

The International Perspective

A country's economic alliances are directly related to its development strategy. In the case of Brazil and Latin America this is very clear. This region's dependence on England in the eighteenth century and later on the United States was related to the primary-export nature of its economy. When import substitution became dominant in the 1930s, relations with the central countries changed because local markets needed to be protected from international competition. This was done first at the national level; then, in the 1950s, Latin American integration was seen as a way to broaden import substitution markets. In this context regional integration was essential for the smaller countries, whereas for the larger ones, such as Brazil, it was a condition of development only if they wanted to prolong the import substitution program indefinitely.

The necessary consequence of the import substitution strategy was a certain degree of nationalism. The military regime in Brazil, which had employed antinationalistic rhetoric in 1964, eventually adopted a nationalistic foreign policy when it opted to maintain the import substitution strategy. However, when it became clear that this strategy had run its course—even for the larger Latin American countries—Brazil had to reconsider its approach to its international relationships.

In this chapter I argue that, because Brazil has dramatically opened its economy to foreign competition, it should take the next step: it should recognize that world trade and investment are increasingly being organized according to macro regional blocs, and, consequently, it should ask for admission to NAFTA and the EU. This should be done while economic integration with South America and particularly with Mercosul continues to have priority.

Developing a closer relationship with the United States and Europe is a defensive policy that bears no relation to the old, primary-export kind of dependency. It is not consistent with old-time nationalism, which feeds on a xenophobic attitude and begins with the assumption that one's country is unable to negotiate its interests with the developed countries.¹ The new nationalism is based on the concept of national interest, which will have to be protected on a case-by-case basis. All countries are nationalist in the sense that they defend their national interest, but the new nationalism is very different from Latin America's and Brazil's old nationalism, which began

with the assumption that the Latin American countries were weak and defenseless, surrounded by imperialist powers. Because they lacked the capacity to negotiate their interests, they had no alternative but to debar foreign influence.

This attitude or policy may have been true in the past, when industrialization was only beginning and the national-developmental interpretation was dominant, but it is true no longer. In the context of the crisis of the state interpretation or a social-democratic, pragmatic strategy, the old nationalism gives way to the national-interest concept. Dependency still exists, but interdependency is also a fact; imperialist exploitation may still occur, but mutual interests coexist. Brazil is already able to negotiate its own interests in the international arena.

When one considers international trade, the multilateral option is the principle most consistent with the trade liberalization now under way. It also reflects the diversified character of Brazil's exports. Yet this option is viable only if the rest of the world is also effectively engaged in multilateralism and if managed trade and the formation of trade blocs are not basic characteristics of international trade. Europe led this movement. The United States, Canada, and Mexico followed with the NAFTA agreement. Thus the idea that Brazil is a "small global trader," which the current Brazilian Ministry of Foreign Affairs holds, may be a good description of what Brazil represents in international trade terms, but it does not imply a policy of continuing to be so.²

Trade blocs are discriminating institutions. They liberalize trade within the region, but they also establish preferences among its participants while discriminating against outsiders. They are often trade-diverting rather than trade-creating. Thus participation in trade blocs is not a case of pure economic rationality but a pragmatic issue of self-protection. If Brazil insists on staying out of NAFTA and the EU, it will be a victim of trade discrimination.

The argument against participating in a trade bloc is that, if it were to join such a bloc, Brazil would no longer be able to protect its industry against foreign competition. This is an old protectionist argument that was significant in import substitution strategy times but that no longer makes sense because Brazil has opened its economy. Additional opening will be necessary, but as a trade-off huge markets will also be open to Brazil.

Brazil's most obvious partner outside South America is the United States, but in 1994 the European Union showed increasing interest in celebrating a free trade agreement. Only Japan, which leads a production rather than a trade bloc in East and Southeast Asia, has shown no particular interest in Brazil.

The U.S. interest was shown in the June 1990 Bush Initiative (the American Enterprise), which ended with NAFTA approval in 1993. The

U.S. government opened three fronts for negotiation with this initiative: reduction of the public foreign debt, support for technological development, and the formation of a free trade zone with Latin America.

Brazil's reaction to this initiative was cautious, saying it "lacked real content" and that the country had decided to negotiate on a limited basis and to "wait for a better definition" of the Bush Initiative on the part of the U.S. government. This is dramatic proof that Itamaraty does not understand the new times and dismisses U.S. integration because of old nationalist and developmentalist ghosts. It is true that the U.S. offering was timid and that the free trade proposal was vague, but this does not justify Brazil's paralysis.

The proof that integration with Latin America was consistent with the U.S. national interest was demonstrated by the NAFTA agreement. Mexico gave content to the U.S. integration rhetoric. Inter-American rhetoric in the past has always been that of the United States. The rhetoric and practice of American integration could also be a Latin American rhetoric. At a December 1994 meeting, when all American countries met, a time schedule for American integration was established. Brazil was taken by surprise, but it signed the agreement. Prior to 1994, Brazil was clearly being led in this matter.

