) that created Mercosur illustrates multiple channels of cooperation that strengthens the bond between Argentina and Brazil.

The third hypothesis postulated that both democratization and the economic environment increased cooperation between Argentina and Brazil. The bulk of the agreements between the two countries began in 1985, after the transition to democracy in Argentina and Brazil. Neither Argentina and Brazil has fully consolidated its

respective democracy, but the agreements between them have strong links to the adherence to democracy by each country.

The influence of a global market and the need to compete in it is the driving force for cooperation among Argentina and Brazil, but it is evident that the transition to democracy by both countries may have played a role in the intensification of cooperation that began in 1985. Both democracy, to a lesser extent, and the economic environment were causal factors in cooperation between Argentina and Brazil. Of the three hypotheses stated, the third hypothesis stating that both the transition to democracy and the economic environment best describes the increase in cooperation between Argentina and Brazil, but the external influence of the economic environment most strongly influenced both countries to cooperate in both security and economic arenas.



## I. INTRODUCTION

### A. THESIS

The political climate between Argentina and Brazil has changed from one of conflict to one of cooperation. Argentina and Brazil are experiencing cooperation that is unprecedented since both became independent in the beginning of the 19<sup>th</sup> century. Prior to 1985, each country's heads of state had only visited the other country but three times. Since 1986 there have been many visits between Argentinean and Brazilian leaders. Increased cooperation between the two countries began with the transition to civilian-led governments. Argentine President Raúl Alfonsín (1983-1989) and Brazilian counterpart, José Sarney (1985-1990) signed various agreements on nuclear and commercial cooperation issues. As of 1991 both Argentina and Brazil are members of the fourth largest trading bloc in the world, Mercado Común del Cono Sur (Mercosur), and have participated in joint military exercises.<sup>1</sup>

The purpose of this thesis is to explain cooperation between Argentina and Brazil (dependent variable). This thesis will test two independent variables: (1) democratization and (2) the economic environment. Latin America has witnessed a wave of democratization that has left only one remaining authoritarian regime, Cuba.<sup>2</sup> Both Argentina (1983) and Brazil (1985) experienced a transition from military authoritarianism

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<sup>1</sup> Mercado Común del Sur is the Spanish name. In Portuguese the abbreviated term is Mercosul, Mercado Comum do Cono Sul.

<sup>2</sup> Huntington contends that the "third wave" of democratization commenced in 1974 with the overthrow of the Marcello Caetano dictatorship of Portugal. Since 1974 "democratic regimes replaced authoritarian ones in approximately thirty countries in Europe, Asia, and Latin America." See Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman, Oklahoma and London: University of Oklahoma Press, 1991). Peru in 1997 may be a second case of authoritarian rule.

to democracy. There is quantitative evidence that suggests democracies are more likely to cooperate with one another, and less likely to go to war.<sup>3</sup> During this same period both countries realized that the antiquated method of Import Substitution Industrialization (ISI) could not alter soaring inflation and economic inefficiency. Privatization of state owned businesses and a neoliberal economic model represented a viable solution to compete in a global market economy.

Cooperation only exists when the competing players realize that their paths will continually be intertwined, and that future moves on the playing field are not only shaped by current outcomes, but by the choices taken by their opponents.<sup>4</sup> Which of the two, democratization or the current economic environment, has had the greatest influence on the increased cooperation between Argentina and Brazil?

## **B. THESIS HYPOTHESES**

By examining the two independent variables associated with this study, three competing propositions can be developed. The first proposition deals with the notion of “democratic peace”. Two countries that are democratic will seek cooperation over conflict. Simply stated, cooperation is a result of democratization. Democratic peace has

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<sup>3</sup> Mark Peceny has conveniently reviewed a large breadth of literature concerning the “democratic peace” theory relating to the western hemisphere. See “The Inter-American System as a Liberal ‘Pacific Union’?”, *Latin American Research Review*, Vol. 29, Number 3, 1994. Also Bruce Russett, *Grasping the Democratic Peace: Principles for a Post-Cold War World*, (Princeton: Princeton University Press, 1993); Michael E. Brown, Sean M. Lynn-Jones, and Steven E. Miller eds., *Debating the Democratic Peace* (Cambridge: The MIT Press, 1996).

<sup>4</sup> Cooperation theory will be developed in Chapter Two. See Robert Axelrod, *The Evolution of Cooperation* (BasicBooks, 1984); Robert Axelrod & Robert O. Keohane, “Achieving Cooperation Under Anarchy: Strategies and Institutions,” Kenneth A. Oye ed., *Cooperation Under Anarchy* (Princeton: Princeton University Press, 1986); Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984).

become a central theme in United States national security policy since President William (Bill) Clinton took office in 1993, and its understanding is central to testing democracy as an independent variable.

Immanuel Kant (1724-1804) conceived the theory of democratic peace that has spawned debate and shaped national security strategy 200 years after its conception. Bruce Russett in, *Grasping the Democratic Peace: Principles for a Post-Cold War World*, further develops Kant's theory around two competing models: Cultural/Normative Model, and the Structural/Institutional Model. The Cultural/Normative Model has two underlying propositions that focus on normative behavior by rational actors.

1. In relations with other states, decisionmakers (whether they be few or many) will try to follow the same norms of conflict resolution as have been developed within and characterize their domestic political process.<sup>5</sup>
2. They will expect decisionmakers in other states likewise to follow the same norms of conflict resolution as have been developed within and characterize those other states' domestic political processes.<sup>6</sup>

In short, democratic norms suggest that "disputes can be resolved without force through democratic political processes that in some balance ensure both majority rule and minority rights."<sup>7</sup> The key to democracy, that will be developed in chapter III, is the significance of loyal opposition and the absence of violence in the political process.

The Structural/Institutional Model focuses on the actual process that democracies use to govern. "Democracies are constrained in going to war by the need to ensure broad

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<sup>5</sup> Russett, , *Grasping the Democratic Peace: Principles for a Post-Cold War World* (Princeton: Princeton University Press, 1993), 35.

<sup>6</sup> Ibid., 35.

<sup>7</sup> Ibid., 31.

popular support, manifested in various institutions of government.”<sup>8</sup> This implies that “democratic leaders generally consider other democracies to be reluctant and slow to fight because of institutional constraints....”<sup>9</sup> Russett tests both models and concludes that the first model is valid – that is democracies are less belligerent towards each other due to democratic norms in society.

The second hypothesis places greater emphasis on the shared goal of competing in a global market economy, which calls for the eventual elimination of trade barriers between countries. This hypothesis suggests that as Argentina and Brazil cooperate on several issue areas designed to make each country more competitive in a global economy, violent conflict becomes less likely. Argentina (1989) and Brazil (1990) began an economic liberalization process after periods of hyperinflation and fiscal deficits.<sup>10</sup> To further their participation in the global economic system, Argentina and Brazil have joined together in a regional economic arrangement designed to increase their competitiveness in the global economic arena.

The third hypothesis is that both democratization and the economic environment have led to the increased cooperation between countries.

The hypotheses stated above have some definitive preconditions for the purpose of this thesis. The state actors, or countries, must demonstrate historical propensity for conflict. Only in the presence of conflict can cooperation be present. This precondition

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<sup>8</sup> Ibid., 38.

<sup>9</sup> Ibid., 39.

<sup>10</sup> Sarath Rajapatirana, Luz Maria de la Mora and Ravindra A. Yatawara conducted an analysis of 26 trade regime changes in six countries from 1965-94. Their findings suggest that trade reforms are driven by a country's leadership and the presence of macroeconomic crisis, both of which are internal factors. See "Trade Policy Reforms in Latin America," *The World Economy*, Vol. 20 No. 3, May 1997, 307-338.

will be developed to greater extent in chapter two. Both Argentina and Brazil, since their independence in the early 19<sup>th</sup> century, have demonstrated an unwillingness to cooperate. Furthermore, the countries involved are weak in comparison to other countries competing in a global market economy. Argentina and Brazil are third world countries that are considered Lesser Developed Countries (LDCs). The economic environment that they have chosen to compete in is dominated by industrial giants such as the United States, Japan, and the European Union. The limitations above are descriptive of Argentina and Brazil, but can also be applied to any developing democratic country that is compelled to compete in a global market economy.

**C. METHODOLOGY**

The increased cooperation between Argentina and Brazil represents a single qualitative case study that will be employed to analyze the two independent variables, democratization and external economic environment. The competing hypotheses developed above, and simplified below are as follows:

- A. Democratization in Argentina and Brazil has led to a “Kantian” peace and increased cooperation between both countries.
- B. The economic environment within which Argentina and Brazil participate has promoted cooperation between the two countries.
- C. Both democratization and the economic environment have promoted cooperation between Argentina and Brazil .

Matrix

Case	Independent Variable	Independent Variable	Dependent Variable
Argentina and Brazil	Democratization	Economic Environment	Level of Cooperation

#### **D. THESIS STRUCTURE**

The thesis is broken down into five chapters, including the introduction. Chapters two, three, and four develop both the dependent and independent variables that will be tested in the analysis. Each of these chapters will first amplify a theoretical framework used to examine each variable, followed by its application to both Argentina and Brazil. The concluding chapter will use the evidence presented in the preceding chapters to determine which independent variable has had the greatest impact on the present cooperation between Argentina and Brazil.

Chapter II develops an understanding of state cooperation in the presence of conflict. The chapter follows chronologically the growth of cooperation between Argentina and Brazil in security and economic issues that can be used to demonstrate the correlation between cooperation and the independent variables; democratization, and the shift to neoliberal economic models.

Chapters III and IV develop independent variables. Chapter III explains hypothesis A and is divided into three sections. The first section develops a working definition of democracy as it applies to this body of work. With democracy defined, the chapter examines the transition process in Argentina and Brazil. It is my opinion that the process of democratic consolidation in both countries has entered a difficult stage, and therefore poses obstacles to future cooperation between Argentina and Brazil. The remaining section of chapter III focuses on a transitional obstacle (civil military relations) in each country.

The remaining independent variable, the economic environment, is examined in chapter IV. The chapter analyzes and interprets the meaning of a "market economy" and

its effect on political actors. The implementation of world trade agreements such as the General Agreement on Trade and Tariffs (GATT) impeded LDCs such as Argentina and Brazil from competing in a global market economy, and forced such countries to form trade blocs to increase their bargaining power and competitiveness.

#### **E. SIGNIFICANCE OF STUDY**

The examination of the impact of both the democratization and economic environment on cooperation is significant for several reasons. First, is the importance of Argentina and Brazil to South America. Argentina and Brazil represent the two largest countries in South America. The combined population of the two countries is 193 million people, with a total land mass of 4.4 million square miles. By way of comparison the United States population is 260 million people, with a land mass of 3.6 million square miles. Argentina and Brazil represent 97 percent of the combined GDP of the original Mercosur members, which also include Paraguay and Uruguay.<sup>11</sup> Cooperation between the two South American giants could have important political, economic, and security implications for the region.<sup>12</sup>

Second is the direction of United States foreign policy in the region. Currently the United States is using two different foreign policy strategies with the People's Republic of China and Cuba. Both countries have communist led regimes, yet the United States uses two different strategies to foster democracy. The United States, in granting Most Favored Nation status to China, is seeking to promote a market economy that can lead to

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<sup>11</sup> Bolivia (1997) and Chile (1996) have become associate members.

<sup>12</sup> "Remapping South America: A Survey of Mercosur", *The Economist*, October 12, 1996.

democratization. In contrast, Cuba has been economically cut off by the United States in an attempt to destroy the Castro regime both economically and politically. By examining both democratization and the economic environment between Argentina and Brazil, a framework can be developed that can be used in the future to promote cooperation.

Third, this thesis is significant because the conclusions reached in it can be applied to U.S. foreign policy strategies to promote “engagement and enlargement”. The foreign policy strategy of engagement and enlargement views the United States as the only remaining economic and military superpower with a global responsibility of maintaining peace through the expansion of “the community of free market democracies.”<sup>13</sup> This is the formal national security strategy outlined by the Clinton administration.

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<sup>13</sup> Anthony Lake, “From Containment to Enlargement,” U.S. Department of State, Bureau of Public Affairs, *Dispatch*, Vol. 4, No. 39 (September 1993), 3; and The White House, *A National Security Strategy of Engagement and Enlargement* (Washington DC, 1996), 11-12.

## II. HISTORICAL BACKGROUND: FROM RIVALRY TO COOPERATION

### A. INTRODUCTION

Since 1979, the political climate between Argentina and Brazil has been transformed from one of conflict to one of cooperation. The level of cooperation has transcended political, economic, and security issues. The shift in the political climate represents a systemic change for the region which can be traced to either: (1) the transition to democracy in both Argentina and Brazil, (2) the external economic environment in which both countries compete, (3) or both. It is the purpose of this chapter to examine the level of cooperation between the two countries.

