THE BRAZILIAN POLITICAL ECONOMY AND ITS ECHOES IN THE FOREIGN POLICY TOWARDS ARGENTINA

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NATÁLIA BUENO
(UNIVERSITY OF COIMBRA)
na.bueno@gmail.com

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The Brazilian political economy and its echoes in the foreign policy towards Argentina

Natália Bueno

Abstract

The present paper addresses the cooperation and integration between Argentina and Brazil mainly from 1979 to 2001, giving emphasis to the role of their presidents. To this end, it takes into account the redefinition of the Brazilian political economy in the last 30 years. After decades of military rule, Brazil returned to democracy, giving way to the process of (re)democratisation. This political change transformed the relations between society and its political representatives. Meanwhile, the former state-led development model collapsed being replaced by a new economic model. Brazil liberalised its trade and capital accounts during the 1990s which re-allocated winners and losers of the economic system.

Considered altogether, these changes have particular consequences that, contrary to traditional thinking, go beyond national borders, delineating Brazil’s foreign policy in South America. In particular, this paper puts emphasis on the role of the Presidents, vis a vis the domestic interest groups opposed to bilateral integration, which, eventually, shaped the country’s projection in the region, especially in relation to Argentina. More specifically, this paper aims to contribute to a further understanding of the Brazilian national leaders’ role and their intricate relations with the domestic actors, showing the influence of the former in the definition of Brazilian cooperative or conflictive politics towards Argentina.

I. Introduction

Along the last 30 years, Brazil has undergone several changes in social, political and economic terms. Brazil experienced the exhaustion of import-substitution industrialization and unsuccessful heterodox shocks, resulting in a serious debt crisis, inflation and scarcity of foreign capital. The shift from an inward looking state-led development model to the approach outlined by the Washington Consensus brought a drastic reorganisation of the national economic model. In a related vein, it was believed that the shift to an outward looking model would alter the structure of beneficiaries and losers. Moreover, there was a
great concern for structural adjustment with the reduction of the role of the state and its former interventionism in the economy. The proponents’ preference was for a fiscally disciplined state. Along with economic reforms, the ongoing consolidation process of (re)democratisation was believed to make political representatives more accountable once private and interest groups’ influence was reduced.

The proponents of neo-liberalism expected that reforms would be swiftly implemented throughout the continent, bringing stability and growth to the region. In fact, sweeping reforms were realized in some countries, such as Chile and Argentina. Conversely, in Brazil, the process has been more delayed and uneven than in most nations. The reform process has endured many years and presidencies. In Peter Kingstone’s words (2000), Brazil has ‘muddling through gridlock’.

Moreover, transformations have not been circumscribed to its national borders. Brazil has also joined the circles of international cooperation and regional integration. Looking particularly to South America, cooperation and economic integration between Argentina and Brazil have also had its ups and downs, challenging mainstream explanatory theories. Neo-functionalism (Haas 1964), neo-liberalism (Keohane 1990), neo-transactionalism (Sandholtz & Stone Sweet 1998) and liberal intergovernmentalism (Moravcsik, 1998) alone cannot provide a satisfactory account of the puzzle under reflexion, although they do offer many important insights about economic integration. Additionally, the argument that democratization fostered cooperation and integration (Schmitter, 1991; Sorensen 1992) has also its limitations, considering that cooperation between Argentina and Brazil started under authoritarian regimes (Darnton, 2012; Remmer, 1998).

The Act of Buenos Aires (1990) and the Treaty of Asuncion constitute the foundations of MERCOSUR. The realist explanation for its achievement - that pressure resulting from the disparities of power in relation to the United States was determinant - is generally accepted. Alternatively, the creation of MERCOSUR is also explained through the lenses of the international political economy. Elements such as the launch of the American Free Trade Agreement (AFTA) and the costs that the North American Free Trade Agreement imposed to the non-integrated South American countries (Gomez-Mera 2013; Bouzas 1996) are pointed as fundamental to the establishment of the regional bloc. Nonetheless, these contextual explanations do not offer a satisfying explanation for the matter under question either. Some substantial elements that helped to delineate the bloc – from 1985 to 1990 –, the initial rapprochement between these two neighbours in 1979, or the survival of the bloc after the AFTA initiative are not taken into account.
In this sense, the present paper follows the argument that, on the absence of clear international incentives or domestic demands for integration, the Argentine and Brazilian presidents played a central role in the creation of bilateral institutions, fostering the process of integration (Malamud, 2005). Yet, the early institutional developments and the latest record of MERCOSUR leave room for doubt. Considering that presidentialism is a constant in Argentina and Brazil, what does explain the initial impulse and the later stagnation of the bloc?

To answer this question, this paper puts forward the hypothesis that the concentration of power on the hands of presidents, vis à vis the domestic coalition opposed to cooperation, was essential in order to overrun this opposition and achieve the foundational treaties, fostering cooperation between Argentina and Brazil (Bueno; Schenoni, 2014). It is fundamental to consider that the period from 1979 to 1991 was marked by a series of elements: the authoritarian regime, the debt crisis, the need for structural reform and the military threat. Altogether, these elements strengthened the presidents’ bargaining power vis à vis domestic interest groups. Differently, concentration of power changed during the 1990’s. After political and economic stabilization, the costs of fighting internal opposition rose for Argentine and Brazilian presidents, leading to a halt in institutional creation. In this vein, in analogy with the idea of “delegative presidents” (O’Donnell, 1994), the “delegative integration” (Malamud, 2003) can be understood as the integration that lives a small window of opportunity, when huge steps are taken, but that are soon followed by a long period of agony. Moreover, the maintenance of the bloc is explained by both domestic acquiescence and the presence of at least one powerful president that was able to overrun domestic opposition, maintaining integration and hampering the bloc’s exhaustion.

