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**ECONOMIC GEOGRAPHY OF VENEZUELA AND
BRAZIL: U.S. NATIONAL SECURITY IMPLICATIONS**

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WARFARE SYSTEMS DEPARTMENT

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FOREWORD

The research in this document was performed as an Independent Laboratory In-house Research project for submission to the Naval War College. The views expressed in this document are those of the author and do not reflect the official policy or position of the Department of the Navy, the Department of Defense, or the U.S. Government.

This paper explores the economic geography of South America from the perspective of Venezuela and Brazil and resultant implications to U.S. National Security. Leveraging and learning from Brazil can help the United States reemerge as a positive influence in South America. Further, supporting movement toward stabilizing institutions such as UNASUR [Union of South American Nations] and a similar North American or even western economic union could place the Western Hemisphere on solid economic ground for migrating toward similar unions across the globe.

This document has been reviewed by G. Dale Galyen, Deputy Department Head, Warfare Systems Department.

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INTRODUCTION

The paths of the economic geographies of Venezuela and Brazil evolved from their democracy, leadership ideologies, cultural influences, equality and inequalities, and economic structures. Venezuela and Brazil's respective economic growth and decline affect their stability and national security, which in turn affects U.S. national interests. This paper explores the economic geography of South America from the perspective of these two nations and makes the case that leveraging and learning from Brazil can help the United States reemerge as a positive influence in South America. The United States should participate as an associate nation in forums such as the Common Market of the South, or Mercosul,¹ rebuild trust across the region through equal partnering, and support migration toward a South American economic union to strengthen economic stability and security in the region. In parallel, the United States should pursue a North American economic union and eventual convergence into a Western economic union to balance economic power in the West against emerging economic unions around the world.

Venezuela is a nation on the brink of self-destruction. Historically unstable, President Hugo Chávez has provided consistent government and raised the nation to become a significant player on the world stage. Venezuela has taken its place among the most influential nations in Latin America, but while Hugo Chávez seeks to unify South America, his is a strident voice of derision that instead polarizes the region. Once boasting a thriving oil-based economy, Venezuela is oil-rich but welfare-dependent. Though beautifully adorned, its equality and prosperity is elusive. Though freely elected, Venezuela's Chávez is increasingly authoritarian and tyrannical. The difference between theory and practice in Venezuela is the difference between economic growth and stagnation, the difference between freedom and oppression, and the difference between hope and futility.

Brazil has entered the modern era and, after three hundred years of Portuguese domination, has enjoyed relative stability since gaining its independence. Brazil is also a significant player on the world stage. Under President Luiz Inacio ("Lula") da Silva, Brazil exemplifies controlled economic power. The fifth largest and the fifth most populated country in the world, Brazil is South America's leading economic power pursuing continued industrial and agricultural growth and development. President Lula is respected, articulate, visionary, and administratively adept. Lula personifies sound national and regional economic and political methods and should be considered an interlocutor, leading the participants in discussion toward the United States resuming a partnership with South America.

¹ The Portuguese word, *Mercosul*, in Spanish is *Mercosur*.

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VENEZUELA

Historical Background

Venezuela was a Spanish colony for three hundred years dominated by priests and bureaucrats from Spain and native-born white (Creole) elitists. Creoles owned the colony's wealth (mostly land), which they leveraged to dominate and hold the indigenous races in bondage.² Venezuela gained independence from Spain in 1821 after Francisco de Miranda and Simon Bolivar ignited the South American independence movement. Initially, part of Gran Columbia, Venezuela seceded and became an independent state in 1830.³ Venezuela (little Venice) was named by Spanish explorers after they noted villages perched on stilts along the shores of Lake Maracaibo in northwest Venezuela.⁴

Much of Venezuela's history as an independent state was marked by periods of political instability, dictatorial and military rule, and revolutionary uprisings, at least until the mid-twentieth century. Since 1958, following the overthrow of General Marcos Perez Jimenez, Venezuela has enjoyed relative stability and unbroken civilian democratic rule. The Venezuelan economy shifted from an agricultural dominance to petroleum production and exportation. In 1989, Venezuela's political calm ended when riots broke out in Caracas. Two hundred people were killed in what is now called the Caracazo, all in response to an economic austerity program launched by then president Carlos Perez. Following a series of unsuccessful coup attempts, President Perez was impeached in 1993 by congress on charges of corruption. Nevertheless, the Democratic Action (AD) and Christian Democratic (COPEI) parties remained in power even though the period was marked with deep dissatisfaction with the traditional political parties, income disparity, and economic depression.⁵