The analysis will first focus on state cooperation. Cooperation does not mean that conflict does not exist. On the contrary, conflict is a necessary condition for cooperation. If conflict does not exist, this would suggest a harmonious relationship between state actors. With a working interpretation of the meaning of cooperation, the study can progress to analyze the level of cooperation in two separate issue areas: (1) security, and (2) economic.<sup>14</sup> These two issue areas encompass much of the spectrum of international relations between state actors and are inseparable. The issue areas overlap to some extent. Security issues include technology transfers, confidence building measures, participation in the Nuclear Proliferation Treaty, and others. Economic issues can be examined via trade negotiations, customs union participation, and the existence of shared fiscal and monetary policy.

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<sup>14</sup> Lisa L. Martin uses security, economic, and social issue-areas to demonstrate the success of cooperation and its application to the drug problem in the Western Hemisphere. *Foundations for International Cooperation*, Peter H. Smith ed., *Drug Policy in the Americas* (Boulder: Westview Press, 1992).

The study will be conducted chronologically in security, military and economic arenas. By analyzing the initial instances of cooperation between Argentina and Brazil, a qualitative correlation can be gained as to its origin, democratization or a neoliberal economic environment.

## **B. COOPERATION**

Cooperation exists today between many states that in the past were adversaries. What drives cooperation? This study espouses the notion that cooperation is a result of either democratic peace or the attainment of common goals, such as increased economic development. Before either the political or economic environment can be considered as factors to peaceful coexistence, the thesis will address cooperation in a theoretical framework.

A common connotation of cooperation revolves around conflicting parties in a negotiation gaining a mutual benefit. The key term is conflicting parties. Cooperation is often confused with the feeling of harmony, where both or multiple actors act together in unison over complex issues. Robert Keohane describes harmony as being apolitical, and requiring little communication or influence by either party. "Cooperation, by contrast, is highly political; somehow, patterns of behavior must be altered. This change may be accomplished through negative as well as positive inducements."<sup>15</sup> Thus, cooperation only exists when discord is present.

Lisa Martin interprets Keohane's definition of cooperation as a "process of mutual policy adjustment in which governments coordinate their policies to facilitate attainment of

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<sup>15</sup> Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984), 53.

their goals.”<sup>16</sup> In reality, cooperation is nothing more than a cost-benefit analysis. All actors must weigh the cost of cooperation with the benefits. If the benefits are equal to or greater than the cost, cooperation between the actors can exist. Cooperation implies that both parties attain a beneficial result.

There are three underlying situational dimensions relevant to cooperation: mutuality of interest, the shadow of the future, and the number of actors.<sup>17</sup> Mutuality of interest pertains to the payoff each actor will receive in return for cooperating or defecting from the negotiation. This dimension has been studied in great detail with the development of “Game Theory”. Prisoner’s dilemma, stag hunt, and chicken are three games used to demonstrate various payoff structures with relation to game theory.<sup>18</sup> Mutuality of interest delineates the benefit all parties will gain if each actor decides to cooperate. The aforementioned games tend to trivialize the realm of international relations, but they illustrate that cooperation leads to larger payoffs in the future. Short term tactics may not solve the existing problem, and provide nothing more than quick fixes, with little to show in the long run. “In these games, myopic pursuit of self-interest can be disastrous. Yet both sides can potentially benefit from cooperation—if they can only achieve it. Thus, choices of strategies and variations in institutions are particularly important, and the scope for the exercise of intelligence is considerable.”<sup>19</sup>

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<sup>16</sup> Martin, 250.

<sup>17</sup> Robert Axelrod and Robert O. Koehane, *Achieving Cooperation Under Anarchy: Strategies and Institutions*, ed. Kenneth A. Oye, *Cooperation Under Anarchy* (Princeton: Princeton University Press, 1986), 228.

<sup>18</sup> The best known elaboration on game theory as it applies to cooperation is Robert Axelrod’s, *The Evolution of Cooperation* (BasicBooks, 1984).

<sup>19</sup> Axelrod and Koehane, *Achieving Cooperation Under Anarchy: Strategies and Institutions*, 231.

The dimension of the future is important to cooperation. State actors that have congruent borders tend to have clearer visions of the future because the "time horizon" is in most cases long, the regularity of perceived stakes benefits both neighbors, information concerning the neighbor is normally reliable, and feedback about changes in the others' actions is faster.<sup>20</sup> The preceding attributes about the shadow of the future may increase or decrease the ability of actors to cooperate, but it ensures each actor will have the benefit of understanding the consequences of their actions.

The last dimension concerning the number of actors is the simplest of the three. As the number of actors increases, the chances of reaching a consensus and an agreed upon issue become smaller. Information concerning each party travels more slowly, and the ability to find gains that have equal or greater benefit with cooperation becomes more difficult. It is just recently that technology and communication capabilities have eased the burden of information transfer.

### C. CONFLICT

This study has determined that cooperation exists only where conflict and discord are present. Historically, relations between Argentina and Brazil have not been riveted with armed conflict, but have been characterized by "rivalry." Jack Child has succinctly described the conflict between Argentina and Brazil in *Geopolitics and Conflict in South America: Quarrels Among Neighbors*.<sup>21</sup> Child's explanation of the rivalry dates back to conflicts on the Iberian peninsula involving the Spanish-speaking

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<sup>20</sup> These attributes promote the shadow of the future. Ibid., 232.

<sup>21</sup> Jack Child, *Geopolitics and Conflict in South America: Quarrels Among Neighbors* (New York: Praeger Publishers, 1985), 98-105.

world deterring the expansion of the Portuguese-speaking world that extended to South America. Actual war between the Argentina and Brazil existed from 1825-28, and 1851-52. The war of 1825-28 was fought over the Banda Oriental province, present day Uruguay, then held by Brazil. Great Britain forced both Argentina and Brazil out of the province upon which the República Oriental del Uruguay was established.<sup>22</sup> In 1851 Brazil joined forces with Uruguay and several provinces of Argentina to depose the Argentine dictator Juan Manuel de Rosas. Rosas was defeated in 1852, and fled to England.<sup>23</sup> The countries became allies in the War of the Triple Alliance (1865-1870) in which both fought to suppress the Paraguayan dictator Francisco Solano López. Argentina's alliance with Brazil was of necessity, to ensure Brazil did not claim Paraguayan territory after the war.

In the twentieth century Argentina and Brazil diplomatically supported opposing sides in the Chaco War (1932-1936) between Bolivia and Paraguay. During World War II, Brazil supported the Allies while Argentina's neutrality was viewed as a pro-Axis stance.<sup>24</sup> Argentina declared war on the Axis powers only in the final months of the war, when it was clear that the Allies would triumph.

Rivalry began in earnest with the rise of Juan Domingo Perón in Argentina. Brazil maintained its close relationship with the United States after WWII. Perón spoke of a bloc of southern cone nations, excluding Brazil. Child states that the tension between

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<sup>22</sup> John Francis Bannon, *History of the Americas*, Vol. 2 (New York: McGraw-Hill Book Company, Inc., 1963), 289.

<sup>23</sup> Fred Rippy, "The Overthrow of Rosas," ed. A. Curtis Wilgus, *Argentina, Brazil and Chile since Independence* (New York: Russell & Russell Inc., 1963), 93-101.

<sup>24</sup> Child, *Geopolitics and Conflict in South America: Quarrels Among Neighbors*, 99.

Argentina and Brazil was “exacerbated by the large amounts of U.S. economic and military aid that flowed to Brazil during World War II and shortly thereafter. This aid was a significant factor in Brazil’s postwar growth, its moving past Argentina, and its progress toward its ‘destiny’.”<sup>25</sup>

Argentina and Brazil commenced nuclear programs after WWII that fueled the rivalry. Brazil secretly began shifting commercial nuclear technology to the production of an atomic bomb in 1975, code-named “Solimões”.<sup>26</sup> Similar programs in Argentina were discovered in 1983.<sup>27</sup> Because of the distrust between them, neither country sought to become signatories of the Nuclear Non-proliferation Treaty or the Treaty of Tlatelolco.

Argentina and Brazil are presently experiencing a period of extended cooperation. Mutuality of interest exists both in the security and economic realm. Security issue areas that have illustrated cooperation include treaties in the areas of water rights, nuclear policy, and arms proliferation. Economically, the world has shifted toward a market economy where relative price, competition and efficiency determine which country has the advantage.<sup>28</sup> The necessity to compete on a global scale economically may have been the

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<sup>25</sup> Ibid., 101.

<sup>26</sup> Scott D. Tollefson, *Nuclear Restraint in Argentina and Brazil: A Model for Nonproliferation?*. Non-published paper; Leonard S. Spector and Mark G. McDonough, *Tracking Nuclear Proliferation* (Washington DC: Carnegie Endowment for International Peace, 1995), 153.

<sup>27</sup> Clovis Rossi, “Nuclear Program Said Capable of Atomic Bomb”, *Folha de São Paulo*, 4 November 1989, Foreign Broadcast Information Service-LAM-86-219, microfiche.

<sup>28</sup> Robert Gilpin has delineated relative price, competition, and efficiency as the three main characteristics of a market economy. A market economy has several consequences to society, the first being its disruptive nature and its ability to dissolve traditional social relations. Secondly, a market economy alters the distribution of wealth, creating extremes in some cases as witnessed in Brazil. Lastly, and most importantly, a market economy creates economic interdependence among smaller, less developed countries. It creates a hierarchical structure in the global system. See Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987).

underlying factor in the creation of Mercosur. The following section will address the security cooperation in greater detail and is summarized in Table 1 and 2.

#### **D. SECURITY ISSUES**

Politically, Argentina and Brazil have forged a partnership of peace that has seen great success. Until 1985, only three Brazilian Presidents had visited Argentina, and only two visits were reciprocated. It is evident that a willingness to work together on trade issues began in earnest with Argentine President Raúl Alfonsín (1983-89) and Brazilian President Jose Sarney (1985-90). A chronological examination of security agreements and joint military exercises between the two countries reveals that cooperation in the security realm began during each country's military regime, before the transition to democracy.

In 1978 both countries began joint participation in Operation Fraternal, an annual naval exercise. The annual operation has continued over the years with great success. Most recent exercises have had Argentine aircraft landing on the Brazilian aircraft carrier Minas Gerais. Both countries have also participated in officer exchange programs. Junior and mid-ranking officers have participated in the exchange process designed to incorporate friendly relations between the two militaries (see Table 1).

**Table 1 Military - Confidence Building Measures Between Argentina and Brazil, 1967-1996**

1. 1967 - the South Atlantic Maritime Area (AMAS) established by Argentina, Brazil, Paraguay, and Uruguay. Main purpose is the exchange of information that can be used by the respective countries to monitor their home waters. It also standardizes doctrine and procedures concerning maritime control.<sup>29</sup>
2. 1978 - Joint Naval exercises begin. Operation Fraternal (brotherhood) combines Argentine and Brazilian naval forces. The operations are conducted alternately in Argentine and Brazilian home waters. Encompasses combined planning and rotation of commands.<sup>30</sup>
3. 1987 - 1 April, first Argentine-Brazilian Strategic Studies Symposium is held in Buenos Aires. The symposium is to study possible agreements concerning bilateral cooperation and integration of joint military strategy.<sup>31</sup>
4. 1988 - 5 April, second Argentine-Brazilian Strategic Studies Symposium is held in São Paulo.<sup>32</sup>
5. 1993 - The Brazilian Aircraft carrier Minas Gerais used with Argentine Anti-Submarine Warfare (ASW) aircraft.<sup>33</sup>
6. 1994 - ASW aircraft operations were repeated with the addition of Attack aircraft. One attack aircraft made an arrested landing on the Minas Gerais. Joint naval operations were repeated in 1995 and 1996.<sup>34</sup>

\*\*Both countries have adopted officer exchange programs at the junior and mid-level ranks.

A tripartite agreement between Argentina, Brazil, and Paraguay in 1979 foreshadowed future cooperation (see Table 2). Conflict had arisen between Argentina and a joint venture by Brazil and Paraguay concerning the building of a hydroelectric dam, Itaipu, on the Paraná River. The river makes up the south western border between Paraguay and Argentina, and originates in Brazil. Argentina's complaint stemmed from the ramifications of future downstream hydroelectric dam capabilities. The disagreement took almost ten years to resolve, but it marked the beginning of future agreements.

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<sup>29</sup> Pedro Luis de la Fuente, "Confidence-Building Measures in the Southern Cone: A Model for Regional Stability," *Naval War College Review*, Winter 1997, 36-65.

<sup>30</sup> Ibid.

<sup>31</sup> Foreign Broadcast Information Service -LAM-87-067, microfiche, B3.

<sup>32</sup> Foreign Broadcast Information Service - LAT-88-067, microfiche, 22.

<sup>33</sup> Luis de la Fuente, "Confidence-Building Measures in the Southern Cone: A Model for Regional Stability," 36-65.

<sup>34</sup> Ibid.

Cooperation in the area of nuclear policy began in 1980 with the signing of the Brazilian-Argentine Agreement (see Table 2). This agreement marked the first visit of a Brazilian president to Argentina in 45 years. The agreement ensures peaceful use of nuclear energy, technology cooperation, and policy coordination. Five years later, under civilian rule, a Joint Declaration of Nuclear Policy was signed at Foz do Iguacu, Brazil. This was followed one year later with the Argentinean-Brazilian Integration and Cooperation agreement that included 12 protocols for cooperation and mutual assistance. The Integration and Cooperation agreement between the two countries marked the birth of economic ties that would prove to be successful in the future. The agreement also encompassed diplomatic and nuclear arenas linked "to the reestablishment of democracy in both countries."<sup>35</sup>

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<sup>35</sup> Pope G. Atkins, *Latin America in the International Political System*, Third Edition (Boulder: Westview Press, 1995), 188-89.