The present paper is organized in six more sections. Section II presents a theoretical model, indicating the causal mechanisms, that explain how president power, vis à vis domestic opposing coalitions, results in institutional creation and survival of bilateral relation between Argentina and Brazil. The next segments, III, IV, V and VI test the proposed hypothesis in the four most important bargains in the history of MERCOSUR, focusing on the role of the Brazilian presidents. Finally, the last section closes the paper.

II. Presidential power and domestic oppositions: a two-level-game approach to MERCOSUR

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1 This section was previously presented in the draft prepared for delivery at the VII Conference Portuguese Political Science Association (APCP) Faculty of Economy, University of Coimbra, 14-16 April 2014.
An original approach to South American integration, based on the explanation given by Andrew Moravcsik (1998) to the European Union and the one offered by Andrés Malamud (2005) to MERCOSUR together with Robert Putnam’s (1988) theory of negotiation, is proposed in this paper.

Following Moravcsik (1998: 18-24), this approach focuses on the most important bargains leading to relevant agreements. In each of these negotiations, it intends to identify a set of national preferences mainly for Brazil to analyze the dynamics of the international bargain that followed and that account for the resulting format of bilateral or regional institutions. As Moravcsik, the political economic incentives of relevant domestic actors or interest groups are expected to be relevant.

However, as it has been noticed by Malamud (2005), liberal intergovernmentalism is very much based in the European experience, where domestic interest groups were particularly strong, chiefs of state were relatively weak and bureaucracies exerted an important role in negotiations. In the case of MERCOSUR, presidents exert a decisive influence to get their preferred outcome.

The present approach, unlike Malamud’s interpresidentialism, does not assume that presidential power is given primarily by institutional factors and therefore takes domestic interest groups into account. Yet, unlike Moravcsik’s liberal intergovernmentalism, it considers the presidency as a decisive actor in domestic and international politics.

In this vein, the main assumption is that no matter which president is chosen, ceteris paribus everyone would have personally benefited from having its neighbour’s chief of state as a personal ally. However, the success of presidential bargains depended on the capacity of the president to overcome the opposition of domestic interest groups. Therefore, in the presence of strong presidents relative to domestic opposing coalitions, integration should have taken place smoothly, while weak presidents, facing strong oppositions, should have had limited power to reach bilateral agreements.

For the very first time, this article will make use of Robert Putnam’s (1988) two-level-game theory to analyse South American integration in the aforementioned terms. Regarding this approach, domestic groups are always expected to pressure the government for favourable

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Following Malamud (2005: 142) “the presidents of MERCOSUR member states have concentrated power and enjoyed high levels of autonomy, mainly because of institutional factors, which includes decisional autonomy from the assembly and the cabinet, legislative initiative, decree power, and veto power.” However true this may be, this view does not account for the drawbacks of the integration process, since institutional characteristics of presidentialism remained more or less the same throughout the period. Here we adopt a much more flexible concept of presidential bargaining power, based on the relative power of the president given by political economic and contextual factors such as legislative or public opinion support.
agreements and, in this sense, presidential bargains are always expected to be a trade off between presidential preferences at the international level and domestic constraints. Therefore, each Argentine and Brazilian president from 1979 to 2001 approached its peer with a possible domestic win-set – a set of concessions from domestic interest groups. Whenever these win-sets overlapped, agreement could be reached. Whenever they did not, agreement was impossible.

Following Putnam (1988: 442), the size of the win-sets is generally determined by preferences and coalitions at the domestic level – e.g. position of relevant interest groups –, institutions at the domestic level – e.g. the majorities needed in Congress to ratify a treaty – and the negotiator’s strategies. However, following Moravcsik and Malamud, the present version of Putnam’s theory considers only one distinct factor to be determinant of the size of the win-set: the power of the president relative to the power of the opposing coalition.

**Figure 1. Possible configurations in two-level-game theory**

![Diagram](image)

Source: the authors, based on Putnam (1988).

In Figure 1, the position of the presidents at the international table – i.e. $A^0$ and $B^0$ – is a function of relative presidential power *vis à vis* domestic coalitions against the agreement. Example no. 1 represents a situation where win-sets do not overlap and therefore there is no agreement, be it because of the presidents’ weakness or the strength of internal
opposing coalition. On the contrary, example no. 2 is about a situation where both presidents were strong enough, leading to a symmetrical agreement. Finally, example no. 3 represents an asymmetrical agreement due to the weakness of one president compensated by the strength of the other.

This study tests the two-level-game approach hypothesis and others developed so far by using process tracing (Beach & Pedersen, 2011) and comparison across cases (Mahoney, 2004). In the following sections we develop a grand-bargain approach as has been done by Malamud (2005) and Moravcsik (1998). In each of the next five sections, the most relevant bargains leading to institutional creation – sections III to V –, and institutional survival – section VI – are analysed, as well as its institutional outcomes, noticing how preference formation, bargaining dynamics and institutional design are in line with the proposed two-level game theory expectations.

III. The first bargain: cooperation under military rule

The period delineated as the first bargain encompasses the government of two Brazilian presidents: Ernesto Geisel and José Baptista Figueiredo. Post-economic miracle\(^3\) governorships, Geisel governed from 1974 to 1979, handling the power to Figueiredo who took office until 1985. After years of spectacular growth, the late military presidents faced internal and external turbulence. Under such domestic hardship, an outward looking towards cooperation behavior was not expected. Nevertheless, the first steps towards Brazilian and Argentine cooperation was indeed taken in this period. A series of treaties followed the end of the Itaipu crisis, consolidating a friendly relationship between both countries long before democratic transitions. Specifically in the case of Brazil, that by the time of the first oil crisis relied more that 80% on its imports, the crisis enforced the need for alternative sources of energy, working as an incentive for the construction of Itaipu. Between 1977 and 1978, five meetings were held with the participation of the foreign ministers of Argentina, Brazil and Paraguay. The negotiations ended with the signature of the Acuerdo Multilateral de Corpus-Itaipú – also known as the Tripartite Agreement –, settling the dispute on the 17\(^{th}\) October 1979.