Political Structure

In 1998, Hugo Chávez was elected president of Venezuela on a platform of broad reform, a crackdown on corruption, and constitutional change. Chávez argued that the existing political system was isolated from the people, especially Venezuela's poorest population, the majority of whom came from various indigenous populations that suffered significant inequalities, including access to health care and education and economic participation. These arguments were well received as were the arguments for constitutional reform and, once elected, President Chávez

² *New Encyclopedia Britannica*, 1986, "Venezuela."

³ U.S. Department of State, *Venezuela*.

⁴ U.S. Department of State, Bureau of Western Hemisphere Affairs, Venezuela Country Profile, January 2009. <http://lcweb2.loc.gov/frd/cs/profiles/Venezuela.pdf> (accessed January-February 2009)..

⁵ U.S. Department of State, Bureau of Western Hemisphere Affairs, Venezuela Country Profile, January 2009. <http://lcweb2.loc.gov/frd/cs/profiles/Venezuela.pdf> (accessed January-February 2009).

acted quickly to convene the National Constituent Assembly (ANC), a body of 131 elected representatives. The ANC convened in August 1999 and began to rewrite the constitution, which was approved in December of that year.

Venezuela's political structure today is defined by the December 1999 constitution, with a few important changes enacted by President Chávez. The new constitution instantiated the national title as the Bolivarian Republic of Venezuela, and President Chávez established the Bolivarian project, a "confusing nexus of nationalism and socialism."⁶ The government of Venezuela is a federal republic. Like the United States, it has a central government with some constraints, as well as twenty-three states with a degree of self-government. The executive is both the president and chief of state so the president wields more direct power over Venezuelan affairs. The president is elected to a six-year term of office and, until this year, could only be reelected to a single consecutive term. President Chávez's current term runs through January 2013; but, on 15 February 2009, a referendum held through popular vote granted him the right to run for reelection to continuous terms of office. The president appoints the vice president, decides the size and composition of the cabinet, and with the national assembly's involvement, appoints cabinet members. The constitution allows the president to seek national assembly reconsideration for laws enacted by the legislature he finds objectionable, but a simple majority of the assembly can override these objections.⁷

A council of ministers is appointed by the president. The legislative branch is a unicameral congress elected to five-year terms and a judicial branch of thirty-two supreme court justices elected by congress to twelve-year terms. The citizen power branch of government includes the attorney general, ombudsman, and comptroller general, all elected by congress to seven-year terms.⁸ President Chávez's drive toward ever increasing socialist control has resulted in relatively few checks and balances and, with the council of ministers (cabinet) appointed by a "congress wholly loyal to President Hugo Chávez,"⁹ granted him authority to enact sweeping measures by presidential decree. Acting as both president and chief of state and given new special executive powers, President Chávez is the dominant force of foreign and national security policy in Venezuela.

President Hugo Chávez

President Hugo Chávez says his Twenty-first Century Socialism is a movement designed to alleviate longstanding social ills. The political structure and body politic notwithstanding, Venezuela has been labeled an "accomplice state, a state that itself enthusiastically enters into illegal activities, using the privileges of national sovereignty and institutions to foster those

⁶ Gabriel Furshong, "The Confusing Nexus of Nationalism and Socialism in Venezuela," 4 September 2005. <http://www.venezuelanalysis.com/analysis/1342>.

⁷ U.S. Department of State, *Venezuela*.

⁸ U.S. Department of State, *Venezuela*.

⁹ "Venezuela's Congress Grants Chávez Special Powers to Remake Country," Associated Press. 1 February 2007, <http://www.foxnews.com/story/0,2933,248929,00.html> (accessed 28 March 2009).

activities with impunity and as much efficiency as local authorities can muster.”¹⁰ President Chávez loudly and regularly attacks migration in the region toward democratic rule while exerting rigorous efforts to further his own dictatorial power. His rhetoric and socialist ideology polarizes Latin America and produces tensions that could spill over into transnational conflicts. Economic decline, controlled and declining oil flow, structural corruption, crime, inequality, and disparity combine to produce serious security issues across the region of Latin America and the United States.