**Table 2 Security Agreements Between Argentina and Brazil, 1967-1995**

1. 1967 - The Treaty for the Prohibition of Nuclear Weapons in Latin America (Treaty of Tlatelolco) is created.<sup>36</sup>
2. 1979 - Tripartite agreement between Argentina, Brazil, and Paraguay over the Itaipú Dam.<sup>37</sup>
3. 1980 - Marks the first time a Brazilian President, João Figueiredo (1979-84), visits Argentina in 45 years. The visit represents the beginning of nuclear cooperation. The Brazilian-Argentine Agreement ensures peaceful use of nuclear energy, nuclear technical cooperation, and coordination of nuclear policies.<sup>38</sup>
4. 1985 - 30 November, in Foz do Iguacu, Brazil a Joint Declaration of Nuclear Policy is signed.
5. 1986 - 31 July, Argentinean - Brazilian Integration and Cooperation agreement is signed with 12 protocols for cooperation and mutual Assistance.<sup>39</sup>
6. 1990 - 28 November, Declaration on Common Nuclear Policy (ratified by both countries).
7. 1991 - Argentina and Brazil create a bilateral agreement forming a nuclear materials accounting and inspection system. The agreement developed the Brazilian-Argentine Agency for Accounting and Control of Nuclear Materials (ABACC). From this agreement a Quadripartite Agreement between Argentina, Brazil, ABACC, and the International Atomic Energy Agency (IAEA) was formed. The Quadripartite Agreement normalized accounting and control procedures that already existed within the IAEA.<sup>40</sup>
8. 1991- Both Argentina and Brazil jointly change their stance concerning nuclear testing. Previous policy decisions by both countries agreed to "peaceful nuclear explosions." Both countries agreed that there is not a difference between peaceful and military detonations of nuclear armaments.
9. 1993 - Argentina becomes a member of the Missile Technology Control Regime (MTCR).
10. 1994 - 18 January, Argentina ratified the Treaty of Tlatelolco. Both Argentina and Brazil had remained non-participants of the Latin American Nuclear Weapon-Free Zone.
11. 1994 - 16 May, Brazil ratifies Treaty of Tlatelolco.
12. 1994 - 23 December, Argentina becomes member of Non-Proliferation Treaty.
13. 1995 - 11 October, Brazil becomes a member of the MTCR.<sup>41</sup>
14. 1997 - Brazil becomes a member of the Non-Proliferation Treaty

In 1991 Argentina and Brazil created the Brazilian-Argentine Agency for Accounting and Control of Nuclear Materials (ABACC). The ABACC, according to

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<sup>36</sup> Brazil is credited for the initial proposal of the prohibition of nuclear weapons in Latin America, yet they linked their ratification of the treaty to Argentina's adherence. See Atkins, G. Pope, *Latin America in the International Political System*, Third Edition (Boulder: Westview Press 1995), 194.

<sup>37</sup> Luis de la Fuente, "Confidence-Building Measures in the Southern Cone: A Model for Regional Stability," 36-65.

<sup>38</sup> Luis de la Fuente, "Confidence-Building Measures in the Southern Cone: A Model for Regional Stability," 36-65; and Scott D. Tollefson, "Nuclear Restraint in Argentina and Brazil: A Model for Nonproliferation?" (unpublished paper), 29.

<sup>39</sup> Atkins, *Latin America in the International Political System*, 188-89.

<sup>40</sup> Tollefson, "Nuclear Restraint in Argentina and Brazil: A Model for Nonproliferation?" (unpublished paper), 28-31.

<sup>41</sup> Wyn Bowen, "Brazil's Accession to the MTCR," p. 88; and "Missile Technology Control Regime Holds Plenary Meeting in Bonn," *Missile Technology Control Regime*, 1995.

Scott Tollefson, "was a confidence-building measure of the highest order," with no other equivalent agency in the world. That year both countries, in conjunction with ABACC and the International Atomic Energy Agency (IAEA), signed a Quadripartite agreement that essentially normalized accounting and control procedures that already existed under the IAEA.<sup>42</sup>

The next four years illustrated further strides in cooperation and the pursuit of peaceful neighbors. The Treaty for the Prohibition of Nuclear Weapons in Latin America (Treaty of Tlatelolco) was ratified by Argentina in 1993, and Brazil in 1994. The Tlatelolco treaty was first proposed by Brazil in 1961 and signed by Brazil in 1967 with the stipulation that it would not abide by the treaty until it was ratified by Argentina. In addition, both Argentina (1993) and Brazil (1985) became members of the Missile Technology Control Regime (MTCR).

The unity between Argentina and Brazil has created a democratic safe haven in the Southern Cone. Tension between Argentina and Chile has subsided to such an extent that Chile has become an associate member of Mercosur in 1996. The trade bloc now includes Argentina, Brazil, Paraguay, and Uruguay, with Bolivia (1997) and Chile as associate members.<sup>43</sup> Mercosur, with its two largest members was partially responsible for stopping a coup attempt in Paraguay. In 1996, the Paraguayan government was threatened by a military coup. The Presidents of the remaining Mercosur members stepped in and warned that any attempt by General Oviedo to overthrow the government would be met with

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<sup>42</sup> Tollefson, *Nuclear Restraint in Argentina and Brazil: A Model for Nonproliferation?*, 29.

<sup>43</sup> Joachim Bamrud, "Setting the Agenda: From Miami to Brazil," *Latin Trade*, June 1997.

economic and political isolation. The members also concluded that democracy would be a formal requirement for membership in Mercosur.<sup>44</sup>

The level of cooperation in the area of security issues has grown over the last two decades. It signifies a willingness to create an environment of peace, and ensure stability. It also illustrates that cooperation began before the existence of democratic regimes in both countries. The same cannot be said for economic issues.

#### **E. ECONOMIC ISSUES**

Argentina and Brazil have cooperated successfully on economic issues since 1985. Both countries are members of the fourth largest integrated market in the world, Mercosur. Mercosur has seen a 280 percent increase in trade among its participating members. This equates to an average yearly increase in regional trade of 28 percent. Total exports have increased by 29 percent since 1992. Mercosur as a trading bloc has exhibited a global trade surplus from 1991 to 1994 with slight deficits of -\$3.2 billion and -\$1.6 billion in 1995 and 1996.<sup>45</sup> Mercosur has demonstrated its ability to increase trade, and it has maintained moderate growth in the Gross Domestic Product. Both Argentina and Brazil have fluctuated in showing progress in actual domestic growth. What is important is that both countries have tamed four digit annual inflation rates to under 10 percent.

Trade relations between Argentina and Brazil started in 1960 when both became members of the Latin American Free Trade Association (LAFTA). LAFTA, known as the

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<sup>44</sup> *Remapping South America: A Survey of Mercosur*, The Economist, October 12, 1996, 6.

<sup>45</sup> When compared to NAFTA these figures are quite astounding. NAFTA, Canada, Mexico, and the United States have had a trade deficit \$142 billion in 1995 alone. All trade data is via the International Development Bank (IDB).

Treaty of Montevideo, collapsed eight years later. LAFTA did not allow bilateral agreements among its participating members. As mentioned earlier, Axelrod stipulated that the more participants involved in negotiations, the less likelihood of a consensus agreement. This dimension of cooperation becomes amplified among actors in trade negotiations when each has a different level of development. The variation of economic development in Latin America was considerable in the 1960s. The region was also plagued with regime transitions to authoritarian forms of government that espoused high protection policies and state run industries.<sup>46</sup>

LAFTA was dead by 1968, but was replaced in 1980 with the second Treaty of Montevideo known as the Latin American Integration Association (LAIA). LAIA differed from LAFTA in that it allowed bilateral agreements and regional trade blocs to be developed. With LAIA in place, and two presidents determined to pull their countries out of economic malaise, Argentina and Brazil formed a bilateral agreement in 1986 (see Table 3). As mentioned earlier, the Argentinean-Brazilian Integration and Cooperation agreement forged cooperation in economic, diplomatic and nuclear issues. The Integration and Cooperation spawned the creation of Mercosur five years later.

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<sup>46</sup> Atkins, *Latin America in the International Political System*, 169-97.

**Table 3 *Economic Agreements Between Argentina and Brazil, 1960-1991***

1. 1960 February, Treaty of Montevideo established the Latin American Free Trade Association (LAFTA) between seven charter members: Argentina, Brazil, Chile, Peru, Paraguay, Mexico, and Uruguay. The treaty was intended to establish a Latin American common market.
2. 1968 - LAFTA is dead. Problems could not be resolved concerning the establishment of regional trade blocs.
3. 1980 - 12 August, LAFTA is altered to become Latin American Integration Association (LAIA) by a New Treaty of Montevideo. This treaty allows bilateral agreements and regional trade blocs.
4. 1985 - 30 November, Argentina and Brazil issue the Iguazu Declaration to create a mechanism that will guarantee the higher interests for peace, security, and the development of the region.<sup>47</sup>
5. 1986 - 31 July, Argentinean - Brazilian Integration and Cooperation agreement is signed with 12 protocols for cooperation and mutual Assistance.
6. 1987 - 17 July, Argentina and Brazil sign 10 agreements on trade, transportation, and technology in Viedma, Argentina.<sup>48</sup>
7. 1988 - 6 April, the Act of Alvorada is signed by Argentina, Brazil, and Uruguay setting forth the guidelines for the Latin American integration process: gradualism, flexibility, and equilibrium.<sup>49</sup>
8. 1988 - 7 April, Argentina and Brazil sign an additional 16 agreements designed to expand trade between both countries.<sup>50</sup>
9. 1991 - 26 March, the Tratado de Asunción (Treaty of Asuncion) creates Mercosur that includes Argentina, Brazil, Paraguay, and Uruguay.

Both Argentina and Brazil play major roles in Mercosur. Since Mercosur's creation, the governments have sustained almost continuous dialogue. Before Domingo Cavallo was fired as the Minister of the Economy of Argentina in 1996, President Carlos S. Menem informed Brazil's President Fernando Henrique Cardoso (1994- ). It is as if the two countries have a common goal to reach economic stability and a stronger bargaining position globally, but also with the United States concerning formation of the Free Trade Area of the Americas (FTAA). The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) characterizes the importance of regional trade agreements such as Mercosur as a "means of achieving a goal of steadily increasing

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<sup>47</sup> Foreign Broadcast Information Service-LAM-85-233, microfiche, D3.

<sup>48</sup> Foreign Broadcast Information Service-LAT-87-138, microfiche, K1-4.

<sup>49</sup> Foreign Broadcast Information Service-LAT-88-067, microfiche, 1.

<sup>50</sup> Foreign Broadcast Information Service-LAT-88-068, microfiche, 25-26.

international competitiveness...consistent with a more open transparent world economic order.”<sup>51</sup> Mercosur, led by Brazil, is trying to achieve economic parity with the rest of the world.

#### F. SUMMARY

This chapter has attempted to illustrate the level of cooperation that exists between Argentina and Brazil. The study has explored the years of conflict between both countries, and chronologically displayed the existing cooperation in both security and economic arenas. Outwardly, it appears that both countries are experiencing a symbiotic relationship that can be used as an external driving force to ensure regional stability, and a position of leverage in a global economic sense. Is the relationship between Argentina and Brazil harmonious, or is it one of cooperation? “Cooperation is not equivalent to harmony. Harmony requires complete identity of interests, but cooperation can only take place in situations that contain a mixture of conflicting and complementary interests.”<sup>52</sup>

Cooperation as defined above can only exist in an environment in which conflict is present. Surely conflict has existed between the two countries as demonstrated above, and conflict exists today. It appears that both countries have gained international leverage with the transition to democracy and the adherence to nuclear and missile regime policies, but the economic issues pose problems. According to the *Economist* Brazil may be the driving force behind Mercosur, but it is also the trade bloc’s worst enemy. On several

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<sup>51</sup> The United Nations Economic Commission for Latin America and the Caribbean, *Open Regionalism in Latin America and the Caribbean* (Santiago Chile: 1994), 11.

<sup>52</sup> Axelrod and Koehane, *Achieving Cooperation Under Anarchy: Strategies and Institutions*, 226.

occasions trade policy in Brazil has been promulgated without regard to its membership in Mercosur. Brazil appears to be the hegemon of the group of four, and rightly so. Brazil has nearly five times the population of Argentina, and twice the Gross National Product and level of external trade.<sup>53</sup> Lingering rivalry exists between the two countries concerning economic power.

The dimensions of cooperation are readily visible. The shadow of the future as an element in cooperation between Argentina and Brazil is prevalent in both security and economic realms. The shift to democracy and transparent nuclear and missile policies has benefited both countries in the form of increased economic development due in part to the willingness of the international community to invest in both countries.<sup>54</sup> Finally, the fact that Argentina and Brazil are the largest countries in South America allows both the freedom to reach bilateral agreements among themselves. Brazil may be the strongest of the two, but Argentina is clearly the second strongest country in many respects in the region. The relationship between Argentina and Brazil affects the region.