In 1980, both de facto presidents, José Baptista Figueiredo and Jorge Rafael Videla visited each other. Under the New Dialogue motto, the exchange of visits reflected the

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\(^3\) The Brazilian economic miracle or Brazilian Miracle is the name given to the time of exceptional economic growth that occurred during the military regime in Brazil during Emílio Garrastazu Médici's governorship (1969-1973).
rapprochement between Argentina and Brazil after a historical wary rivalry. Moreover, they intended to plant the seeds for future integration. In an interview the president Videla declared: “the result of our conversations will be the best subsidies to the process of integration in Latin America”

Old and new issues were brought to the table. The main subject at stake was nuclear policies, but talks also included topics on commerce and cooperative defence on the South Atlantic (Escudé & Cisneros, 2000: 312). In a joint declaration issued in May, Brazil finally gave clearer signs regarding its positioning in relation to the Malvinas conflict, showing a nuanced sympathy in relation to Buenos Aires. Moreover, a significant participation of businessmen – around two hundred people – during the negotiations account for the interest of both presidents to foster bilateral economic relations. In the words of Figueiredo: “nothing, no treaty or accord, not even the most perfect convergence of goals, can substitute private initiative”

At the end, these meetings rendered eleven protocols regarding mutual cooperation for the development of missile, aeronautic and nuclear technology. The agreements were signed at the *Casa Rosada* on the 17th May 1980. Following the ceremony, Videla declared: “the legend about an Argentine-Brazilian nuclear arms race is now forever overcome”. Yet, no substantial compromises were reached regarding the commercial realm.

**Figure 2. The Videla-Figueiredo bargain**

Source: the authors.

The variety of issues discussed and the level of compromise reached during the meetings testify against that argument that democratic transitions constitute a critical conjuncture or

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5 “Nada, nenhum tratado ou acordo, nem mesmo a mais perfeita convergência de propósitos, pode tomar o lugar da iniciativa privada”, Acervo, Estadão, 24 de agosto de 1980.

6 “Está afastada para sempre a lenda de uma corrida armamentista entre a Argentina e o Brasil”, Acervo, Estadão, 18 de maio de 1980.
a turning point in the foreign policies’ of Brazil and Argentina. In other words, “the initial rapprochement occurred much earlier, under the military regimes in 1979–1980, and economic integration proceeded under democratic governments in the 1980’s well before neoliberalism arrived” (Darnton, 2012: 120).

Following this vein, an immediate question arises: what did change between 1977 and 1980 that allowed for a cooperative turn in Argentina-Brazil relations? Systemic and domestic factors respond it. On the one hand, Carter Administration’s Human Rights policy put serious pressure over Argentina and Brazil, while, on the other hand, a radical change took place within Argentina’s domestic coalition, increasing the president’s concentration of power which, consequently, facilitated cooperation towards Brazil.

Figure 2 demonstrates the displacement of Argentina from position A₀ to A₁, creating a cooperative win-set despite its tininess. What did allow for Videla making concessions while Geisel and Figueiredo maintained their positions? During the year of 1977 – the most violent in terms of military repression – “Martínez de Hoz [Argentina’s Ministry of Economy] based his macroeconomic plan in an alliance with rural sectors and financial capital” (Fausto y Devoto, 2004: 387). National industrial bourgeoisie was deeply affected, even though many businesspeople were able to convert to other sectors. Also, the state capacity, all along with a fairly trained developmentalist bureaucracy, was severely damaged by an overvalued currency, high interest rates and a sensible decline in public expenditure. This was neither the result of neoliberal ideas, nor of Brazilian pressures. It was rather the consequence of the historical competition between the industrialist and agro-financial patrias in Argentina, both of which always promoted different development models (O’Donnell, 2004). As a matter of fact, only the victorious model could benefit from a more cooperative relation with Brazil and decompress bilateral tensions.

Furthermore, the Beagle crisis also explains the process. Since 1977, negotiations were being held between Argentina and Chile with no results. The Argentine military - who opposed the Itaipu project so fiercely two years before – had finally come to the conclusion that a war in two fronts would be unsustainable, softening, therefore, the more hawkish positions against Brazil. Moreover, the most anti-Chilean positions inside the Argentine “junta” – such as the navy’s – started to menace the Videla administration, leading the president to take personal control of the negotiations with Chile and diplomacy in general (Alles, 2011: 107).

In the case of Brazil, the end of the economic miracle put an end on a celebratory cycle of exercise of power without limits, accountability, opposition, free press hindrances, and
without political commitments that could possibly create setbacks to the economic policy voluntarism
described by Carneiro (1990: 297). In political terms, this period coincides with the so-called abertura, when the military initiated a cautious process of political liberalization characterized by General Geisel as “lenta, gradual e segura”. With regard to the international scenario, the oil crisis of 1973, underestimated in the beginning, rendered grave consequences, seriously affecting the Brazilian political economy. Overall, the government of Geisel and Figueiredo were marked by two restraining elements - inflation and growing foreign debt, which gradually poisoned the attempts to recover the economic growth. To put it simply, Figueiredo’s government was, in fact, a continuation of Geisel’s government; fragile presidencies marked by significant political and electoral defeats (Panizza, 2003), which culminated with the handing over of power to Tancredo de Neves in 1985.

IV. The second bargain: the window of opportunity

The second bargain is represented by the encounter of José Sarney and Raúl Alfonsín. The encounter held in May 1985 between both presidents was a landmark. For the first time after 25 years, two civil presidents from Argentina and Brazil met again in Foz do Iguaçu to discuss both international and bilateral matters. The effort to further cooperation between the two countries was notorious, as one observes in Alfonsín’s declaration to the press: Argentina and Brazil “envision actions that go beyond common growth; the idea is to plan an alternative joint positioning in the global arena”.

Following this path, the grand subject of the meeting was the foreign debt and the exchange of experiences regarding the implemented measures to combat inflation.