It is important to distinguish between rhetoric and practice. Brazilian rhetoric should be that of American integration, but its practice should be to defend this integration while protecting its national interests in each case. This national interest basically coincides with the concept of American integration, but is not necessarily identical to it.

The recent interest of Europe in Mercosul and particularly in Brazil was derived from Mercosul's economic success. It is also possible that the Europeans finally realized that they are losing interest in the Pacific's Latin America because it is so far away and in the Caribbean's Latin America because it is too close to the United States. But there is no reason not to be interested in the Atlantic's Latin America (which, by coincidence, corresponds to Mercosul) because Europe is as much an Atlantic power as is the United States.

With the collapse of the communist regimes and the failure of GATT's Uruguay Round, a new field has opened up for new models of international relations. Brazil is naturally concerned with this. Yet the consequent multipolarity could lead Brazil to deepen a multilateral policy, which could easily be transformed into a new wave of conflicts with the United States, similar to the one that prevailed during the Sarney administration. The realization that the United States has lost its world economic hegemony strengthens the multilateral option and favors mounting conflicts. In fact, U.S. hegemony has been waning since World War II because of the growth of Japan and Western Europe. Nevertheless, there is a big gap

between concluding that the United States has lost its importance and concluding that Brazil should reinforce its independence in relation to all countries.

On the contrary, now more than ever it is important for Brazil to make a positive choice regarding the formation of regional trade blocs. The agreement may be with both NAFTA and the EU. It is not incompatible to sign two agreements. Precedence should probably be given to NAFTA because it is impossible, in practical terms, to negotiate simultaneously with both blocs. But the decision between one or the other bloc as Brazil's first partner will depend on the interest demonstrated by the would-be partner. Maintaining an independent course among these groups of nations is tempting but unwise. Competition among the world blocs will increase in the coming years, and each needs to know the countries on which it can depend.

Carlos Escudé (1991), who has been studying the confrontational nature of Argentina's international relations prior to President Carlos Menem, defined an alternative policy of "peripheral realism." He enumerated the following principles for such a policy: (1) reduce confrontations with the big powers to "material" subjects directly related to their well-being and power base; (2) submit foreign policy to a rigorous calculation of costs, risks, and benefits; (3) redefine the concept of national autonomy, replacing the concept of confrontational capacity with one of the relative costs of autonomous action; and (4) abandon the anthropomorphic concepts of "dignity" and national "pride," using public interests rather than state interests as the orientation for foreign relations.

The principles of peripheral realism clearly imply more criticism of Argentina's foreign relations than of those of Brazil. It is difficult, however, not to see that they can be applied to Brazil as well.

I must make a distinction between my ideas and those of Escudé. His analysis was based on the observation that Argentina is "a country that is dependent, vulnerable, impoverished and not strategic for the interests of the United States" (Escudé 1991:3). This is the source of the need to reduce confrontation with the great powers. I work from an opposite consideration. Although I recognize that Brazil is relatively impoverished and vulnerable, between the 1950s and the 1990s it changed into an industrialized country in the middle stage of development that has the capacity to promote its own interests and to negotiate with the big powers without fear and free from the need to be on the defensive.

My common ground with Escudé is pragmatism, the desire to avoid useless confrontations and theoretical discussions when what is important is results. The model for this kind of analysis, however, is not found in Latin America but in post-World War II Japan. Defeated in the war, Japan established a solid political alliance with the United States that did not prevent it from advancing its economic objectives. On the contrary, this alliance pro-

vided Japan with generous aid at first. It also never prevented Japan from keeping its national interest as the criterion for its decisions.

We see this process repeating itself in other countries in the Far East and Southeast Asia. In this region economists and technocrats are essentially pragmatic. They practice strong state intervention, but their rhetoric states that their economies are market-oriented because such rhetoric facilitates their international relations. They are not concerned with confidence building. They are not ready, as Mexico was, to build confidence in Washington and New York at the expense of their countries' national interests and of macroeconomic fundamentals. But they are ready to establish friendly political relations with the developed countries.

A country's foreign relations are heavily dependent on its international image. Its bargaining capacity increases or decreases depending on the credibility its government possesses in the international arena. To achieve a positive image, it is important to adopt the rhetoric Washington likes, as well as to adopt a competent diplomatic strategy, but what is really essential is to achieve results. Recently, Brazil's image has been negatively affected by bad rhetoric and unsatisfactory results.

In April 1991, on the eve of the change of command at the Ministry of the Economy, I testified before the Brazilian Senate's Commission of Economic Affairs in support of the provisional agreement Brazil had signed with the commercial banks, according to which the country would resume the payment of interest while negotiating a final agreement.³ In my testimony I tried to answer one question: why did Brazil accede to this provisional agreement rather than demanding that an agreement on the principal be signed before paying interest in arrears?