Economic Structure

President Chávez has initiated efforts to exert more government control over economic mechanisms of the oil-dependent Venezuelan economy. In addition to oil, major economic contributors include natural gas, mining, manufacturing, and agriculture. Until the recent rapid decline in prices, as much as 90 percent of export earnings were associated with oil refining and petrochemicals and accounted as well for 50 percent of government revenues. With respect to percentages of gross domestic product (GDP), in 2008, oil contributed 30 percent, government spending 32 percent, manufacturing 17 percent, agriculture 4 percent, and mining and other commodities constituted the difference. Clearly, oil is the dominant factor; Venezuela’s proven oil reserves are among the top ten in the world. “Oil generates about 80 percent of the country’s total export revenue, contributes about half of the central government’s income, and is responsible for about one-third of the country’s GDP.”¹¹

A nationwide strike from December 2002 through February 2003 had significant impact on the economy as strike-induced downturns resulted in a 9 percent drop in Venezuela’s GDP. Since then, the economy recovered significantly, supported mainly through the global rise in oil prices that provided a large portion of the funding for government welfare programs. In 1998, the state oil company, PDVSA, produced 3.2 million barrels of oil per day, but “after a decade of rising corruption and inefficiency, daily output has dropped to 2.4 million barrels.”¹² The United States is Venezuela’s largest full paying purchaser of Venezuelan oil. In fact, the United States is Venezuela’s most important trading partner, representing about 22 percent of imports and 60 percent of Venezuelan exports.

Oil revenues and government spending created a consumption boon that caused inflation to soar to 20 percent in 2007 and to 30 percent in 2008. Falling oil prices are expected to deflate the amount of government spending, and Chávez’s ability to fund his socialist agenda has already diminished from when oil sold for \$120 a barrel and gas sold for upwards of \$4.00 per gallon in the United States. Economic indicators for Venezuela show an estimated slowing of real GDP to

¹⁰ Paul D. Taylor, ed., “Latin American Security Challenges, A Collaborative Inquiry from North and South,” Naval War College, Newport Papers, 21 September 2004, <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA430425&Location=U2&doc=GetTRDoc.pdf> (accessed January-February 2009).

¹¹ Alvarez, Cesar J., and Hanson, Stephanie, eds., “Venezuela’s Oil-Based Economy,” 9 February 2009, http://www.cfr.org/publication/12089/venezuelas_oilbased_economy.html (accessed 21 February 2009).

¹² Jeremy M. McDermott, “Venezuela’s oil output slumps under Hugo Chávez,” 13 October 2008, <http://www.telegraph.co.uk/news/worldnews/southamerica/venezuela/3183417/Venezuelas-oil-output-slumps-under-Hugo-Chavez.html> (accessed 22 February 2009).

negative growth from 2009–2011 and a return to positive real growth in 2012 and beyond. *The Economist* projects:

The radical economic policy agenda of the government will exacerbate the downturn experienced as a result of falling oil prices and weak global demand. There is a heightened risk of expropriation if government funds dry up, and amid an evaporation of the oil-fuelled liquidity boom, domestic demand will be curbed and Venezuela will become an even more challenging place in which to invest. The government's distortional monetary policy, threats to contract rights and a growing bureaucratic burden will present additional challenges. The burden of oil investment will fall increasingly on the public sector, but questions over efficiency and technical capacity will remain.¹³

Conclusions

The existing and potential threats that Venezuela poses may be hypothetical, but they are not necessarily limited. While it may or may not be true that Venezuela's "contradictions and excesses will contribute to its own demise,"¹⁴ there is hope, a hope that hinges on real action. On 21 April 2008, the governments of Guyana and Brazil signed a cooperation agreement on defense. The broader objective behind Brazil's new initiative may well be the creation of a security council, South America's own version of the North Atlantic Treaty Organization. This has strong support from Chávez who, lately, had to consider the transnational ramifications of the recent Colombia-Ecuador diplomatic crisis that created tensions across the region. The security alliance may exclude U.S. involvement, but the alliance language moves away from an arms race, which serves to reassure the region's citizens that financial resources will not be diverted away from support for their welfare.