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<sup>53</sup> *Remapping South America: A Survey of Mercosur*, *The Economist*, October 12, 1996, 3.

<sup>54</sup> Brazil (\$9.5 billion) was second only to China (\$40 billion) of developing countries receiving foreign direct investment. Philip Waller, "U.N. Sees Record Global Investment," *The Associated Press*, 21 September 1997, AOL News.

### III. INDEPENDENT VARIABLE: DEMOCRATIZATION

#### A. INTRODUCTION

Since 1979 and the signing and tripartite agreement between Argentina, Brazil, and Paraguay over the Itaipú dam the political climate between Argentina and Brazil has been transformed from one of conflict to one of cooperation. This chapter will examine the democratic transitions in each country and determine to what extent democratization has increased cooperation in the region. It asks the question, does the notion of democratic peace account for the increased cooperation between Argentina and Brazil?

The chapter is divided into three areas. The first area reviews and then refines a contextual interpretation of democracy for the purpose of this paper. The notion of democratic peace, in my view, contends that relations between actors within the context of democracy impose a constraint that each country is a consolidated democracy. Countries that are in the midst of transition or are in an infant stage of democracy lacking efficacy and hence legitimacy, are limited in their ability to participate internationally. The democratic norms developed in chapter one have not been instilled in society and therefore can not be used as an argument for the democratic peace theory. The second focus of the chapter is directed to the case study. Both Argentina and Brazil are examined chronologically through their individual transitions from authoritarian military regimes to institutional forms of democracy. The transition process has lasting effects on the consolidation process that limits a state's ability to sustain stability and performance. The

final section delineated in the chapter examines the different obstacles that both Argentina and Brazil are encountering during and after the democratization process.

The chapter argues that neither country has consolidated democracy to a degree necessary for the notion of democratic peace in the region. This leads me to believe there are stronger elements, such as ties of international commerce and free trade, that encourage cooperation between Argentina and Brazil.

## **B. DEMOCRATIZATION**

It is not the intent in this study to reinvent the numerous and correct meanings of democracy, but to narrow its interpretation to facilitate a common understanding. From the definition, the analysis can move to understanding the significance of the paths taken to achieve democracy and the obstacles that remain in each country to its consolidation.

Robert Dahl hypothesized three necessary preconditions to democracy dealing with unimpaired opportunities afforded to all citizens. The first two preconditions, the ability of the citizens to formulate and signify their preferences without restriction embodies the essence of Dahl's definition. Without individual freedom of expression, democracy does not exist. Dahl's remaining precondition, "to have their preferences weighed equally in the conduct of the government, that is, weighted with no discrimination because of the content of source of the preference," makes democracy evolve into a living institution.<sup>55</sup> Huntington, twenty years later, maintained Dahl's

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<sup>55</sup> The three preconditions incorporate eight required institutional guarantees, all of which form the basis for contestation and inclusiveness. Further information can be found in Robert A. Dahl, *Polyarchy: Participation and Opposition* (New Haven: Yale University Press, 1971), 1-16.

definition of democracy, but elaborated on individual rights or freedoms. "It also implies the existence of those civil and political freedoms to speak, publish, assemble, and organize that are necessary to political debate and the conduct of electoral campaigns."<sup>56</sup>

After surveying the literature, Juan Linz best captures all the attributes that contribute to the meaning of democracy:

...legal freedom to formulate and advocate political alternatives with the concomitant rights to free association, free speech, and other basic freedoms of person; free and nonviolent competition among leaders with periodic validation of their claim to rule; inclusion of all effective political offices in the democratic process; and provision for the participation of all members of the political community, whatever their political preferences.<sup>57</sup>

The significance of Linz's criteria of democracy as compared to those of Dahl, Huntington, and others is the addition of "free and nonviolent competition among leaders." This means that the opposition, as well as the incumbent party, believes that the ballot is the legitimate means of taking power. Peaceful transition from one leader to the next is important because it signifies stability in the institution.

Peaceful transition also has significance in the paths taken to democracy. The paths taken by various countries to democratization during the third wave were hypothesized by Dahl and later tested and revised by Huntington. The literature emphasizes three distinct paths to democracy.

The first transitional path institutes liberalization before inclusiveness in Dahlian terms, or what Huntington terms "transformation". Transformation is characterized by

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<sup>56</sup> Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Oklahoma: University of Oklahoma Press, 1991), 7.

<sup>57</sup> Juan Linz, *The Breakdown of Democratic Regimes: Crisis, Breakdown, & Reequilibration* (Baltimore, The Johns Hopkins University Press, 1991), 5.

transition from above. The elites in power come to the conclusion that the costs involved in suppressing and dividing the opposition are greater than the benefits. Maintaining the current authoritarian regime has three separate costs. Suppressing the opposition translates into the loss of legitimate political power. This relates to Dahl's third axiom; "The more the costs of suppression exceed the costs of toleration, the greater the chance for a competitive regime."<sup>58</sup> Therefore, it would be in the regime's best interest to liberalize the political system to maintain its legitimacy. The second variety of cost concerns the external environment. Outside actors may respond negatively if the regime suppresses human rights and individual freedoms. Suppression translates into increased sanctions and the blockage of International Monetary Fund (IMF) loans. The third cost is the loss in productivity the state experiences by suppressing the political activity of its labor force and the middle class. Suppression stagnates growth.<sup>59</sup>

Inclusiveness before liberalization depicts the second path to democracy. Huntington calls this path "transplantation." The regime may liberalize sufficiently to allow the opposition to gain political power, at which point it is suppressed. Unfortunately for the regime, the liberalization allowed the opposition enough power to allow a standoff between the two. At this point the regime is forced to consider the same costs involved in sustaining suppression and power as discussed above. The difference between the two paths is that now the transition will include a joint administration by both the regime and the opposition.<sup>60</sup>

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<sup>58</sup> Robert A. Dahl, *Polyarchy: Participation and Opposition* (New Haven: Yale University Press, 1971), 15.

<sup>59</sup> Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century*, 124-140.

<sup>60</sup> *Ibid.*, 151-162.

The final transition path available is shorter than the previous two, and is termed “replacement” by Huntington. This type of transition begins with the opposition gaining political power through demonstrations and mobilization of the masses. The opposition continues to gain power until it surpasses that of the regime. The regime is summarily overthrown, or collapses.<sup>61</sup>

It is important to understand the significance of the type of transition path taken by individual countries. The path represents in many ways the level of stability democratization will exhibit. Stability symbolizes the resistance to change. In the context of democratization, it represents the ability of the basic freedoms, inclusiveness, and level of contestation, to remain in place or improve after the transition has taken effect. The path of “transformation” imparts the greatest amount of stability. This is due to the time the transition takes, and the number of actors involved. Liberalization precedes inclusiveness in transformations. The number of participants affecting the change gradually increases and the cost of toleration by the regime is less. If the cost of toleration is kept low, it sustains a correspondingly low level of suppression. The transition is slow, peaceful, and more stable.

Transplantation and replacement transitions are more abrupt. Inclusiveness before liberalization increases the heterogeneity of the political environment. This tends to increase the level of tension in the political environment that eventually leads to suppression. As the cost of toleration increases, similar effects are seen in the cost of suppression. Replacement transitions exhibit even greater levels of political tension.

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<sup>61</sup> Ibid., 142-150.

Neither liberalization nor inclusiveness has occurred in replacement transitions to democracy and the opposition splinters into several groups. Overthrowing the existing regime creates a power vacuum, and the resultant level of tension is adverse to stability. Both transplantation and replacement tend to have less lag time from beginning to end. Less lag time in the transition to democracy precludes the ability of society to absorb the changes taking place. Both transitions are faster, more chaotic, and less stable. The following section will apply above analytical framework to Argentina and Brazil.

### **C. TRANSITION TO DEMOCRACY**

#### **1. Argentina**

Argentina has been characterized by a seesawing action of political wills.

Argentine political history is best divided into two periods: 1943 to 1955, and 1955 to 1983. It is important to note that elections were held during the entire span from 1943 to the present, but it was not until 1989 that popularly-elected presidents succeeded each other (Menem succeeded Alfonsín).

In 1943, a military coup ousted the Ramon Castillo government. The significance of the coup is the placement of Juan Peron as the military government's labor secretary. Peron used this position to solidify himself as the caretaker of the labor movement. He won a presidential election in 1946, and within three months dissolved the political parties that had won him the election. Argentina became a corporatist state under Peron.<sup>62</sup> He

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<sup>62</sup> The most widely cited definition of corporatism is by Philippe Schmitter: "system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of

slowly eroded many of the basic freedoms that are associated with democracy. He censored the press, absorbed legislative power into the executive, and amended the constitution to allow his reelection. A military coup in 1955, most likely a result from austere economic plans, sent Peron into exile for almost twenty years. Even with Peron's exile, he continued to influence the political environment.

The second period of Argentinean political history sets the stage for the transition to democracy. The period was marred by inconsistent periods of democratic and military rule. Peron returned to the presidency after the military could not tame left wing violence led by the intelligensia and the middle class, and the mobilization of the labor force. He died in 1974, leaving his second wife Isabel, as the President. Left wing violence escalated, and the answer was right wing violence. Isabel was toppled by a coup in 1976 because of her inept running of the government, and the inability to thwart left wing violence. The answer to left wing violence was clearly stated by General Luciano Menendez. "We are going to have to kill 50,000 people: 25,000 subversives, 20,000 sympathizers, and we will make 5,000 mistakes."<sup>63</sup> This period in Argentine history is called the "Dirty War." By 1982, the military's "Dirty War" showed results, but the increased suppression and the worsening state of the economy pushed the government to extremes. The government tried to deter sentiments toward the poor state of the economy by antagonizing Great Britain into war over the Falkland/Malvinas islands.

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demands and support." Further information can be found in Philippe C. Schmitter, "Still the Century of Corporatism?" *The Review of Politics* 36, no. 1 (January 1974): 93-94.

<sup>63</sup> James W. McGuire, "Political Parties and Democracy in Argentina", Scott Mainwaring and Timothy R. Scully ed., *Building Democratic Institutions: Party Systems in Latin America* (Stanford, Stanford University Press, 1995), 220.

Argentina's defeat signaled the end of the military government. With the inability to legitimize its hold on government power, the military called for elections in 1983. The decision to hold elections was made by the military in conjunction with prominent civilian political leaders.

## 2. Brazil

To best understand Brazil and its transition to democracy, a review of the preceding periods of history leading up to the current democratic system is helpful. Brazil experienced military rule from 1964 to 1985. Before 1964, the country tried to consolidate democracy beginning with the forced resignation of Getulio Vargas in 1945. From 1945 to 1964, the attributes of democracy previously discussed had been established, yet the system splintered apart. The institutionalized party system unraveled and lost support due in part to the inability of the system to alleviate social and economic inequality, and demonstration effect of the Cuban revolution in 1959.

The military junta seized power in 1964 and in 1965 it dissolved all political parties. The junta created two new parties: the National Renovating Alliance (Arena), the pro-government party, and the Democratic Brazilian Movement (MDB), the opposition party. The regime, unlike other *military* dictatorships in the region, allowed political parties, elections, and congress to function.<sup>64</sup> They were overshadowed and sometimes purged by the government, but nonetheless, they existed. These three democratic

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<sup>64</sup> Scott Mainwaring, "Brazil: Weak Parties, Feckless Democracy", ed. Scott Mainwaring and Timothy R. Scully, *Building Democratic Institutions: Party Systems in Latin America* (Stanford, Stanford University Press, 1995), 363.

avenues, political parties, regularly held elections, and a functioning congress, became the opening for democratization in the future.

Bolivar Lamounier in, "Brazil: Inequality Against Democracy," accurately describes how the military junta gradually gave way to democracy via elections.<sup>65</sup> The deliberate decompression of Brazil started with the Geisel administration (1974-79). He realized that hegemonic control of the country through *Arena*, similar to that of the PRI in Mexico, would not be beneficial to his country. The decompression started with the Pacote de Abril (April Package) of 1977. What is significant about this event, is that the MDB did not oppose measures decreed by Geisel to preserve a majority by *Arena* in the Senate, and to postpone the return to direct state gubernatorial elections from 1978 to 1982. MDB did not boycott the elections but legitimized the election process. This marked a departure from semiloyal opposition to that of a loyal opposition.<sup>66</sup>

The second event that allowed democracy to gain momentum occurred in 1979, when the government mandate for the two party system ended. The government's strategy was intended to strengthen *Arena* and to weaken MDB. In 1974, the MDB won sixteen seats of the twenty-two Senate seats being contested.<sup>67</sup> This may have been a deliberate act on the part of the government to sustain its majority and avoid defeat in the

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<sup>65</sup> Bolivar Lamounier, "Inequality Against Democracy," in *Politics in Developing Countries: Comparing Experiences with Democracy*, Second Edition, ed. Larry Diamond, Juan J. Linz, Seymour Martin Lipset (Boulder: Lynne Rienner Publishers, Inc. 1995).