In particular, Alfonsín left a profound impact in its partner, as documented by the Argentine newspaper *La Nación*: “That day, Alfonsín took the first important step to change the image of our differences. Out of the schedule and against the opinion of his advisors, he visited Itaipu. It was just a picture, but buried war in the waters of the Paraná river” (*La Nación* 15/10/1999 in Malamud, 2003: 155). Meanwhile, on the other side of the river, Sarney was the main actor resolving disputes inside Itamaraty on whether to further cooperation or not (Campbell et al. 1999). Personally, he had a strong inclination in favour of cooperation (Didonet 2000). However, consensus among these two political

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7 In the original: “O fim do milagre econômico encerraria também um ciclo festivo de exercício do poder sem limites e sem prestação de contas, sem oposição, sem incômodos da livre imprensa e sem compromissos políticos a criar embaraços ao voluntarismo da política econômica”.

8 “[Argentina e Brasil] “projetam ações que vão além do crescimento conjunto, para planejar uma alternativa de presença conjunta no concerto das nações do mundo”, Acervo, Estadão, 28 de novembro de 1985.
leaders was not enough. The statement of the Brazilian secretary of press, Fernando César Mesquita, illustrates the concern about the rumours of opposition: “The government has done its share, fulfilled its role. Now, it is up to the Congress to vote the economic plan”\textsuperscript{9}.

Closing the visit, two important documents were signed on the 30\textsuperscript{th} November 1985, the Declaration of Iguazú and the Joint Declaration on Nuclear Policy. Particularly, the later improved the terms of nuclear cooperation agreed in 1980, reaffirming previous commitments on the peaceful use of nuclear energy. President Sarney asserted that the new joint declaration “serves the purpose of making available a high technology in the benefit of our people”\textsuperscript{10}.

In terms of economic cooperation, a joint commission was created for cooperation and bilateral economic integration. The goal of the commission was to analyse and propose programs, projects and different ways of interaction. However, convergence of interests between Argentines and Brazilians was not automatic translated into compromises. The Argentine balance of payments deficit was already on the table. Alfonsín’s concern was clear: “without a fair balance of our exchange, where there is mutual benefit, the increase of trade and the continuum of a healthy flow of trade between the two countries will rarely be ensured”\textsuperscript{11}. Yet, the president was also aware that some sacrifices were required. In his own words, “[the new Argentine-Brazilian relationship] will require certain sacrifices and even, in some cases, modifications of traditional trends of our business”\textsuperscript{12}.

To agree on the nuclear realm was relatively easy. Bureaucratic and military opposition to this type of cooperation had already been overcome under Videla and Figueiredo, and nuclear policy was under the control of the presidents. However, convincing businessmen to cooperate bilaterally was a far more difficult task. However, very soon both Alfonsín and Sarney would be at a superb situation to unlock domestic opposition.

\textsuperscript{9} “O governo fez sua parte, cumpriu a sua obrigação. Agora cabe ao Congreso votar o pacote económico, afirmou o secretario de impresa Fernando César Mesquita, ao comentar a informação de que o PDS estava disposto a obstrução à votação das medidas económicas propostas pelo presidente José Sarney”, Acervo, Estadão, 30 de novembro de 1985.

\textsuperscript{10} “[…] colocando essa alta tecnología a serviço de nossos povos”, Acervo, Estadão, 01 de dezembro de 1985.

\textsuperscript{11} “Sem um adequado equilíbrio de nosso intercâmbio, onde haja benefícios recíprocos, dificilmente estará assegurado o aumento de nosso comércio e mesmo a continuidade de um saudável fluxo comercial entre os dois países”, Acervo, Estadão, 01 de dezembro de 1985.

\textsuperscript{12} “[À nova relação Argentina-Brasil] exigirá certos sacrifícios e, em alguns casos, saudáveis modificações das tendências tradicionais de nosso comércio”, Acervo, Estadão, 01 de dezembro de 1985.
Figure 3 shows the changes of positions of Argentina and Brazil which amplifies the cooperative win-set of the first bargain. What does account for these changes? Indicating briefly the case of Argentina, by 1986, the “Plan Austral reduced inflation and stabilized its economy at a 7% GDP growth rate. Moreover, the Alfonsín’s administration had recently ended the “Juicio a las Juntas”, overcoming the menace of both economic crisis and the military.

Now, taking a closer look at Brazil, what does explain the displacement from B\textsuperscript{1} to B\textsuperscript{2}? The 1980s was marked by erratic economic performance and many difficulties. Sarney was, in general, a politically weak president. The president-elect, Tancredo Neves, who had been the architect of the negotiated transition, died before assuming and Sarney, as his vice-president, assumed the Brazilian presidency from 1985 to 1990. Sarney, former president of the PDS – the official party of the military regime - was a late member of the democratic opposition. He run the election together with Tancredo Neves in order to accommodate the dissidents of PDS that contributed to the victory of the opposition candidate in the Electoral College. In this sense, he enjoyed low legitimacy and lacked strong personal support, which made him highly dependent on the support of the parliamentary leadership of the ruling party, the PMDB. Nevertheless, short-lived economic improvements achieved during the “Plano Cruzado” considerably increased his bargaining power \textit{vis a vis} the domestic interest groups opposed to bilateral integration. From February to July, the country lived a mild spring. In the words of Panizza, “[…] the plan had an instant political and economic success, despite its shortness. According to Bresser-Pereira (1990), inflation dropped from 17.58% (February, 1986) to 1.19% (July, 1986). This sudden decline of inflation, together with the increase of salaries, was massively popular\textsuperscript{13} […] (2003: 75). In this sense, not surprisingly, the most important agreement before MERCOSUR (Cfr.

\textsuperscript{13} In the original: “el plan tuvo un éxito instantáneo pero de vida corta, tanto política como económicamente. La repentina caída de la inflación, junto al incremento de los salarios reales, fue masivamente popular”.}
Soares de Lima, 2008; Lafer 1997) took place during this window of opportunity, when Sarney improved his position vis-à-vis domestic opposition to regional cooperation.