Social projects, food supplies, measures that support the regional fight against poverty, and efforts focused on human security are designed to improve the human condition.¹⁵ Conditional cash transfer (CCT) programs are a mechanism employed by Latin American countries that target more extreme poverty and promote social equity by addressing the education level, health, and economic state of families.¹⁶ According to the Inter-American Development Bank (IDB), twelve countries in the Latin American region have implemented CCT or similar programs with the IDB's support. Venezuela is not listed, but that may change. Enabled by decentralization and managed through local government organizations, the CCT targets the poorest elements of

¹³ "Economic data," *The Economist*, 17 February 2009. Economist Intelligence Unit. Source: Country Data—Venezuela.

¹⁴ "United States National Security Policy in Latin America: Threat Assessment and Policy Recommendations for the Next Administration," Brookings Partnership for the Americas Commission, Brookings Institute, October 2008, http://www.brookings.edu/projects/latin-america/~media/Files/rc/reports/2008/1124_latin_america_partnership/national_security_policy_felbabbrown.pdf (accessed 22 February 2009).

¹⁵ Odeen Ishmael, Guyana's Ambassador to Venezuela, "South American Nations to Form Security Alliance," <http://www.sela.org/sela/articulos/article3.html> (accessed January-February 2009).

¹⁶ Inter-American Development Bank (IDB), 2005 Annual report. http://www.iadb.org/exr/ar2005/finacial_summary.cfm?language=En (accessed 28 February 2009).

society by funding control of parental actions. That is, parents are paid to ensure school attendance, health care, and proper diet. When families fail to meet requirements, they do not get paid. CCT programs are being studied thoroughly by the IDB, the World Bank, and health organizations to determine their impact. Indications are that CCT programs have some positive impact and can be a mechanism for influence on the essence of change, individual behavior.¹⁷

If President Chávez institutes such programs, it could bode well for the people and for the future of Venezuela. Chávez may have already begun to realize the necessity to correct some of his mistakes. He has become somewhat more moderate in his foreign policy statements, deciding to make peace with Colombia, tone down his support for the Revolutionary Armed Forces of Colombia, or FARC, and even call for closer cooperation with the U.S. Drug Enforcement Administration. This moderation “could be more the result of an effort to improve, rather than jettison, his foreign policy approach of exploring alternative ways to balance the United States,”¹⁸ but it is progress nonetheless. Perhaps President Chávez has learned that his effort to polarize the region is not only unpopular but also unwise. Maybe Chávez also figured out that support for radical political movements in the region is unpopular as well. He may even realize that the best way to extend his influence is simply to focus on leading his nation into the future, a stable albeit socialist autocracy.

¹⁷ Primiani DeShao, and McLean, “Back from the Brink, Evaluating Progress in Colombia, 1999–2007.” A Report of the Americas Program. Center for Strategic and International Studies. <http://www.csis.org/colombiareport/> (accessed January 2009).

¹⁸ Primiani DeShao, and McLean, “Back from the Brink, Evaluating Progress in Colombia, 1999–2007.” A Report of the Americas Program. Center for Strategic and International Studies. <http://www.csis.org/colombiareport/> (accessed January 2009).

BRAZIL

Historical Background

Spanish sailors set out in search of a route to Asia by sailing westward in the fifteenth century, but the Portuguese opted instead for the “Southern Cycle,” sailing southward along the African coast. Portuguese navigators reached the Cape of Good Hope in 1487. The Treaty of Tordesillas between Spain and Portugal in 1494 served to clarify land claims in the New World, which set the stage for Brazil becoming a Portuguese colony.¹⁹ Brazil was claimed for Portugal in 1500 and remained a Portuguese colony for more than three hundred years until it gained independence in 1822. The colony was ruled from Lisbon until 1808, when Dom Joao VI and his family fled Napoleon’s army and established the Portuguese seat of government in Rio de Janeiro, Brazil. Dom Joao returned to Portugal in 1821 leaving behind his son, Dom Pedro I, who declared Brazil’s independence on 7 September 1822. Motivated by the Monroe Doctrine, the United States formally recognized Brazilian independence in 1824 and Portugal followed in 1825.

Dom Pedro II ruled from 1831 until 1889, when a federal republic was established by Brazil’s first military coup. Brazil was a constitutional republic from 1889 to 1930, when a second military coup put a civilian, Getulio Vargas, in the presidency. Vargas remained in power until 1945, and a succession of elected presidents lasted until President Janio Quadros resigned in 1961. The armed forces, alarmed by high inflation, economic stagnation, and the influence of radical political elements, staged a third military coup on 31 March 1964, which began twenty-one years of rule under the model of relative democracy. Senior army officers served in the presidency until 1982 when General Joao Baptista de Oliveira Figueiredo (1979–85) permitted politicians exiled or banned from political activity to return and run for state and federal offices. The years following saw a succession of democratically elected presidents including today’s President Lula.