The answer to this question is simple: given the support the commercial banks were receiving from their governments—especially from the United States—and the Collor administration's lack of international credibility, the alternative most in line with Brazilian national interests was to sign this agreement. It was necessary to recover a minimum level of international confidence, and a standby agreement with the IMF would contribute substantially to this end. The provisional accord with the commercial banks was a positive step in this direction. National interest is sometimes defended by confronting the interests of other countries. At other times it is necessary to be conciliatory and to make concessions; this situation is more common. Sometimes a strategic retreat is necessary, especially if one's adversaries, as in the case of the commercial banks, are capable of gathering extraordinary forces.

How were the banks able to obtain such strong support from their governments? Was it because the IMF refused to sign an accord with Brazil in 1990, although it had approved the Brazilian letter of intention? Was it because the G-7 decided at its February 1991 meeting to use the multilater-

al agencies to pressure Brazil to yield to the banks? Or was it because the Inter-American Development Bank refused a loan to Brazil because of the vote of the U.S. representative?

The main reason was, in fact, the Brazilian government's loss of credibility. This loss, which had been dramatic inside Brazil, was echoed on the international level. In the first half of 1990 the First World was very pleased with Brazil. But between July 1990 and April 1991 there was a complete change in attitude toward Brazil on the part of the directors of the multilateral agencies and, more broadly, the First World. In mid-1990 there were great hopes for the new Brazilian government, with its "modern attitude" and liberalizing, market-oriented reforms. In addition, the courage and strength of the fiscal adjustment involved in the Collor Plan I (March 1990) spoke well for the antipopulist character of the new administration. This support became complete when the Brazilian government adopted a rigorously orthodox monetarist strategy for fighting inflation in May 1990. This was a mistake the Brazilian authorities and Washington made together. The support of the Washington authorities for the monetarist policy was so clear that, in September 1990, the IMF approved the Brazilian strategy to fight inflation almost in toto. The agreement failed to be approved by the board of directors only because an agreement with the banks was lacking.

Predictably, this strategy failed because it was erroneous (see Chapters 5, 7, 12, 13, and 14). However, when it failed and inflation returned, the blame was placed exclusively on the Brazilian government. Rather than admit that the strategy was incorrect, that inertial inflation and informal indexation cannot be fought with monetary measures, the word in Washington was that the Brazilian government had failed because it was populist, because it lacked adequate monetary control, and because it did not force more corporations and banks into bankruptcy (in September 1991 there was a slight easing of the monetarist policy because of the failure of banks). The extremely high 1991 interest rates, a fundamental cause of that year's recession, were overlooked.

In the United States there is the saying that nothing succeeds like success. The reverse is also true—nothing fails like failure. Failure proliferates, and the guilty party is always the one that failed, not the one that supported erroneous strategies. After the Real Plan in July 1994, the Brazilian image in the First World radically changed, this time in a positive direction. But the Mexican financial crisis in December 1994 strongly reduced confidence in the Brazilian economy in the international markets. Again, as had happened in the debt crisis, the "winds of Latin America proved to be stronger."⁴

In its international relationships, Brazil's inability to carry on a dialogue with the First World, particularly the United States, clashed with the Collor government's "modern attitude" that had so charmed the First World. I have already mentioned Brazil's cautious reaction to the Bush Initiative.

Brazil's October 1990 proposal on the foreign debt, however, although correct, struck the First World as excessively daring. The commercial banks profited from the opportunity. They defined the proposal as arrogant and unacceptable. Based on the continuance of the moratorium, they were even able to convince the authorities in Washington and the G-7 governments of an obvious untruth: that Brazil did not intend to pay any of its foreign debt. The banks' strategy was helped by the fact that at that time the monetarist stabilization policy was floundering inside Brazil. The internal erosion of support for the government affected its external credibility. The government's loss of popular support had been accelerating and was disquieting because it was rooted in the deep recession and the reappearance of inflation.

One year later, when Marçílio Marques Moreira had replaced Zélia Cardoso as finance minister, Brazilian rhetoric regarding the debt changed entirely, and a final and reasonable agreement was reached with the banks. Yet Brazil's international image did not improve. The rhetoric had changed in the right direction—it even became submissive at certain times, remembering the Mexican confidence-building strategy—but Brazil was unable to stabilize. The developed countries are impressed by the right rhetoric, but they are more impressed by the right outcomes.

Greater integration between Brazil and the United States or Europe may be a positive factor in helping Brazil face its problems. Recently, we have witnessed arrogance and, subsequently, submission. Neither of these attitudes will achieve anything. U.S. or European integration is a priority for Brazil's international relations. This integration, however, makes sense only if two conditions are fulfilled. First, Brazil must prove capable of going ahead with fiscal adjustment and market-oriented reforms that are Brazil-oriented reforms rather than confidence-building reforms (Chapter 15). Second, externally, Brazil must be able to negotiate competently and to celebrate alliances with the developed countries—without fear and with a friendly but not submissive rhetoric. Brazil is large enough to negotiate with all countries, including the most powerful, and protect its national interests.