In July 1986, presidents Sarney and Alfonsín met again, but this time in Buenos Aires. The Brazilian chief of state was accompanied by a large group – more than 130 people, including seven ministers and businessmen. The expectations were high, even though the air was filled with cautiousness. Replying to the question about the creation of a common market between Argentina and Brazil, president Sarney remarked that “it was a demonstration of courage”\(^\text{14}\). The Argentine-Brazilian Integration Act – leading to the Economic Integration Program (ABEIP) – was signed on the 29\(^\text{th}\) July 1986. More concrete compromises were to be signed in a series of protocols to be negotiated, but during this first phase, the talks even included the prospect for a common market, macroeconomic coordination and a future common currency named the “Gaucho”.

Despite the impressive reach of these agreements, the Brazilian newspaper, O Estado de São Paulo, presented a synthesis of the agreements with the headline “integration will be gradual”\(^\text{15}\), reflecting businessmen concern over the eventual effects of the presidents’ initiative. Gradualism can also be understood as the result of internal opposition faced by both presidents Sarney and Alfonsín. Nevertheless, in spite of the existing distrust, the Argentine and Brazilian chiefs of state did not relinquish the initiative. They convened again in Carajás, Brasil, in December 1986, and emphatically insisted on the need of more concrete steps. During his official speech, Sarney affirmed that more projects and initiatives had to be added to secure an effective economic and trade integration between both countries. As a result of these efforts, he noted, “we have already, in less than a year, doubled the volume of our trade”\(^\text{16}\). According to the estimated figures, the commercial exchange between the two countries – which had been decreasing in the previous years – rose from US$ 800 million to around US$ 2 billion.

Further developments were mandatory though. According to Sarney, “Brazil and Argentina have to find a formula of integration that prevents unilateral gains or hegemonies”\(^\text{17}\). This view was shared by his counterpart, president Alfonsín, who also emphasised the

\(^{14}\) “O presidente brasileiro classificou a criação de um mercado comum como uma “demonstração de coragem””, Acervo, Estadão, 29 de julho de 1986.

\(^{15}\) “A integração será gradual”, Acervo, Estadão, 30 de julho de 1986.

\(^{16}\) “Ao seu excelente diálogo político e ao expressivo patrimônio de densas relações de intercâmbio e cooperação, somam-se projetos e iniciativas já em pleno andamento no rumo de uma efetiva integração econômica e comercial entre os dois países. Como resultado desses esforços, já conseguimos, em menos de um ano, dobrar o volume de nosso intercâmbio comercial”. Acervo, Estadão, 10 de dezembro de 1986.

\(^{17}\) “Brasil and Argentina têm de encontrar uma fórmula de integração que afaste hegemonias ou benefícios unilaterais”, Acervo, Estadão, 10 de dezembro de 1986.
importance of evolving from rhetoric to practice “in favour of a new international economic order”\textsuperscript{18}.

The signature of the Argentine-Brazilian Friendship Act on the 10\textsuperscript{th} December 1986 closed the meeting. By the end of that impressive year, 18 protocols were signed, reaching serious compromises in different sectors such as capital goods, wheat, food industry, terrestrial and maritime transport, automotive industry, iron and steel industry, aeronautic industry, informatics, biotechnology, energy in general and nuclear energy in particular, among others. Because of their cumbersome nature and macroeconomic instability to come, most of these protocols were never executed (Manzetti, 1994), but nevertheless they clearly show the most significant advance in bilateral cooperation during the 1980s.

If macroeconomics had remained stable in the years to follow, probably the ABEIP would have progressively led to MERCOSUR. But both countries were to enter a period of severe economic turmoil, leading to the weakening of the presidents and the progressive abandonment of the project. In the words of Luigi Manzetti:

\begin{quote}
However, the favorable economic situation which had prompted Argentina and Brazil to embark upon the ABEIP in 1986 soon turned sour in the years that followed due to (1) failure of domestic macroeconomic policies and (2) external constraints imposed by their respective foreign debts. By the end of the decade, both Argentina and Brazil found themselves in deep economic crisis which slowed, even further, any progress toward economic integration. (1994: 103)
\end{quote}

The Brazilian and Argentine governments promoted, in September 1987, the first \textit{Expo de Intercâmbio Bilateral Argentina-Brasil}. The meeting lasted for almost a week and tried to intensify contact between businesspeople of both sides of the border. To be repeated every year, the result of this meeting was not only the opportunity to “sell and buy”, but also the emergence of neo-functionalist dynamics in the private sector. However, businessmen were obviously too concerned with economic crisis to think of integration.

Rhetorically, both presidents never relinquished the initiative. "We will be a common market of over two hundred million consumers, without economic barriers, incorporated into the economy of the groups, taking part of bi-national projects, for the free movement of goods and services and without tariff barriers"\textsuperscript{19}. With these words, Sarney announced the Treaty of Integration, Cooperation and Development, signed on the 29\textsuperscript{th} November

\begin{flushright}
18 “O presidente Alfonsín defendeu ontem o empenho de Brasil e Argentina para saírem da retórica e passarem à prática, “em favor de uma nova ordem econômica internacional””, Acervo, Estadão, 10 de dezembro de 1986.