Political Structure

Brazil’s current political structure is defined by the seventh constitution established in October 1988. Some reforms were added by President Cardoso and approved by a required three-fifths majority of each house of the bicameral congress. Constitutional reforms worked to reduce the role of the state in the economy, improve the federal bureaucracy, reorganize the

¹⁹ In 1494, the Treaty of Tordesillas between Spain and Portugal settled the question of possession of the lands to be discovered. In the treaty, it was agreed that territories lying east of an imaginary meridian 370 leagues west of the Cape Verde Islands would belong to Portugal, and the lands to the west of that imaginary line would be under Spanish control. This line, extending from pole to pole, dissected the easternmost part of the South American continent and constituted Brazil’s first frontier.

social security system, revise federalist relationships, overhaul the complicated tax system, and effect electoral and party reforms to strengthen the representation of political parties. The 1988 constitution also demanded severe punishment for breaching civil liberties and rights. Brazil eventually approved a lawmaking propagation of prejudice against any minority or ethnic group a crime with no option for bail. Of note, the 1988 constitution outlawed actions directed against the democratic state and the constitutional order. The “no option for bail” crimes created constitutional devices to block coups d’état of any kind, and the 1988 constitution formally established Brazil as a democratic state.²⁰

Brazil is a federal republic, formally titled the Federative Republic of Brazil. Like the United States, it has a central bicameral government with some constraints, as well as twenty-six states and the district of Brasilia, with each state legislature providing some degree of self-government. The bicameral national congress seats eighty-one senators (upper house) representing the states and the District of Brasilia and 513 members directly elected to the chamber of deputies (lower house). Elections are held every four years; the next election will be held 3 October 2010. Brazil’s new constitutional government, as opposed to previous authoritarian models, is designed to support civil liberty and protect citizens. There are twenty-three key ministers including the president, vice president, and the central bank governor. Each state has its own judicial system, and there is a system of courts for dealing with disputes between states and matters outside the jurisdiction of state courts.²¹

The judicial branch is composed of federal, state, and municipal courts. By 1995, small-claims courts augmented some municipal courts. Only appointments to the superior courts are political and therefore subject to approval by the legislature. The supreme federal tribunal, or STF, has eleven ministers appointed for life by the president and confirmed by the senate. There is a higher tribunal of justice as well as regional federal tribunals. Judges are appointed for life but, like all federal employees in Brazil, judges have a mandatory retirement age of 70. The federal courts have no chief justice or judge; instead, the two-year presidency of each court is rotated based on respecting seniority.²²

The Brazilian president has the power to appoint 48,000 confidence positions, but only ambassadors, higher court judges, the solicitor general, and central bank directors must have senate approval. The president may also use the line-item veto, impound appropriated funds, issue decrees and provisional measures, initiate legislation, and enact laws. This relative difference in power provides President Lula more direct power than President Obama of the United States, but less than President Chávez of Venezuela.

²⁰ “Brazil’s Constitutions,” Wikipedia, http://en.wikipedia.org/wiki/Constitution_of_Brazil (accessed 24 March 2009).

²¹ *The Economist*, “Brazil’s Political Structure,” The Economist Intelligence Unit, 11 March 2009, <http://www.economist.com/countries/Brazil/> (accessed 27 March 2009).

²² *Country Studies–Brazil*, State Department.

President Lula da Silva

President Lula is the first working-class president of Brazil. He started his working life as a shoeshine boy and moved on to making deliveries for a drycleaner until, at age fourteen, he started his first official job as a metalworker, studying metalworking at night school until 1963. Eventually becoming a trade union member, Lula was twice elected president of his union. The Partido dos Trabalhadores, PT (Workers' Party) was created in 1980 when Lula joined other trade unionists, intellectuals, and academics in its launching, and the Workers' Party eventually became a national political force. Lula leveraged his experience and public support to bid for the presidency, which he attempted four times. He finally won election to the office on 27 October 2002, with 52.7 million votes, a record in Brazilian history.²³ On 1 October 2006, Lula narrowly missed winning another term in the first round of elections. He faced a runoff that he won by a substantial margin. In an August 2007 interview,²⁴ President Lula said he had no intention of seeking a constitutional change so he could run for a third consecutive term, and wanted "to reach the end of [his] term in a strong position in order to influence the succession."²⁵