<sup>66</sup> Semiloyal behavior is "a willingness to encourage, tolerate, cover up, treat leniently, excuse, or justify the actions of other participants that go beyond the limits of peaceful, legitimate patterns of politics in a democracy." See Juan J. Linz, *The Breakdown of Democratic Regimes*, 32-33.

<sup>67</sup> Bolivar Lamounier, "Brazil: The Hyperactive Paralysis Syndrome," in *Constructing Democratic Governance: South America in the 1990s*, ed. Jorge I. Domínguez and Abraham F. Lowenthal, (Baltimore: Johns Hopkins University Press, 1996), 167.

future, but more importantly, it demonstrated the resolve of the government to find a peaceful, nonviolent solution.

In 1981, the Brazilian government implemented electoral measures that prohibited alliance building at every level of government. The government used straight party voting to hold off defeat in the 1982 elections. The elections demonstrated mixed results. The government party maintained majorities in both houses in Congress; 235 of 479 Chamber of Deputies seats, and 46 of 69 Senate seats, but the opposition won control of ten state gubernatorial seats. The pivotal states of São Paulo, Rio de Janeiro, and Minas Gerais fell to the opposition.<sup>68</sup>

To complete the transition, Tancredo Neves was elected president in 1985 by the same electoral college that had sustained the military in that position for the previous ten years. Neves's victory came after massive demonstrations throughout the country demanding "Direct Elections Now". A constitutional congress was elected in 1986, and a democratic constitution was adopted in 1988. The adoption of a new constitution was followed in 1989 by the direct election of Brazil's first president in 29 years, Fernando Collor de Mello.

### **3. A Comparison**

The transition to democracy in Argentina was characterized by violence between the opposition and the regime. The military has played a major political role throughout the examined period. The transition was also short in duration, brought on by economic disaster and international embarrassment after the Falkland/Malvinas war. A joint decision

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<sup>68</sup> Scott Mainwaring, "Brazil: Weak Parties, Feckless Democracy," 366-367.

was made to elect the next president with full participation from all political parties.

Contestation and inclusiveness became a part of the political process, and political violence was publicly suspended. The Argentine transition from a authoritarian regime is quite different from that of Brazil.

The important characteristics in Brazil's transition to democracy are the length of time and the individuals responsible for the transition. The transition process took eleven years. President Ernesto Geisel (1974-79) had envisioned a slow and methodical transition. Liberalization preceded inclusiveness, and competition was slowly returned to the political process. The regime and opposition demonstrated restraint and the ability to negotiate. An environment of cooperation developed between the government and the opposition that can lead to stability and legitimacy.

The transition to democracy by both Argentina and Brazil exhibited different characteristics. The Argentine transition was short (one year), and a result of a loss of legitimacy by the reigning military regime. The Brazilian transition was considerably longer, and was driven from the top down. The military regime in Brazil participated in the transition, and purposefully legitimized the electoral process. What is missing from this analysis is the role of the military before, during, and after the transition to democracy. It is the continued involvement of the military in civil and political society that deter from a complete consolidation of democracy in Brazil. In contrast the reduction of military prerogatives in Argentina aids in the consolidation of democracy. Civil-military relations (CMR) is directly related to the type of transition each has taken to democracy, and may pose a threat to each.

#### D. CIVIL-MILITARY RELATIONS AND DEMOCRATIZATION IN ARGENTINA AND BRAZIL

In both Argentina and Brazil the military has played a major political role since independence. In the past, the military has been the one true variable in holding political power. That military influence has threatened the legitimacy of democracy. Democratic legitimacy is important because it is "based on the belief that for that particular country at that particular historical juncture no other type of regime could assure a more successful pursuit of collective goals."<sup>69</sup> The military has overshadowed political civilians and democracy in the past. Does the shadow still exist?

To improve the legitimacy of democratic reforms and lead to further democratic consolidation, civilian control over the military is an important characteristic, but it is only one element to improved CMR and it is included in a much broader compass of control. A high level of "objective control" following the transition to democracy coupled with a substantive decrease in political participation within the government by the military is a good measure of improved civil military relations and hence, a stronger and more stable democracy.<sup>70</sup> A healthy transition process should depict the level of objective control increasing over time. To facilitate the analysis, two areas can be examined to determine the extent of objective control over the military: (1) effectiveness of civilian leadership over the military, (2) roles and missions of the military.<sup>71</sup>

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<sup>69</sup> Juan J. Linz, *The Breakdown of Democratic Regimes: Crisis, Breakdown, & Reequilibration* (Baltimore: The Johns Hopkins University Press, 1978), 18.

<sup>70</sup> Samuel P. Huntington, *Reforming Civil-Military Relations*, Larry Diamond and Marc F. Plattner ed., *Civil-Military Relations and Democracy* (Baltimore: Johns Hopkins University Press, 1996), 3-4.

<sup>71</sup> Samuel P. Huntington contrasts "objective" with "subjective" civilian control in *The Soldier and the State* (Cambridge: The Belknap Press of Harvard University Press, 1957 and 1985). It is summarized by Wendy Hunter in *State and Soldier in Latin America: Redefining the Military's Role in Argentina, Brazil,*

Civilian leadership that maintains complete authority over the military signifies strong objective control. Policy issues concerning military budgets and the officer promotions remains in civilian hands. The major avenue open for the military to express its concerns is through a civilian minister of defense, appointed by democratically elected president. If other avenues exist, (such as senior military officers involved in other government agencies, or military involvement in private sector industry), then the potential for political contamination of the military exists. Political contamination represents increased "subjective control".<sup>72</sup>

The primary mission of the military must be focused toward an external threat to achieve complete civilian objective control of the military. The role of the military is not internal police actions directed towards civil society. If the focus of the military is inward rather than outward, political contamination occurs in the form of corruption and civilian influence. Maintaining the military focus outward ensures minimal political contamination.

Both civilian leadership and a focused external mission allow the military to emphasize a professional military standard that is equal to civilian professional standards. Civilians should determine levels of salary, budget, manpower, and modernization, in

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*and Chile* (Washington DC: United States Institute for Peace, 1996), 8: "Civilian control is said to be 'objective' when civilian politicians provide the armed forces with the conditions to organize, plan, equip, and train for combat roles (external defense) that reflect their special status as experts in the management of violence. The armed forces, in turn, jealously guard this sphere of competence and autonomy in return for political subordination." "Subjective control means that civilian groups define, oversee, and monitor military activities."

<sup>72</sup> Huntington refers to the absence of military influence in other government agencies as horizontal civilian control. Samuel P. Huntington, *The Soldier and the State* (Cambridge: The Belknap Press of Harvard University Press, 1957 and 1985), 88.

order to ensure “expertise, responsibility, and corporateness,” as long as the focus is external to the state.

### **1. Argentina**

The Argentine military as an institution suffered in the transition to democracy. After the Falkland/Malvinas war the military lacked efficacy and hence, legitimacy. A military defeat coupled with the reputation gained from human rights violations during the “Dirty War,” left the military with minimal prerogatives to safeguard during the negotiations to democracy.

First, the Alfonsín government appointed a civilian minister of defense. All decisions concerning military budgets and policy, previously made by the three individual leaders of the military branches, became the responsibility of the Ministry of Defense. This has had varying effects on CMR. The most notable is the level of increased contestation by the military due to lack of expertise on defense matters by civilian leadership. The military permeated the Argentine culture for many years, and this prevented the development of civilian military experts. As a result, the new Ministry of Defense lacked competent and knowledgeable civilians in the areas of defense policy.<sup>73</sup>

Alfred Stepan depicts the level of military contestation with military prerogatives to determine a graphical representation of civilian control over the military. As of 1988, Argentina did not exhibit low levels of either contestation or prerogatives to merit full civilian control over the military. Since then, it is evident that both military contestation and prerogatives continue to decline.

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<sup>73</sup> Alfred Stepan, *Rethinking Military Politics: Brazil and the Southern Cone* (Princeton: Princeton University Press, 1988), 91-127.

The Alfonsín government attempted to control the military by bringing senior and junior officers to trial for human rights violations. This led to increased contestation by the military, including three attempted coups from April of 1987 to December of 1988 by junior and mid-level officers. Concessions were made to the military (absolving junior officers' human rights violations), but the damage to the military had been done. The cohesiveness of the armed forces was completely dissolved at this point. To use Stepan's model, the level of contestation increased during that critical period, as the civilians sought to lower the level of prerogatives. High contestation and low prerogatives left the military in a "unsustainable position." On the continuum between objective and subjective control, the military was experiencing high levels of subjective control. Changes had to be made.

The Menem administration came into office with the military on its knees. The military welcomed the new administration, and were especially relieved when Menem granted a full pardon to military personnel convicted of repression during the Dirty War. It is at this point of CMR in Argentina that a shift from subjective to objective control concerning civilian leadership began to occur.

A second area that has experienced drastic changes in Argentine CMR is the stated mission of the military. Since 1983, the military's mission has shifted from external involvement (war against the United Kingdom, near war with Chile in 1978 over border disputes) and internal police actions against left wing insurgencies, to that of peace keeping operations under the direction of the United Nations. Participation in peace

keeping operations has alleviated some of the frustrations military leaders have endured over the last 14 years.

Military leadership witnessed the devastation of an institution that took years to build. Military expenditures stood at \$9.2 billion in 1983 compared to \$4.2 in 1993 (in constant 1993 dollars). This represented a cut of over 50 percent in ten years and accounts for a decrease from 8 percent to 1.7 percent of the Gross Domestic Product (GDP). Correspondingly, the size of the military decreased from 175,000 personnel down to 65,000 during the same time period.<sup>74</sup> There are few organizations that can withstand cuts at this magnitude and survive, but the Argentine armed forces have coped in large measure to the shift in mission.

In 1990, President Menem, in an attempt to change Argentina's international image, joined the United Nations sanctioned blockade against Iraq. This began the shift in mission priority to peace keeping operation. Since 1990 Argentina has become a regular participant in peace keeping operations sanctioned and directed by the United Nations. This has increased military professionalism due to interactions with other, more highly trained militaries. Wendy Hunter comments in her book, *State and Soldier in Latin America*, that peace keeping operations may "provide an important example for new democracies seeking to reorient their militaries away from internal security" roles. The shift to peace keeping roles increases objective control over the military in part because of the shift away from domestic police actions.

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<sup>74</sup> Data taken from Wendy Hunter, *State and Soldier in Latin America: Redefining the Military's Role in Argentina, Brazil, and Chile* (Washington DC: United States Institute for Peace, 1996).

Argentina has successfully achieved a transition from subjective to objective control over the military. The roles and missions of the military are well defined, and prestige is slowly returning with the use of peacekeeping operations. CMR took over a decade to improve, and only after the government and the military met resistance from each other. Time may very well be the answer to improved CMR in countries experiencing democratization. Unfortunately, many countries do not have the patience to endure the change.

## **2. Brazil**

As mentioned earlier, Brazil's transition took eleven years to complete and began in 1974 with the military junta in power (Geisel). The military had, and still maintains considerable power within the government. It negotiated a democratic transition that maintained many of its prerogatives. Since 1985, with the return to democracy, the record of civilian control over the military in Brazil has been mixed.

Civilian cabinet level positions with power over the military have been absent since the mid 1920s. Currently the military maintains four cabinet-level positions; Minister of the Army, Minister of the Navy, Minister of the Air Force, chief of the Military Cabinet, and chief of the Armed Forces general Staff, down from six in 1985. Each minister reserves the right to influence political decisions. The minister of the Army addressed Congress after the election of Jose Sarney in 1986 with the following:

I am a military man, but I have a political aspect and it is my right to express this aspect. I will use it with parsimony but it is a right which I will not yield. I consider it unjust for anyone to deny me this right. I am a soldier, but I am a Minister; Ministers have political aspects and I think I

have the right to say some things about political issues ....I am very concerned about this country.<sup>75</sup>

This illustrates a lack of civilian control over the military, and a lack of objective control.

The mission of the Brazilian military has primarily been for external projection of power and a search for greatness. The national security doctrine includes geopolitical ideology and filling its vast frontier in the Amazon basin.<sup>76</sup> This primary mission of external projection of power and filling the frontier has not changed since the transition to democracy. As stated above, external mission orientation leads to less politicizing of the military. It maintains the focus of military actions to external threats and increases military professionalism and objective control.

The Brazilian military also has strong roles in both internal security and civic actions. Internal security, as in many Latin American countries, has become a normal role for the military. Brazil has solid public support for the internal security role of the military, unlike Argentina.<sup>77</sup> The military participates occasionally in drug interdiction and combating crime in urban areas. Civic action by the military is also a long standing tradition. The military has always viewed itself as a key player in state development. Both roles of internal security and civic action deter from military professionalism, and lessen objective control.

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<sup>75</sup> Stepan, *Rethinking Military Politics: Brazil and the Southern Cone*, 104-105.

<sup>76</sup> "The law of valuable areas," the second law of geopolitics discussed by Jack Child, would emphasize the importance of filling areas of the country that are sparsely populated to preclude bordering states from claiming these areas. Jack Child, *Geopolitics and Conflict in South America*, (New York: Praeger Publishers, 1985), 34-35, 176.