19 “Seremos um mercado comum de mais de duzentos milhões de consumidores, sem barreiras econômicas, incorporadas à economia dos conjuntos, partindo para projetos binacionais, para a livre circulação de bens e serviços, sem barreiras tarifárias", Acervo, Estadão, Discurso do Presidente Sarney, 30 de novembro de 1988.
\end{flushright}
1988. But the treaty was a declaration of purpose, foreseeing the removal of commercial barriers between Argentina and Brazil in a time period of 10 years. Anticipating the difficulties to come, Sarney further declared "our political will was able to overcome obstacles, to defeat prejudices, and to open with our feet in the present this great way to the future". Nonetheless, the future would not be bright. As it has been noticed before:

Faced with domestic opposition from congress and interest groups, Alfonsín and Brazilian President Jose Sarney found it increasingly difficult to sustain the pace of integration. As political instability escalated in both countries, it became increasingly difficult for both presidents to overcome internal opposition to further integration. (Kaltenthaler & Mora, 2002: 75)

V. The third bargain: a common market

The meetings and negotiations continued. The chiefs of state, Carlos Menem and Fernando Collor de Mello, signed the Buenos Aires Act on the 6th July 1990, which established the formal mechanisms to the creation of a common market between the two countries. In fact, they changed the ABEIP’s formula that agreed to “gradually remove asymmetries” for an ambitious commitment to “establish a common market between Argentina and Brazil that should be definitely conformed by 31 December 1994” (Buenos Aires Act, Art. 1). In other words, Collor and Menem “substantively altered the parameters of bilateral integration (...) without a doubt, the main actors in this process were the presidents of Argentina and Brazil” (Cavarozzi 1998: 13).

The central goal of the Act of Buenos Aires was to achieve a situation where all products of the two countries would be subject to no non-tariff barriers. The Asunción Treaty followed on March 26, 1991, gave the name and the institutional structure to MERCOSUR and established a schedule for a progressive, linear and automatic tariff reduction, this time including Paraguay and Uruguay. The final aim was the establishment of a common external tariff and a commercial bloc to face commercial negotiations with third parties.

What does explain the sudden success of the integration initiative in less than one year? The answer is again, the concentration of presidential power and the weakening of the domestic opposition. As it has happened with previous bargains, at the beginning, MERCOSUR was exclusively a project of the presidents and foreign ministries that had to be sold to other actors (Didonet 2000). But unlike Alfonsín and Sarney, the length and depth of economic crises led both Collor and Menem to have a more aggressive stance

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20 “Nossa vontade política foi capaz de superar obstáculos, vencer preconceitos, abrir com os pés no presente a grande estrada do futuro”, Acervo, Estadão, Discurso do Presidente Sarney, 30 de novembro de 1988.
vis protectionist coalitions against bilateral integration. Now the presidents were not only interested in controlling the military, but were also interested in facilitating and locking-in more encompassing domestic reforms both in Brazil\textsuperscript{21} and Argentina\textsuperscript{22}. Figure 4 below demonstrates how the strengthening of Collor’s and Menem’s bargain power allowed, once again, for the enlargement of the cooperative win-set: from $B^2$ to $B^3$ and from $A^2$ to $A^3$.

**Figure 4. The Menem-Collor bargain**

Source: the authors.

In the case of Argentina, Menem was in a particularly good situation to undertake neoliberal reforms, because of his Peronist credentials and the critical context in which he took office. In Brazil, the scenario was not too different. Since the collapse of the “Plano Cruzado” in late 1986 until March 1990, when Collor took office - as the first democratically elected president in almost thirty years -, the economy deteriorated sharply. One could state that at the beginning of his presidency, Brazil was on the brink of hyperinflation, when inflation reached a monthly rate of 81 percent (Baer, 2001: 178). Collor administration immediately implemented an anti-inflationary plan, so-called the “Plano Collor”, reducing the rates to less than 9 percent a month. The program caused tremendous costs and paralysed the economy. Notwithstanding, popular approval of

\textsuperscript{21} “In fact, and particularly in the case of Brazil where opposition to market reforms has been greatest, the Collor and Franco administrations have used MERCOSUR as a means to help the ongoing structural adjustment process by freeing up trade, gradually pushing domestic business to lower prices and improve its efficiency” (Manzetti, 1994: 113).

\textsuperscript{22} “Economic integration provided Argentine and Brazilian state elites with a reason for implementing reforms arguing that international agreements required them to adhere to certain economic and trade policies and goals. This was particularly the case with the administration of President Carlos Menem that used the external process of integration as a reason or justification to implement a broad and comprehensive economic neoliberal programme. During an April 1990 rally in support of privatization and state reform, President Menem stated that, ‘our commitments to regional economic integration requires us that we create a macro-economic and institutional environment that will lead to greater economic efficiency and competitiveness’” (Kaltenheimer & Mora, 2002: 86).
Collor’s bold effort to end hyperinflation reached the striking mark of 81 percent during the first weeks (Weyland, 1998: 551).

Moreover, even if well known among the Alagoian elites, Collor was an outsider in federal politics and his Partido da Renovação Nacional had no history, membership or significant institutional structure to moderate his actions, i.e., as a newcomer, Collor was not tied down by the prior-option bias, and similar to Menem, he had learned from the failure of heterodox stabilization programs (Weyland, 2002). In Congress, Collor started his mandate with a huge coalition allowing him to be quite discretionary in terms of economic and foreign policy. Also, Collor exerted an extensive use of presidential decrees – medidas provisórias.

In this sense, it is proper to note that institutional factors along with political and macroeconomic contexts account for Collor and Menem categorization as ‘delegative presidents’ (O’Donnell, 1994) in 1990/1991. Weyland details the macroeconomic and political contexts showing that the severe problems afflicting Brazil “put a majority of the population into the domain of losses and thus induced them to reject the established political class and opt instead for daring, untested – i.e., risky – outsiders in upcoming presidential elections” (2002: 94). One can assert that Collor imposed the most audacious stabilization package of the Brazilian history. Back then, Collor’s declarations reveal the exceptionality of the current context: “We have no alternative. Brazil accepts no more defeat. Now it is time to win or win”\(^\text{23}\).

With regard to the Brazilian interest groups, the hardship of the early years of the 1990s brought about an accommodation of industries. The most prepared and competitive industries were able to maintain their production and gain strength in order to compete in the international market, whilst the deficient industries went out of business. Despite the apparent losers and winners, no conflict emerged. The heterogeneity of Brazilian industries meant that competitive and deficient firms were not restricted to any specific sector. As a consequence, losers were diffused as a group with incompatible goals and so no basis for common opposition (Kingstone, 2001: 16).