President Lula has proven an astute, flexible, and open leader who has changed some of his original ideals and moderated his position over time. He seems focused on developing Brazil both as a nation of diversity and as a nation of unity. President Lula is a reformist and has successfully passed new laws affecting labor, the judiciary, university reforms, and retirement; but his governance is not without issue. Hunger, drought in semiarid regions, crime, and juvenile pregnancy are serious issues in Brazil. Lula has a pragmatic foreign policy and sees himself as a negotiator, not an ideologue and, as a result, has befriended both Venezuelan President Hugo Chávez and former U.S. President George W. Bush. He casts himself as a voice of reason in sharp contrast to that of President Chávez of Venezuela, choosing to unite rather than divide the people of Brazil and South America.

Economic Structure

Brazil has a powerful and diverse economy and is a member of the Group of 20 (G-20) set of nation states. With a \$1.65 trillion GDP (2008 est.) and a real GDP growth rate of 5.2 percent, Brazil holds its own against many of the world's largest economies. Brazil's economy is also diverse and distributed across agriculture (5 percent), industry (28.5 percent), and services (66 percent). With large and well-developed agricultural, mining, manufacturing, and service sectors, Brazil's economy outweighs that of all other South American countries and is expanding in world markets. Brazil has achieved record trade surpluses and recorded its first current account surplus since 1992.²⁶

²³ Singnet.com, <http://web.singnet.com.sg/~cinbrem/pr.htm> (accessed 27 March 2009).

²⁴ "Brazilian President Vows Not to Seek a Third Term," Mercopress via Brazzil Magazine, Newsroom (27 August 2007), <http://www.brazzilmag.com/content/view/8599/54/> (accessed 27 March 2009).

²⁵ "Luiz Inácio Lula da Silva," Wikipedia, <http://en.wikipedia.org/wiki/Lula> (accessed 27 March 2009).

²⁶ *CIA World Fact Book—Brazil*, <https://www.cia.gov/library/publications/the-world-factbook/print/ve.html> (January-February 2009).

President Lula da Silva restated his commitment to fiscal responsibility by maintaining the country's primary surplus during the 2006 election. Following his second inauguration in October, he announced a package of further economic reforms aimed at reducing taxes and increasing infrastructure investment. Brazil's debt achieved investment-grade status early in 2008, but the attempt to achieve strong growth while reducing the debt burden created inflationary pressures. For most of 2008, the Central Bank embarked on a restrictive monetary policy to stem these pressures. Since the onset of the global financial crisis in September 2008, Brazil's currency and its stock market, Bovespa, declined in value by 41 percent as world demand and prices for commodities dropped in the second half of the year.²⁷

Brazil's total trade (imports plus exports) has increased substantially in the last couple of years, rising from \$15.3 billion in 2004 to \$18.8 billion in 2005 and \$22.9 billion in 2006.

"Brazil's trade within the Mercosul partners forms much of its total foreign trade. In 2006, exports to Mercosul countries accounted for 10.15 percent of total exports, while the figure for imports was 9.82 percent. Only the European Union is a more significant trading partner with regard to both exports (22.53 percent) and imports (22.12 percent)."²⁸

President Lula and his economic team have implemented prudent fiscal and monetary policies and have pursued necessary microeconomic reforms. Brazil's economy, aided by a benign international environment, grew approximately 2.8 percent in 2006 and 4.5 percent in 2007. Brazil is now a net creditor nation, and sustained growth, combined with booming exports, healthy external accounts, moderate inflation, decreasing unemployment, and reductions in the debt-to-GDP ratio, led two major rating agencies to give Brazil an investment-grade sovereign debt rating in early 2008. To increase its international profile both economically and politically, the Lula administration is seeking expanded trade ties with developing countries as well as strengthening the Mercosul customs union with Uruguay, Paraguay, and Argentina. In 2004, Mercosul concluded free trade agreements with Colombia, Ecuador, Venezuela, and Peru, adding to its existing agreements with Chile and Bolivia to establish a commercial base for the newly launched South American Community of Nations. In 2008, Mercosul concluded a free trade arrangement with Israel and is pursuing free trade negotiations with Mexico, Canada, and the European Union. The trade bloc also plans to launch trilateral free trade negotiations with India and South Africa, building on partial trade liberalization agreements concluded with these countries in 2004. In July 2006, Venezuela officially joined the Mercosul trade bloc; its full membership is pending. China has increased its importance as an export market for Brazilian soy, iron ore, and steel, becoming Brazil's fourth-largest trading partner and a potential source of investment.²⁹