<sup>77</sup> Hunter, *State and Soldier in Latin America: Redefining the Military's Role in Argentina, Brazil, and Chile*, 25.

Brazil has seen less transition in CMR from subjective to objective control over the military than Argentina. Military leaders still maintain four cabinet positions.

Furthermore, the missions and roles the military performs direct some of their focus inward. Using the military for countering urban crime and interdicting narcotics can corrupt the institution of the military and deter from professionalism.

#### **E. CONCLUSION**

This chapter began by determining a contextual interpretation of democracy that could be applied to both Argentina and Brazil. Dahl and Huntington's work build a foundation upon which individual freedom of expression, the ability to communicate personal preferences in the political arena, and the protection of individual rights help define democracy. Linz's definition of democracy includes Dahl and Huntington's foundation, but includes the constraint that contestation for political power must be "free and nonviolent". The above foundation of democracy is the thread upon which democratic norms are built into society.

An examination of the transition process in each country followed the development of the definition. Each transition had definitive differences. Argentina's transition to democracy occurred as the military lost legitimacy, as a result internal violence, military defeat, and economic mismanagement. The Argentine transition was relatively short in duration which suggests instability in the formation of party institutions and legitimacy afforded the democratic regime. Has the transplantation process to democracy allowed for stability and the development of democratic norms.

During the first four years of the Menem presidency (1989-93), he issued over 244 decrees, of which the constitution requires ex post facto consideration by legislation. Only 4 percent of the 244 decrees ever received ratification by the legislature. This does not sound like “inclusion of all effective political offices in the democratic process.” Menem also lobbied for, and won a second term as president by having the constitution changed; by changing the number of Supreme Court judges from 5 to 9 giving him judicial majority concerning any Supreme Court cases; and by creating an upper criminal tribunal to divert any criminal allegations concerning corruption charges that may have led directly to him.<sup>78</sup>

The Brazilian transition was directed initially from the top down and took eleven years. The opposition party in Brazil, sanctioned by the military, at least gave an avenue for political preference expression. Brazil’s transition gave legitimacy to the civilian government that followed the military regime, but it also maintained military prerogatives that deterred from democratic consolidation.

Brazil's transition was slow, deliberate, and from the top down. The country has seen the impeachment of a president on charges of corruption that demonstrates a willingness to use democratic procedures. Brazil has maintained the procedures, contestation, inclusiveness, and peace required by our definition of democracy, but the extreme duality in society may pose major problems in the future. Democratic norms appear to be strengthening in Brazil, but the military still maintains a great deal of prestige in society.

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<sup>78</sup> Juan J. Linz & Alfred Stepan, *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe* (Baltimore: Johns Hopkins University Press, 1996), 210.

Civil Military Relations in both countries is also conclusively different. Argentina broke the military institution down with transitional justice against its leaders and cutting its budget considerably. Argentina has also instituted positive objective control over its military with the participation in peace keeping missions and limiting its use in internal security issues. Argentina has redefined the roles and missions of its military that will in the future increase the military's professionalism. Brazil is further from objective control of the military. The Brazilian transition perpetuated many military prerogatives, maintained four political cabinet posts for high ranking military officials, and directed substantial effort towards internal security issues.

The true test to the consolidation of democracy, stated earlier, is that "no other type of regime could assure a more successful pursuit of collective goals."<sup>79</sup> Linz and Stepan use survey data in their book, *Problems of Democratic Transition and Consolidation*, to illustrate democracy may not be the only game in town. Argentina demonstrated a stronger proclivity for democracy than Brazil. Only 41 percent of Brazilians surveyed agreed that democracy was the most preferable government. In fact, 31 percent of Brazilians felt that the military had the most power in Brazil, 33 percent suggested that the military should have more power, and 58 percent had more confidence in the military to run the government.<sup>80</sup> The state of CMR in Brazil obstructs the full consolidation of democracy, but the emergence of increased cooperation and international standing may keep Brazil heading towards consolidation.

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<sup>79</sup> Linz, *The Breakdown of Democratic Regimes*, 18.

<sup>80</sup> For more information see Linz & Stepan, *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe*, 219-230.

It is evident that democracy in Argentina and Brazil is not fully consolidated. Nor do democratic norms appear to have fully rooted themselves in society. Due to the lack of democratic consolidation that exist in Argentina and Brazil, the extent of cooperation that exists between the two may be a result of economic factors (Chapter IV).

#### IV. INDEPENDENT VARIABLE: ECONOMIC ENVIRONMENT

##### A. INTRODUCTION

In the early 1950s Latin America witnessed a proliferation of regional trade agreements, few of which demonstrated sustained success. Even with the inconsistent ability of regional trade agreements to show success, they have become an alternative to multilateralism under the auspices of the World Trade Organization (WTO). As of 1994 approximately 90 percent of all contracting parties of GATT participate in regional economic arrangements.<sup>81</sup>

In truth, the environment for the success of regional trading blocs appears to be more promising in the 1990s than in the preceding forty years. The difference between the two periods is the globalization of the world economy and the shift away from multilateralism to regionalism by the United States.<sup>82</sup> These differences have had a substantial effect on the international economic system. The interests of world actors have shifted from a realist perspective, to that of a globalist.<sup>83</sup> It is probably more correct to state that the battlefield is no longer simply armies in the field, but competing financial

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<sup>81</sup> The International Monetary Fund compiled a list of 68 such agreements. See Robert Z. Lawrence, *Regionalism, Multilateralism, and Deeper Integration* (Washington D.C.: The Brookings Institute, 1996), 1.

<sup>82</sup> At the end of WWII the United States accounted for over one third of the world's production, presently it accounts for approximately one fifth. The United States has lost a great deal of its hegemonic control over a now multipolar economic environment. See Robert Z. Lawrence, *Regionalism, Multilateralism, and Deeper Integration*, xvi; Jagdish Bhagwati, "Regionalism and Multilateralism: an Overview", ed. Jaime De Melo and Arvind Panagariya, *New Dimensions in Regional Integration* (Cambridge: Cambridge University Press: 1993); Andrew Hurrell, "Regionalism in the America," Abraham F. Lowenthal & Gregory F. Treverton, *Latin America in a New World Order* (Boulder: Westview Press, 1994), 167-168.

<sup>83</sup> Realists view military security as the most important agenda of international politics. This is in contrast with the globalists who emphasis other factors, including economic ones. See Paul R. Viotti and Mark V. Kauppi, *International Relations Theory: Realism, Pluralism, Globalism*, Second Edition (New York: Macmillan Publishing Company, 1993), 1-22.

markets. It is the aim of this chapter to demonstrate a correlation between the increased cooperation between Argentina and Brazil, and the economic environment within which both are forced to participate.

Cooperation regarding economic integration represents an opportunity to change decades of failed economic policy by Argentina and Brazil. Mercosur, of which Argentina and Brazil are the significant members, appears to be achieving success where previous regional trade agreements failed.<sup>84</sup> Regional trade blocs reduce the number of participants in global trade negotiations, and enlarge the negotiating power of smaller, less industrialized countries.<sup>85</sup> With the presence of the European Community and the North American Free Trade Area (NAFTA), cooperation among southern cone states can be viewed as one way with which to maintain access to a global market.

The causal argument to be analyzed in this chapter is similar to many realist propositions which encompass a cost-benefit analysis. "An international system is stable (i.e., in a state of equilibrium) if no state believes it profitable to attempt to change the system."<sup>86</sup> The system here is the global market economy in which all countries exchange

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<sup>84</sup> Several Latin American regional trade agreements were formed under the auspices of United Nations Economic Commission for Latin America (ECLA). The Central American Common Market (CACM, 1960), Latin American Free Trade Association (LAFTA, 1960), Caribbean Free Trade Association (CARIFTA, 1965), and Andean Group (1969) are examples of previously failed regional trade blocs. See Robert J. Alexander, "Import Substitution in Latin America in Retrospect", ed. James L. Dietz, *Latin America's Economic Development: Confronting Crisis*, Second Edition, (Boulder: Lynne Rienner Publishers, Inc., 1995), 162-163; Pope G. Atkins, *Latin America in the International Political System*, Third Edition (Boulder: Westview Press, 1995), 173-177; Robert Bouzas and Jaime Ros, "The North-South Variety of Economic Integration", Bouzas and Ros ed., *Economic Integration in the Western Hemisphere* (Notre Dame: University of Notre Dame Press, 1994), 32-37; Sebastian Edwards, "Latin American Economic Integration: A New Perspective on an Old Dream," *The World Economy*, Vol. 16 No. 3, May 1993, 319-324.

<sup>85</sup> This is a key concept in the formation of regional economic arrangements and coincides with cooperation theory developed in chapter 2. See Lawrence, *Regionalism, Multilateralism, and Deeper Integration*, 37.

<sup>86</sup> Robert Gilpin, *War & Change in World Politics* (Cambridge: Cambridge University Press, 1981), 50.

goods and services. The global market economy has evolved into a dynamic system that cannot be changed, but rather forces actors to find alternatives. The alternative to multilateral trade negotiations is the formation of regional trade blocs.<sup>87</sup>

What is the underlying motivation for the creation of regional economic arrangements such as Mercosur? The theory behind economic integration states that developing countries can gain greater economic development through the integration of national economies. Three gains from integration that appear on the surface are the greater market potential for new industries, the exploitation of economies of scale, and the increased bargaining power and “reducing the external vulnerability of the member countries.”<sup>88</sup> Below the surface “trade diversion” may deter from the success of economic integration.

A study conducted by Alexander Yeats, *Does Mercosur's Trade Performance Raise Concerns about the Effects of Regional Trade Arrangements?*, suggests that regional trade arrangements (RTAs) distort trade to such an extent that they are detrimental to both member and nonmember countries. Yeats concludes that Mercosur members as a whole gain less from the agreement than if the individual countries had liberalized their trading policy multilaterally. But, each country within Mercosur is witnessing positive gains relative to where they were at the creation of the trade

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<sup>87</sup> Paul Krugman suggests that “the ability to support a cooperative solution at the multilateral level is declining, while at the regional level it remains fairly strong.” See Krugman, “Regionalism versus Multilateralism: Analytical Notes,” ed. Jaime De Melo and Arvind Panagariya, *New Dimensions in Regional Integration* (Cambridge: Cambridge University Press, 1993), 58-75.

<sup>88</sup> Bela Balassa is the most cited author concerning economic integration theory. See Bela Balassa, *The Theory of Economic Integration* (Homewood, Illinois: Richard D. Irwin, Inc., 1961), 1-7.

agreement.<sup>89</sup> For this reason, the study will focus on the external factors that have influenced economic cooperation between Argentina and Brazil.

The global market economy and the framework under which trade agreements are negotiated, the General Agreement on Trade and Tariffs (GATT), now the World Trade Organization (WTO), have forced economic cooperation between Argentina and Brazil.

## **B. GLOBAL MARKET ECONOMY**

The global market economy is directly related to the formation of Mercosur. It is evident today that the increase in electronic technology in the form of computers, and the increased speed of world communications have changed the complexity of both foreign and economic policy.<sup>90</sup> To understand the significance of market forces on cooperation, it is best to clarify what is meant by a global market economy.

Robert Gilpin in *The Political Economy of International Relations*, keenly captures the essence of "political economy." One of Gilpin's most important areas of focus is the characteristics of a market economy. He has delineated three characteristics, the first being the importance of relative prices in the exchange of goods and services. If a country cannot produce or sell goods and services at or below the existing world price, then that country does not enjoy a comparative advantage. Relative prices encourage economic growth because they force a country to reallocate its resources in land, labor,

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<sup>89</sup> Yeats concludes that Mercosur has both created and diverted trade. The diversion of trade may be detrimental in the long run, but the economic welfare of the member countries in the form of declining "producer and consumer prices" may improve. See Alexander Yeats, "Does Mercosur's Trade Performance Raise Concerns about the Effects of Regional Trade Arrangements?", *The World Bank, Policy Research Working Paper*, No. 1729, February 1997.

<sup>90</sup> This is demonstrated by Kapstein by analyzing the international banking industry. For further information see Ethan B. Kapstein, *Governing Global Finance*, Brad Roberts ed., *New Forces in the World Economy* (Cambridge, The MIT Press, 1996).

and capital. A common market such as Mercosur would allow factor mobility between participating members, hence greater efficiency.<sup>91</sup> Efficiency leads to the production of goods at its lowest relative cost.

The second characteristic denoted by Gilpin is competition. Competition fuels the market and producer efficiencies because it forces producers to become more efficient, thereby driving down the cost of resources and labor. Lower production cost translates into lower prices and greater competitiveness.

Relative price and competition drive efficiency, which is Gilpin's third characteristic. If economic participants in the world market are not efficient in their production of goods, actors are forced to find new avenues of achieving greater competitiveness (regional trade agreements). These three characteristics; relative price, competition, and efficiency, have had lasting effects on national actors.