Nonetheless, the absence of strong opposition did not mean that some industrialists did not play a crucial role during this period. Hector Schamis (1999) calls attention to the fact that, contrary to the expectations, neo-liberalism did not prevent rent-seeking behaviour, a special characteristic attributed to the ISI period. That is, since Collor’s initial reforms, the economic elite has played a role and influenced the reformation and the government had to

engage in alliances with them. In 1990 the Collor administration developed a plan of privatization, dubbed the National Program of Destatization (*Programa Nacional de Destatizacao* – PDN), which engaged with technocrats from the BNDES and government support, but also relied on business and labour support to be implemented. As Alfred Montero (1998: 27) writes, ‘to find enough capital and political support for privatization, policymakers had to create durable alliances with business and labor’. Reinforcing Schamis’ arguments, Montero (1998: 28) indicates how Collor’s government restructured the debt of the steel mills, subsidized potential private buyers and distributed ownership of firms to workers in order to put the reforms in place.

Overall, it is undeniable that Collor governed during an exceptional moment which allowed him the opportunity to put in motion many unprecedented changes in a very short period. In the words of Panizza (2003),

> Collor governó con un estilo sumamente idiosincrático y personalista, centralizando el poder en el Ejecutivo y procurando implementar un ambicioso programa de modernización económica de forma verticalista, aunque su aislamiento político finalmente condujo a su caída bajo acusaciones de corrupción. (2003: 76)

Furthermore, the increment of Collor’s and Menem’s position *vis à vis* the coalition against integration did not result only as a consequence of domestic factors. The announcement of the Enterprise for the Americas Initiative by President Bush in June 1990 was a key element that helped to unlock the domestic game. Domestic coalitions who opposed regional integration were suddenly facing the menace of gigantic industry and capitals from the United States. If Argentina or Brazil were to oppose free-market policies at a continental scale, they would have to do so together. As a consequence, one month later, during the negotiations of the Buenos Aires Act, the hands of both presidents remained untied.

In the same vein, the Asunción Treaty did not cover some issues – macroeconomic coordination and the common external tariff – that were to be resolved by future presidential summits. The pre-eminence of the presidential figure in these agreements is pictured by Luigi Manzetti as follows:

> Like its predecessor, the Argentine-Brazilian Economic Integration Program (ABEIP), MERCOSUR has been marked by a top-down development strategy heavily dependent upon presidential initiatives. Following the signing of the Asuncion Treaty, the presidents of all four countries were active in soliciting support for the project from business, labor, political parties and even government agencies (...) Initially, only a few sectors of the business community seized the initiative and promoted it vigorously. Much of the early reluctance of political parties and interest groups to commit
themselves to MERCOSUR was due to the mixed performance record of the ABEIP, not to mention the failure of Latin America’s previous attempts at integration. Optimism was tempered with skepticism. On the other hand, neither was there any real opposition, at least at the outset, due in part to the lack of studies assessing MERCOSUR’s potential impact on domestic economies. Argentina and Brazil have since set up special congressional committees for the purpose of evaluating the likely consequences of MERCOSUR, and both business and labor have become more involved in the negotiation process. Nevertheless, the initiative still remains firmly in the hands of the president and of their respective ministries of foreign affairs. (Manzetti, 1994: 117-118)

Off course, a series of concessions had to be made on both sides to accommodate internal opposition. For instance, a 35% maximum external tariff on certain specified products that Brazil considered to be "sensitive", such as motor vehicles, chemicals, electronics, and computers was tolerated, even if the smaller partners would have preferred more reduced tariffs. Internal liberalization, on the contrary, had a fixed calendar. The pre-eminence of the presidents in the Asuncion Treaty is also evident in the deadlines to enact the common market agreement – December 1994 for Argentina and Brazil and December 1995 for Paraguay and Uruguay –, which “were chosen in order to coincide with the end of the presidential terms of Menem, Collor de Mello, Rodriguez, and La Calle. In so doing, the outgoing presidents hoped to lock their successors into the integration process, much as Alfonsín and Sarney had done with the 1989 treaty” (Manzetti, 1994: 106).