Given the power of its economic engine, Brazil is in a strong position to solidify South American economic unity and influence continued expansion into the global market. For Brazil,

²⁷ *CIA World Fact Book—Brazil*, <https://www.cia.gov/library/publications/the-world-factbook/print/ve.html> (January-February 2009).

²⁸ Embassy of Brazil in London, <http://www.brazil.org.uk/economy/mercosul.html> (accessed 27 March 2009).

²⁹ Travel Documents System. "Brazil—Economy," <http://www.traveldocs.com/br/index.htm> (accessed 27 March 2009).

it seems unfortunate that President Lula de Silva is constitutionally ineligible to stand for a third consecutive term, but he is not put off by that fact and considers a priority the opportunity to mentor a successor. Harsh economic conditions may have an impact on the whether the current ruling party continues in power with the upcoming 2010 election. It is worth noting that Brazil has discovered very large oil reserves in recent years and will likely become an oil giant, adding to an already diverse economic engine.

Conclusions

Brazil is already playing decisively in the economic and political arena in Southern Latin America and is considered among the growing economic powers in the global economic market. Often associated with the “other big three” through the investors label of BRIC (Brazil, Russia, India, and China), Brazil’s influence is hard to ignore. Daniel Flemes’s dissertation, *Brazil’s Cooperative Leadership*, finds that Brazil has played a decisive role in the development of a security community in southern Latin America and is making a profound contribution to its consolidation and intensification at present. In fact, Brazil’s President Lula da Silva has been the impetus for establishing a cooperative of regional leading power and has had particularly positive effects on the security and political cooperation with Argentina and Chile.³⁰

The cooperative nature of the Brazilian security and defense policy can be an example for the United States. By establishing close relationships on equal political footing with Brazil and its partners in Latin America, the United States could earn the trust of these nations and once again provide positive influence in the region. Brazil could provide the guidance and mentoring necessary for the United States to strengthen economic and political partnerships with its southern neighbors. Initially, this might cause Venezuela’s President Hugo Chávez to rattle his sword and ignite his vivid innuendos, accusing the United States of collusion and meddling in South America’s political arena. Should that occur, the United States should remain aloof and let Hugo Chávez’s neighbors deal with the rhetoric since they are the ones being threatened, cajoled, and polarized. Venezuela’s neighbors have to solve some of their own internal and regional issues, and Hugo Chávez is just that, a regional issue. The United States can help, but only if asked, which won’t likely occur without first reestablishing a relationship of equality and trust. Southern Latin America, and the region as a whole, must find ways to overcome internal issues and externally generated problems of transnational crime and terrorism and must find a way to deal with Hugo Chávez, who may be personally involved with those very problems.

³⁰ Daniel Flemes, “Brazil’s Cooperative Leadership in Southern Latin America’s Security Policies,” University of Hamburg, 2006 Review, <http://www.dissertation.de/englisch/index.php3> (accessed 28 March 2009).

ECONOMIC GEOGRAPHY IMPLICATIONS

Other South American nations feel increasingly attracted to the bilateral defense cooperation and the Mercosul. In the context of the Mercosul, even the smaller states of the integration alliance participate in the multilaterally organized security political containment of nonmilitary threats, such as drug trafficking and arms trade, money laundering, and international terrorism. Reducing poverty and improving access to market opportunities in Latin America are also central to U.S. objectives of promoting stable democratic government, enabling economic expansion, and providing alternatives to illegal economic activity. It is in the United States' interest to support those Latin American governments seeking to decrease poverty and structural inequality.³¹ It is also in its interest to collaborate on issues of defense, economics, agriculture, manufacturing, transnational crime, and environmental issues. Doing so now, or at least beginning to do so now, might prevent South America from becoming the next international hot spot like the Middle East.