Gilpin ties the market economy into a realist perspective by describing the consequences it has on individual actors. The ability to participate in the market overwhelms the norms of society by driving out inefficiency and forcing innovation. Second, the distribution of wealth can be uneven due to differences in endowments such as capital and labor. This forces the state to enforce economic pressures which will stimulate a competitive advantage and consequently leads to short term inequalities within

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<sup>91</sup> Bela Balassa best defines the distinction between free-trade areas, a customs union, a common market, an economic union, and complete economic integration: "In a free-trade area, tariffs (and quantitative restrictions) between the participating countries are abolished, but each country retains its own tariffs against nonmembers. Establishing a customs union involves, besides the suppression of discrimination in the field of commodity movements within the union, the equalization of tariffs in trade with nonmember countries. A higher form of economic integration is attained in a common market, where not only trade restrictions but also restrictions on factor movements are abolished." Economic union and total economic integration harmonize "monetary, fiscal, social, and countercyclical policies" among member countries. See Balassa, *The Theory of Economic Integration*, 2.

society. Lastly, the market establishes a hierarchy within the system that forces dependency on less powerful actors. It is this dependency that Argentina and Brazil are trying to shed. Unfortunately the rules that Argentina and Brazil must use to compete in a global market economy stifle their ability to do so.

## C. GATT

### 1. Background

To understand the economic environment within which Argentina and Brazil have been competing, background concerning the inception of GATT is necessary. There were two underlying forces in the General Agreement at work that hurt LDCs such as Argentina and Brazil. First, after World War II a majority of LDCs were enjoying modest economic growth due to the use of Import Substitution Industrialization (ISI). The Economic Commission for Latin America (ECLA) hypothesized an industrialization model that would allow subordinate market economies to grow industrially. Furthermore, Diana Tussie contends that there were "structural forces in international trade that impeded the development of countries specializing in the production and export of primary commodities."<sup>92</sup> The structural forces alluded to by Tussie are the rules by which multilateral trade negotiations are governed.

#### a) *Import Substitution Industrialization*

Import substitution industrialization (ISI) has had varying effects on developing countries depending on the paths taken during its use. Latin America and East

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<sup>92</sup> Diana Tussie, *The Less Developed Countries and the World Trading System: A Challenge to the GATT* (London: Frances Pinter Limited, 1987), 21.

Asia used ISI as a mechanism for economic growth, and both took different paths during its use. Gustav Ranis and Louise Orrock use five areas to show significant differences between the two: land reform, literacy rate, exhaustion phase transition, capital versus labor intensive exports, and protection.<sup>93</sup>

Both land reform and education were distinctly different in the two areas. Land reform, increased development in the rural section of the country, and an emphasis towards the production of domestically sold crops are essential in maintaining even growth throughout the country. According to Ranis and Orrock, East Asian countries had more equitable land reform, increased rural development, and better irrigation practices. Latin American countries have been plagued by the landed elite maintaining their ownership of the land. The elite maintained an emphasis in growing export goods in place of crops that could be sold domestically. Hence, Latin American countries became dependent on external sources for agricultural subsistence crops. East Asian countries also have a distinctive cultural difference from Latin America. Ranis and Orrock also argue that East Asia has higher levels of education, and a stronger work ethic compared to that of Latin America.<sup>94</sup>

Once both regions reached the exhaustion phase of import substitution, industry should have been developed to use all available labor. This would place a demand on real wages, forcing them up as available labor declines. Increased real wages augments the size of the middle class, and an increase in the domestic purchasing power.

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<sup>93</sup> Gustav Ranis and Louise Orrock, *Latin American and East Asian NICs: Development Strategies Compared*, Esperanza Duran ed. (London: Cambridge University Press).

<sup>94</sup> Ranis and Orrock, 50.

East Asian countries emphasized the development of labor- intensive goods so that real wages and the size of the middle class would swell. Once the breadth of the middle class had been established, they shifted to capital intensive development. Latin American countries placed an emphasis on capital intensive goods from the beginning. The middle class was not developed, hence the countries' domestic purchasing power remains low.

The amount of protection placed on the domestic market plays an important role in a market economy. During the initial phase of ISI, East Asian countries maintained moderate tariff levels on their manufactured goods compared to Latin America. This allowed them to develop efficient and competitive industry. Once the exhaustion phase of ISI had been reached, they lowered tariff levels. Latin American countries maintained high tariff levels throughout. This had two affects. First, without increased real wages and a middle class, the market for domestic manufactured goods was small. Second, foreign investment is not attracted to inefficient, noncompetitive industry that lacks a domestic market within which to sell its manufactured goods.

In a chronological context, Argentina and Brazil are suffering from the effects of an ISI development strategy that was extended past its usefulness. By 1990 Argentina and Brazil were experiencing annual hyperinflation of 2,314 percent and 2,937.8 percent respectfully.<sup>95</sup> Argentina (1989) and Brazil (1990) implemented trade reforms designed to reverse the effects of ISI and trade protection used by previous authoritarian regimes. Even with the shift towards liberalization, the external economic environment would prove to be a challenge to Argentina and Brazil acting alone.

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<sup>95</sup> Julio J. Nogués and Rosalinda Quintanilla, "Latin America's Integration and the Multilateral Trading System," in ed. De Melo and Panagariya, *New Dimensions in Regional Integration*, 297.

The GATT did little to help Latin America, Argentina and Brazil, when first implemented in 1948. It was not until the late 1950's that advanced industrialized members of GATT gave attention to the trade difficulties and underdevelopment of LDCs. Before we can understand how GATT became a disadvantage to Latin America, we must first understand how it works.

*b) GATT Negotiating Rules*

GATT works with the premise that international trade without barriers benefits all countries. To establish guidelines to promote free trade, GATT prescribed three important negotiating procedures to reduce tariffs; reciprocity, the supplier rule, and Most Favored Nation (MFN) treatment. Reciprocity asserts that a country will offer a tariff reduction for a similar concession from the negotiating country. Along with reciprocity comes the supplier rule.

Procedural compliance of supplier rule stipulates that a country can only start the negotiation on tariff reduction if they are the main supplier of that particular item. In Ricardian terms the initiating party already has the comparative advantage for that particular good. Finally, once the tariff reduction has been negotiated, that reduction is generalized to all contracting members of GATT. The contracting members are MFN. Being a signatory of the General Agreement should provide equal treatment to all countries involved, but this is not the case. GATT does not level the playing field for all members if larger members have a clear advantage over LDCs.<sup>96</sup>

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<sup>96</sup> Diana Tussie , 24.

## 2. Detriment to LDC

The underlying procedures of trade negotiation pose immense obstacles to LDCs. By examining each imposed rule, we can demonstrate the effects on LDCs. It is important to recall the time frame in which we have placed our discussion at this point. ISI has been used to deepen industrialization in the region, and outside forces are now entering into a circumscribed trade protected area. For the purpose of the following discussion, assume that an advanced industrialized nation, the United States, is asking for a reduction in tariffs of an LDC, Argentina or Brazil.

Reciprocity truly benefits a larger industrialized nation because they have already experienced economies of scale, hence the lowest cost of producing a particular product has been achieved by that country. Latin America has very seldom experienced economies of scale with their manufactured goods, but they have kept up competitively with agricultural goods. At the very inception of GATT, agricultural products were not included in the agreement. Primary products were excluded by the advanced industrial countries because they wanted to protect, with subsidies (in the case of United States and European Community agricultural goods), that sector of their economy. Furthermore, developed countries have developed their agricultural base to a much greater degree than that of underdeveloped nations and have reached economies of scale and a clear comparative advantage. LDCs start at a disadvantage because their main exportable good, agricultural products, can not compete with similar subsidized agricultural products of developed countries. In 1985, President Raúl Alfonsín of Argentina claimed that

agricultural subsidies by developed countries accounted for a \$65 billion loss for Latin America.<sup>97</sup>

Manufactured goods are offered in the negotiation to a country who has by in large sheltered its manufacturing base from international trade, therefore similar manufactured goods have a higher price. Couple the comparison of manufactured goods to the reciprocated agricultural products that the LDC can offer in return, and one can see the disadvantage imposed on Latin American countries. The process places a heavy burden on the LDC's trade balance with the developed country. The trade imbalance between trading nations plays a role in the failure of many trade agreements. This is especially true when costly manufactured goods are traded with low cost agricultural goods.

The second procedural negotiation is "the supplier rule." The supplier rule suggests that offers begin bilaterally, and are requested, not offered. Since developed countries already have an advantage concerning manufactured goods as compared to the LDC, LDCs rarely are in the position to start negotiations. LDCs rely on industrialized nations to negotiate between themselves, allowing second hand benefits to be trickled down to them by way of MFN status within GATT.

Trading countries grant MFN status to other countries when they are willing to extend all subsequent negotiated tariff agreements with other countries to that country. The tariff agreements made between industrialized countries allowed LDCs, those that held MFN status, to take advantage of GATT. The General agreement also opened up

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<sup>97</sup> Raúl Alfonsín, "Alonsín Criticizes Protectionism, Interest Rates," Speech, 19 December 1985, Foreign Broadcast Information Service-LAM-84-245.

Latin American markets, because of MFN status, other nations that had a clear comparative advantage over them. Latin American industry would never be able to develop economies of scale in manufacturing if it could not establish a market to sell the manufactured goods. It is the preferential treatment afforded industrialized nations that became detrimental to LDCs, and why regional trade agreements in Latin America became the answer to economic progress.

#### **D. ARGENTINA AND BRAZIL**

Earlier in this chapter, the importance of a globalized economy was discussed. Relative price and competition permeate national boundaries and force efficiency in domestic markets. Argentina and Brazil compete globally in a system designed to assist fully industrialized countries such as the United States, Japan, and the European Community. GATT's implied negotiating procedures aided industrialized nations while placing LDCs at a disadvantage. Can Regional Trade Agreements such as Mercosur assist in leveling the playing field of global trade? Could Argentina and Brazil lift their countries out of decades of nationalization and protection individually, or could cooperation between the two allow for much needed economic relief? It is evident that both Argentina and Brazil felt that economic integration and the formation of Mercosur could level the global economic playing field.

As early as 1985 both Argentina and Brazil came to the realization that economic cooperation between both countries could have lasting benefits. President Raúl Alfonsín (1983-89) of Argentina was strongly in favor of integration throughout his presidency. At

the dedication of the President Tancredo Neves Bridge over the Iguazu River, Alfonsín stated that “the economic, monetary, and commercial guidelines, as well as the mechanisms devised to handle international relations in these fields, have fully proven by now that they are incapable of coping with pressure of our times.”<sup>98</sup> In a joint declaration signed by the presidents of Argentina and Brazil later known as the “Iguazu Declaration”, an emphasis was placed on joint cooperation.

They also agreed on the urgent need for Latin America to reinforce its power of negotiation with the rest of the world by broadening its autonomy of decision and preventing the countries of the region from continuing to be vulnerable to the effects of policies adopted without their participation. Therefore, the presidents decided to coordinate the efforts of their respective governments to give new vigor to the policies of cooperation and integration among the Latin American nations.<sup>99</sup>

Four months later Alfonsín stressed the need for integration in Latin America:

I am convinced that the future of the continent lies in our effectiveness and determination to achieve it (integration).

As long as we are situated at the points of friction of a world that undergoes continuous cracks and upheavals, we run the serious risk of being the adjustment variables of those economies. There is no doubt that we will be the first to be sacrificed. In fact, we already are if we consider, for example, the agricultural products war unleashed between the EEC and the United States or the drastic fall of oil prices.... These are times to face a new challenge, the challenge to carry out the second emancipation of Latin America.<sup>100</sup>

One year later the Argentinean-Brazilian Integration and Cooperation agreement was signed with 12 protocols for cooperation and mutual Assistance.

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<sup>98</sup> Raúl Alfonsín, “Sarney, Alfonsín Discuss Latin American Goals,” Speech, 2 December 1985, Foreign Broadcast Information Service-LAM-85-231, microfiche, D4.

<sup>99</sup> Foreign Broadcast Information Service-LAM-85-233, microfiche, D4.

<sup>100</sup> Raúl Alfonsín, “Alfonsín Appeals for L.A. Integration,” Speech, 10 April 1986, Foreign Broadcast Information Service-LAM-86-072, Microfiche, B14-15.

Alfonsín maintained enthusiasm for Latin American integration, but concentrated on efforts with Brazil. Within the next two years Argentina and Brazil would sign 26 additional agreements designed to increase trade and cooperation. Alfonsín reiterated the global environment as being the driving force behind increased cooperation between Argentina and Brazil when he stated "there was no other way to overcome, once and for all, our relative neglect in a world increasingly marked by the technological revolution and new interrelations."<sup>101</sup> The bilateral agreements between Argentina and Brazil, and the decision to create a Latin American common market with Uruguay, foreshadowed the formation of Mercosur.

#### **1. The Treaty of Asuncion**

The Treaty of Asuncion was signed by its participating members (Argentina, Brazil, Paraguay, and Uruguay) on March 26, 1991. The agreement forms the fourth largest trading bloc in the world. The thrust of the agreement is centered on liberalizing trade between the participating members, but by doing so, it establishes a more complex interdependence between its members. Using terms introduced by Robert O. Keohane and Joseph S. Nye, it demonstrates "multiple channels," the "absence of hierarchy among issues" and its members, and the irrelevancy of military force as a legitimate means of resolving disputes.<sup>102</sup> The liberalization of trade between Mercosur members is achieved through multiple channels and is illustrated in the Annex:

BELIEVING that this objective must be achieved by making optimum use of available resources, preserving the environment, improving physical

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<sup>101</sup> Foreign Broadcast Information Service-LAT-88-068, microfiche, 27.