**VI. Problem-solving diplomacy**

After the Treaty of Asunción, bargaining had the purpose to formalize or solve *de facto* exceptions to what had been previously agreed. Institutional building, when it existed, was irrelevant and was mostly oriented towards legitimizing the institution. Regarding the compromises of the Treaty of Asunción, in December 1992 a summit was held in Montevideo to address the raise of average tariffs implemented by Argentina in relation to Brazil - from 3% to 10% - as a way to counter the steady depreciation of the Brazilian currency Real (Manzetti, 1994). The new Brazilian president, Itamar Franco, had to personally ensure his Argentine counterpart that MERCOSUR remained a foreign policy priority. Later on, “despite recurring conflicts, mostly between Argentina and Brazil over the former’s implementation of safeguards clauses and anti-dumping duties, presidents repeatedly expressed their commitment to strengthening the process” (Kaltenthaler & Mora, 2002: 76). However, as soon as 1995, many voices were already denouncing how frequent ‘crises’ undermined the process (Cason, 2000). Since the *status quo* had already
been altered, drawbacks in the integration would require a much more important mobilization of domestic actors and governmental agencies (Gomez-Mera, 2013). In the years to follow, a series of unilateral measures and countermeasures were taken, leading to institutionalized exceptions and the labelling of this experience as an “imperfect customs union”. Despite the fact that these crises had its ups and downs during the 1990s (Gómez-Mera, 2013), they reached the paroxysm during the period from 1999 to 2001, i.e. from the Real devaluation to the Argentine financial crisis. During 1999, the depreciation of the Brazilian currency triggered a fall in Argentine exports towards its neighbour, intensifying an already serious recession. In response to sectoral complaints, Buenos Aires imposed quotas to textiles and technical restrictions for footwear imports. In its turn, Brasilia retaliated and the private sector discourse in both countries became harshly chauvinistic. At this point, it is important to note that presidents did a great deal in stopping the conflictive trend. On the one hand, Fernando de la Rua’s administration brought a whole new insight to the problem and demonstrated to be keen to maintain foreign allies, promising to discipline domestic sectors. On the other hand, Cardoso fostered a new conception of MERCOSUR inside Itamaraty. According to this perspective, Argentine misbehaviours were to be tolerated as a means to reach more important strategic objectives. This ‘relaunch’ of MERCOSUR, including the plans for macroeconomic coordination – the so-called ‘Little Maastricht agreement’ –, put an end to the most serious crisis since the bloc was created (Gómez-Mera, 2005: 121). All of these were possible because of renewed political dynamics in Brazil, characterized by economic stability and higher party system institutionalization – i.e. political stability- (Panizza, 2000) that allowed Cardoso to stand firmly against the coalition opposing concessions to Argentina. In this vein, taking a closer look at Brazil in comparison with his Argentine counterpart, Cardoso enjoyed a much better position vis a vis domestic opposition, which rendered the displacement of the positions of the win-set from B³ - A³ to B⁴ - A⁴, while maintaining its width. Historically, when Cardoso was elected Brazilian president in October 1994, in the wake of the Real Plan and of high expectations of economic changes, he enjoyed high popular support. According to Susan Purcell and Riodan Roett (1997: 15), Cardoso was elected with a large popular mandate and a high vote shares in the first round in his favour, 54.3 percent (Souza 1999: 4). Not to be underestimated, the Real Plan was the most successful plan of economic stabilization of the last 30 years, drastically reducing inflation from almost 50% in July (1994) to around 2% in August (Panizza, 2000: 77-78).
Moreover, Cardoso also built broad political alliances, furthering his concentration of power. An alliance was formed between his party, PSBD, and the conservative PFL (Liberal Front Party), currently called the Democrats, and the Brazilian Labour Party (PTB). As David Samuels (2003: 8) writes ‘the Real Plan provided Cardoso with the leverage and legitimacy to construct a larger, more cohesive governing coalition than earlier administrations.

In 1999, by the time of the crisis between Argentina and Brazil, Cardoso had just experienced the renewal of his popular support. Not even one point below than in his first run, Cardoso was re-elected, in 1998, with 53.1% of the electoral votes. In addition, the political alliances were not only maintained, but also stretched to include PPB and part of PMDB besides the former PTB and PFL. Despite some oscillation, for the most part of 1999, the joint size of cabinet parties in the Chamber was 68.2%, rendering Cardoso a wide range of political support (Santos & Vilarouca, 2008).

Figure 4. The Argentine crisis and current equilibrium

![Diagram showing the Argentine crisis and current equilibrium]

Source: the authors.

More challenges were to come though. Conflict heated again in 2001 when the Argentine crisis had notoriously worsened and the ministry of economy, Domingo Cavallo, breached the common external tariff by raising tariffs to imports of consumer goods and eliminated tariffs on capital goods in order to encourage investment. These serious violations led Brasilia to threaten to suspend wheat and oil imports, while Cavallo publicly declared that MERCOSUR should become a mere free trade agreement. In the end, Brazil lost the chicken game and acceded to a safeguards regime that formalized bilateral sectoral conflict in the case of competitive imbalances. Again, presidents played a central role in maintaining MERCOSUR alive. In Argentina, the President and the Foreign Affairs ministry dissuaded the internal opposition to MERCOSUR by saying that the customs union was a necessary step to enter the Free Trade Area of the Americas in a better position: “the official position
was that MERCOSUR would be a step towards the FTAA. This did not constrain Cavallo’s anti-Brazil measures and statements (...) but he eventually had to accede to the President’s foreign policy position” (Gómez-Mera, 2005: 133). In Brazil, many capitalists and bureaucrats saw the benefits of keeping Argentina inside the bloc – and close to foreign powers –, but the president was central in coordinating this interests. After the Argentine collapse a line of credit was opened by the BNDES to promote Brazilian foreign investment in its suffering neighbour as Brazilian diplomacy interceded in front of the IMF, the World Bank, the Inter American Development Bank and the United States to represent Argentine financial interests. Last but not least, Cardoso played a big role in refraining domestic demands to abandon the common external tariff on wheat, a measure that could have seriously delayed the Argentine recovery (Genna & Hiroi, 2007: 53).

From then on, powerful presidents as Lula and Kirchner had to deal with more and more strengthened coalitions opposing coalitions. As a result, a series of institutions were created within and beyond MERCOSUR reflecting political coincidences among presidents but no compromise for economic coordination or any further integration.

VIII. Conclusion

In the last 30 years, the Brazilian political economy has been redefined. Brazil returned to democracy, after decades of military rule, giving way to the process of (re)democratisation. Meanwhile, the former state-led development model collapsed being replaced by a new economic model. Brazil liberalised its trade and capital accounts during the 1990s which re-allocated winners and losers of the economic system. Of particularly importance to this paper, the role of the presidents vis a vis the domestic interest groups opposed to bilateral integration has also changed, delineating Brazil’s foreign policy in South America, especially in relation to Argentina.

Mainly the presidencies of Figueiredo, Sarney, Collor and Cardoso were emphasised in the present paper to illustrate how the power of the presidents vis à vis the domestic interest groups opposing the process of integration between Argentina and Brazil were determinant to explain the cooperative outcome and format of international institutions.

In a nutshell, this article contributes to presidentialism stating that presidential power should not be seen as a constant institutional factor, but as an erratic political and economic factor explaining both the success of foundational bargaining – by its presence – and the failures of the MERCOSUR project – when absent. These reflexions lead to
interesting conclusions for policy makers regarding the future of MERCOSUR: the possibility to further institutional creation or to care for its survival when the bloc seems to be at stake under circumstances of low presidential power relative to protectionist or anti-integration coalitions.

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