The research and advisory firm, Economist Intelligence Unit,³² provides economic distress indicators developed as an aggregate of growth in income, unemployment, and level of income per household. Countries are ranked from 1 through 165 in the economic distress indicators chart, with 1 being most stressed and 165 being least stressed. In March 2009, in the midst of the largest economic crisis since the Great Depression, the economic distress status of Venezuela and Brazil is very telling. Venezuela is ranked 29, with a score of 7.3, while Brazil is ranked 104, with a score of 5.5, just .2 points higher than the United States' score of 5.3. In fact, the average index for the prominent free economy nations of Brazil, Argentina, and Chile (BAC), with Brazil scoring 5.4, Argentina scoring 7.1, and Chile scoring 5.1, averages 5.86. The prominent socialist leaning or supporting nations of Venezuela, Ecuador, and Bolivia (VEB), with Venezuela scoring 7.4, Ecuador scoring 7.7, and Bolivia scoring 7.7, averages 7.6. The significance of this accounting is that VEB is making all the noise in the region while BAC is making all the progress.

In March, the World Bank published its *World Development Report 2009: Reshaping the Economic Geography*. The following is the document's opening statement: "Growing cities, ever more mobile people, and increasingly specialized products are integral to development. These changes have been most noticeable in North America, Western Europe, and Northeast Asia. But countries in East and South Asia and Eastern Europe are now experiencing changes that are similar in their scope and speed."³³

³¹ "U.S.-Latin America Relations: A New Direction for a New Reality," Council on Foreign Relations. Independent Task Force Report No. 60.

³² "Economic Distress Indicators, Special Report, March 2009," www.eiu.com/special (accessed 28 March 2009).

³³ *World Development Report 2009: Reshaping Economic Geography*, World Development Bank: Quebecor World.

Density, distance, and division are the key components of this perspective on the global economic geography. Economic density is defined as GDP per square kilometer. Economic distance is defined as the monetary cost of moving a product from one point to another. Economic division is defined as the division caused by differences in currencies and conventions met as a product moves from production to consumption. Three geographic scales apply; local, country, and region. The local scale equates to an area within a country. Country is self-explanatory, and region is a variable defined as an aggregate of countries, and in the context of this paper, region refers to South America. Density is considered most important locally. Distance to density is the most important dimension in the national geographic scale. Division is the most important dimension internationally.³⁴

Economic density in Venezuela and Brazil is most significant around the capital cities and similar, heavily populated industrial urban communities. Economic distance is a significant factor in both countries as migration occurs to reduce the distance to economic density. Economic division is a factor across the South American region. It is this factor that drives the need for such an institution as Mercosul and why the formation of a Southern Economic Union makes sense. Removing the transition from one currency to the other and the economic distance for goods moving within and for export from South America has potential for meaningful economic gains in the region. South America currently accounts for only 2 percent of the international GDP, but increasing or even doubling the total intranational agricultural and industrial trade and increasing that same trade internationally could result in a 3–5 percent share of the international GDP. These factors, when viewed from a national and regional security perspective, can have far-reaching ramifications.

³⁴ *World Development Report 2009: Reshaping Economic Geography*, World Development Bank: Quebecor World.

U.S. NATIONAL SECURITY IMPLICATIONS

An economic union can be defined as a single market with a common currency. With development of the European Economic Union or, more commonly, the European Union, the possible formal combination of ASEAN³⁵ with other nations to form an Asian Economic Union, the margining of Mercosul and the Andean Community of Nations into The Union of South American Nations (UNASUR); it stands to reason that the United States, Canada, and possibly Mexico might benefit from forming a Northern Economic Union as well. Such an alliance could provide a balance of economic power against similar developments globally. Nations of the Western Hemisphere should then consider converging into a single Western Economic Union to create a stronger, competitive position of economic power and influence.

Starting with the negotiations between the Southern and Northern economic unions, the ties between north and south could develop both economic and security alliances. If UNASUR succeeds in unifying South American national economic relationships with a single currency and acting as a single market, the world is likely to take note, and the balance of economic power in the world will shift. Combined with a Northern Economic Union, the security, stability, and monolithic economic power developed as a result could provide sustained resiliency during economic crises such as that which the world currently faces. Starting as an equal partner or supporter of UNASUR might also be a big step in the right direction.

³⁵ The Association of Southeast Asian Nations, commonly abbreviated ASEAN, is a geopolitical and economic organization of ten countries located in Southeast Asia, which was formed on August 8, 1967, by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam. Wikipedia, <http://en.wikipedia.org/wiki/Asean> (accessed 27 March 2009).

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