<sup>102</sup> Keohane and Nye in *Power and Interdependence* (Harper Collins Publishers, 1989), develop the notion of complex interdependence with these three characteristics. This treaty, as well as prior agreements between Argentina and Brazil, bring about this complex interdependence in a formal manner.

links, coordinating macroeconomics policies and ensuring complementarity between the different sectors of the economy, based on the principles of gradualism , flexibility, and balance,

The Annex sets the tone and intent of the treaty. It clearly gives reference to a market system and the need to participate in it. "Bearing in mind international trends, particularly the integration of large economic areas, and the importance of securing their countries a proper place in the international economy, believing that this integration process is an appropriate response to such trends," signifies the importance of unity instead of separatism. The treaty demonstrates the *vulnerability* felt by the participating parties without unity.

The attributes of the Common Market illustrate the commitment of the participating members to become competitive in a market economy. First, a 100 percent tariff reduction across intra-state borders on goods and services allow for the movement of labor towards distinct comparative advantage to be developed within the region. This increases the market potential of the member countries and allows for economies of scale to take place whereby production costs can be reduced. Excluded goods and services are by individual product and not by sector. This is called a negative list and is important because new products that are developed cannot be added to the exclusion list unless negotiated by the Council.

Second, a common external tariff (CET) will be established for all third parties trading with Mercosur. Mercosur's "average trade-weighted external tariff is 14 percent-well below that of any of its members (except Paraguay) in 1990."<sup>103</sup> As Mercosur

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<sup>103</sup> *Remapping South America: A Survey of Mercosur*, The Economist, October 12, 1996, 5.

grows in economic power, it will be able to negotiate from strength as a group. The underlying rules stipulated in GATT will be to their advantage.

Third, Mercosur establishes various working subgroups to work on the channels that connect Argentina, Brazil, Paraguay, and Uruguay. Each of the subgroups developed illustrates the growth of a complex interdependence that will grow from the agreement. The subgroups developed include: Commercial and Customs issues; Technical standards; Fiscal and monetary policies relating to trade; Inland and Maritime transport; Industrial, technological, Agricultural, and Energy policies; and Coordination of Macroeconomic policies.

## **2. Success**

In 1992 it was evident that Mercosur would come to fruition regardless of the obstacles that lay in its path. Economy Minister Domingo Cavallo reiterated Argentina's commitment to Mercosur by stating that the agreement distinguishes "ourselves as an economic block before the world."<sup>104</sup> In 1993 the Brazilian Industry and Commerce Minister Jose Eduardo Andrada Vieira expressed similar sentiments by espousing the main objective of Mercosur "is to guarantee the member countries' competition with the other blocs in Europe and Asia."<sup>105</sup> Brazilian President Itamar Franco echoed his Industry and Commerce Minister by stating that "the consolidation of our regional integration process, which has opened new prospects and opportunities in the economic and commercial fields,

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<sup>104</sup> Foreign Broadcast Information Service-LAT-92-193, microfiche, 20.

<sup>105</sup> Foreign Broadcast Information Service-LAT-93-080, microfiche, 1.

and which will strengthen the political support that we may have to back our viewpoints in the international arena” would be a priority of his foreign policy.<sup>106</sup>

The success of Mercosur can be seen in both Argentina and Brazil. In 1989 Argentina suffered from an annual inflation rate of 3,081 percent, and an annual growth rate of GDP per capita of minus 7.0 percent. Argentine economic policy quickly shifted to privatization and liberalization with the election of President Carlos Menem. Since the implementation of Mercosur in 1991, the annual growth rate of GDP per capita in Argentina has averaged 5.9 percent from 1991 to 1996. The annual inflation rate for 1996 was 0.1 percent.<sup>107</sup> These figures indicate a turnaround in economic performance.

Brazil experienced a more sinuous path towards economic stabilization. In 1989, the Brazilian annual inflation rate and growth rate of GDP per capita were 1320 percent and 3.3 percent respectively. From 1991 to 1996 the annual inflation rate reached a peak of 2,124 percent before abating to 11.1 percent in 1996. The same period, 1991-1996, witnessed an average annual growth rate of GDP of 2.8 percent.<sup>108</sup> The Brazilian economy was not as in dire straits as that of Argentina, but it has experienced a duality in society. Some estimates put over half of the Brazilian population in poverty. The annual economic growth rate has climbed to 5.4 percent, and annual rate of inflation is down to 8.1 percent as of February 1997.<sup>109</sup>

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<sup>106</sup> Foreign Broadcast Information Service-LAT-93-080, microfiche, 25.

<sup>107</sup> *World Economic Outlook*, International Monetary Fund (Washington DC: International Monetary Fund, 1997), 140, 148.

<sup>108</sup> *Ibid.*, 140, 148.

<sup>109</sup> “Emerging-Market Indicators,” *The Economist*, March 22, 1997, p 130.

As with any trade agreement, the level of export trade is the single most import objective. By increasing intra-regional trade, an increase in competitiveness should follow. Mercosur has seen a 280 percent increase in regional trade among its participating members. This equates to an average yearly increase in regional trade of 28 percent. Total exports have increased by 29 percent since 1992. Mercosur has exhibited a trade surplus from 1991 to 1994 with slight deficits of -\$3.2 and -\$1.6 billion in 1995 and 1996.<sup>110</sup> Mercosur has demonstrated its ability to increase trade, and it has maintained moderate growth in the Gross Domestic Product. Both Argentina and Brazil have fluctuated in showing progress in actual domestic growth. What is important is that both countries have become linked in a manner that promotes cooperation and deters from a long rivalry.

Politically, the partnership has shown great success as well. Since the inception of increased cooperation that began in earnest with Alfonsín and Sarney, it is evident that a willingness to work together is present. With Mercosur, the governments have almost continuous dialogue. Before Domingo Cavallo was fired as the Minister of the Economy of Argentina in 1996, Menem informed President Cardoso. It is as if the two countries have a common goal to reach economic independence. Other events illustrate the political union that Mercosur has promoted.

In 1996, the Paraguayan government was threatened by a military coup. The Presidents of the remaining Mercosur members stepped in and warned that any attempt by General Oviedo to overthrow the government would be met with economic and political

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<sup>110</sup> NAFTA, Canada, Mexico and the United States have had trade deficits in the magnitude of \$142 billion in 1995 alone. All trade data is via the International Development Bank.

isolation. The members also concluded that democracy would be a formal requirement for membership in Mercosur. Mercosur is economically and politically encouraging cooperation and peace in the region.

#### **E. CONCLUSION**

Mercosur is showing success where previous trade agreements in the Latin America have failed. The difference is a willingness to cooperate by Argentina and Brazil, the main players of Mercosur. The second hypothesis stating that the economic environment is forcing cooperation between Argentina and Brazil holds true. The countries are participating in open regionalism according to the ECLAC. Open regionalism is “a process of growing economic interdependence at the regional level, promoted both by preferential integration agreements and by other policies in a context of liberalization and deregulation, geared towards enhancing the competitiveness of the countries of the region and, in so far as possible, constituting the building blocks for a more open and transparent international economy.”<sup>111</sup> The countries are cooperating in the hopes of becoming more competitive in the world market. All indicators suggest that they are succeeding.

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<sup>111</sup> The United Nations Economic Commission for Latin America and the Caribbean, 8.



## V. CONCLUSIONS

### A. SUMMARY OF FINDINGS

This thesis has attempted to test three competing hypotheses concerning the increase in cooperation between Argentina and Brazil. Two variables were used to examine all three hypotheses: (1) democratization and (2) the economic environment.

The first hypothesis stated that democratization in Argentina and Brazil has led to a democratic peace and increased cooperation between both countries. Chapter II examined chronologically the evolution of cooperation in both the security and economic arena. Military cooperation began in 1978 with the commencement of Operation Fraternal, joint naval exercises. Operation Fraternal has continued over the years alternating overall command of the exercise and location between both countries.<sup>112</sup> Other arenas of cooperation began with the tripartite agreement between Argentina, Brazil, and Paraguay over the Itaipu Dam in 1979. One year later the Brazilian-Argentine Agreement fostering increased cooperation in the nuclear field was signed. All of the cooperative events and agreements discussed above were prior to the transition to democracy in Argentina (1983) and Brazil (1985).

Chapter III examined the democratization process and determined that neither Argentina or Brazil has fully consolidated democracy. Furthermore, the democratic norms quantitatively proven by Russett as the underlying mechanism for democratic peace have not fully matured in Argentina and Brazil. As stated earlier, without the consolidation of

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<sup>112</sup> Pedro Luis de la Fuente, "Confidence-Building Measures in the Southern Cone: A Model for Regional Stability," *Naval War College Review*, Winter 1997.

democracy, it is questionable whether the cooperation between Argentina and Brazil can be a result of the democratization process.

The second hypothesis stated that the economic environment in which Argentina and Brazil compete has promoted cooperation between the two countries. Cooperation between Argentina and Brazil began with joint naval exercises in 1978 as mentioned earlier, but the bulk of the agreements signed by the two countries began in 1985 starting with the Foz do Iguacu agreement, a joint declaration of nuclear policy. The Argentinean-Brazilian Integration and Cooperation agreement followed in 1986 adding economic issues to the 1985 bilateral agreement. Argentina and Brazil had placed greater emphasis on competing globally, liberalized their respective markets to some extent, and were truly on a path to greater cooperation.

Chapter IV demonstrated that external factors such as the global market economy and the rules by which participants are to abide in the market strongly influenced the decision by Argentina and Brazil to begin an integration process. Each subsequent agreement after 1986 between Argentina and Brazil had ties to increased economic integration between the two countries. The Treaty of Asuncion (1991) that created Mercosur illustrates multiple channels of cooperation that strengthens the bond between Argentina and Brazil. The common market increased the market potential for each of the member countries, as demonstrated by the increase in intra-regional trade. Furthermore, Argentina and Brazil are experiencing sustained economic growth. Argentina's exports have grown almost 100 percent since 1991 from \$11.9 billion to \$ 23.6 billion. Brazilian exports have grown by nearly 50 percent from \$31.6 billion to \$48.3 billion. Argentina

and Brazil are showing consistent growth in real GDP for the same period of time.<sup>113</sup> The external economic environment in which Argentina and Brazil compete seems to influence the need for cooperation. The second hypothesis proves that a strong correlation exists between the need to compete globally in an economic environment and cooperation between Argentina and Brazil.

The third hypothesis postulated that both democratization and the economic environment increased cooperation between Argentina and Brazil. Recall that the bulk of the agreements between the two countries began in 1985, after the transition to democracy in Argentina and Brazil. Neither Argentina and Brazil has fully consolidated its respective democracy, but the agreements between them have strong links to the adherence to democracy by each country. Both Alfonsín and Sarney agreed that "the need to consolidate democracy as a system of living and government" was at the center of the Argentinean-Brazilian Integration and Cooperation agreement in 1986.<sup>114</sup> In the coup attempt in Paraguay against the democratically elected President Juan Carlos Wasmosy in 1996, Mercosur presidents diplomatically thwarted the coup attempt, and later stipulated that democracy would be a formal condition for membership in Mercosur.

The influence of a global market and the need to compete in it is the driving force for cooperation among Argentina and Brazil, but it is evident that the transition to democracy by both countries may have played a role in the intensification of cooperation that began in 1985. Both democracy, to a lesser extent, and the economic environment were causal factors in cooperation between Argentina and Brazil. Of the three hypotheses

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<sup>113</sup> "EIU World Outlook 1997," *The Economist Intelligence Unit*, 1996, pages 150 and 158.

<sup>114</sup> Foreign Broadcast Information Service-LAM-86-146, microfiche, B2-3.

stated, the third hypothesis stating that both the transition to democracy and the economic environment best describes the increase in cooperation between Argentina and Brazil, but the external influence of the economic environment most strongly influenced both countries to cooperate in both security and economic arenas.

## **B. POLICY RECOMMENDATIONS**

This thesis set out to determine what drives cooperation among lesser developed countries. In the case of Argentina and Brazil, the economic environment and the transition to democracy, to a lesser extent, influenced state cooperation. It is estimated that by 2010, “the United States will export more goods and services to Latin America than to Europe and Japan.”<sup>115</sup> If the United States is to spread democracy via “engagement and enlargement” and if the United States is able to “expand the community of free market democracies,” it must do so by liberalizing trade with its neighbors to the south, including Cuba, and it must recognize Mercosur as a prominent player in negotiations toward a Free Trade Area of the Americas.<sup>116</sup>

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<sup>115</sup> Paula Stern and Raymond Paretzky, “Engineering Regional Trade Pacts to Keep Trade and U.S. Prosperity on a Fast Track,” Brad Roberts ed., *New Forces in the World Economy* (Cambridge: The MIT Press, 1996), 210.

<sup>116</sup> See Significance of Study in Chapter I.

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