

Primary or secondary? Regionalism's multiple roles in Brazil's international emergence

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Regionalism's Multiple Roles in Brazil's International
Emergence

Stephen Clarkson

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PRIMARY OR SECONDARY?

REGIONALISM'S MULTIPLE ROLES IN BRAZIL'S INTERNATIONAL EMERGENCE

Stephen Clarkson

with Abdi Aidid, Felix Cowan, Christine Farquharson, John Henderson, Jason Li, and Anna Postelnyak

Abstract

Of all the countries identified as rising powers on the world stage, Brazil appears to have drawn considerable economic and political strength from its engagement with various forms of regionalism during the expansionist years when Lula was president. Whether by helping create a local, intra-regional entity (Mercosul) or, later, proposing a continental one (UNASUL), Brasilia appeared to have the capacity to further its own economic and political interests by generating cooperative interactions with its smaller neighbors. Subsequently it took a leading role in inter-regional negotiations between Mercosul and the European Union in the global North and between Mercosul and ASEAN in the global South. More recently still, it spread its wings by associating trans-regionally with powers that are similarly dominant within their own regions – IBSA (India, Brazil, and South Africa) and BRICS (Russia, India, China, and South Africa) which shared with it a desire to play greater roles in the major institutions of global governance. While these new associations have their inner *raison d'être*, belonging to them also bolsters Brazil's weight in such traditional multilateral organizations as the United Nations and the WTO which were previously dominated by the US-Europe-Japan triad. This working paper assesses the relative importance of these different regionalisms in Brazil's emergence on the global stage by counterposing them with such standard explanations of a state's global significance as its military might, economic strength, and its soft-power influence overseas. We identify how various regionalisms interact with traditional bilateral and multilateral relations in helping or hindering Brazil in its global ascent. We conclude to our surprise that regionalism has only played a minimally positive role economically. Even politically, it has on occasion become more hindrance than help in boosting Brazil into its current orbit – as its announced intention to negotiate separately with the EU suggests.

The Author



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1. Introduction: Accounting for Brazil's Global Rise¹

Looking back at the country from the vantage point of 2015, it is clear that, as a brand, Brazil's standing has shifted. In this century's first decade under President Lula da Silva, the label "Brazil" evoked the global South's ebulliently rising titan. Subsequently on Dilma Rousseff's much more troubled presidential watch, it has come to describe a country rocked by scandals (huge corruption allegations involving both Petrobras, the country's parastatal energy champion, and the governing Workers' Party); athletic disgrace (its World Cup football team flubbing on home ground in its specially built, high-tech stadiums); plain bad economic news (declining growth rates, spiraling inflation, rising unemployment, higher interest rates, and falling exports); political dysfunction; and, in response to all these calamities, widespread unrest (massive strikes and demonstrations). Both during the period of its recent rise and in that of its still more recent vicissitudes, a remarkable feature of the country's diplomacy on its own continent and overseas is the resources it has devoted to its regional relations.

The puzzle that this paper addresses is the extent to which regionalism was causally or just coincidentally related to Brazil's impressive rise in the first years of the new millennium and to its continuing position as: No. 6 in the world economy's GDP rankings; the dominant economic, political, and military presence in Latin America; and an active, even at times indispensable, participant in global affairs.

States on all continents have been launching economic or security integration projects with their neighbors, especially since the Cold War ended. Having long focused on West Europe's steady, if irregular but sui generis, process of consolidation, regionalism scholars in the 1990s began to analyze how "second-generation" groupings of geographically contiguous states attempted to further their members' economic, political, and security interests locally and to promote their collective action capacity on the world stage.

Some scholars considered such nascent world regions as the broad but thin ASEAN (the Association of South-East Asian Nations, 1967) in the "South" and the narrow but thicker NAFTA in the "North" to be not just important, but necessary intermediaries between the global and national levels of governance. Neither too big and unwieldy, as the World Trade Organization (WTO) seemed to be, nor too small and ineffectual, as were most nation-states, these multiplying conglomerations of geographically contiguous states could – it was opined – better confront the public-policy challenges posed by globalization (Hurrell 2007: 143). In this "new regionalism," internal interdependencies increased (Hänggi et al. 2006), allowing these state groupings to reduce their dependence on external forces (Roloff 2006: 18). With these regions' economic integration deepening and their governance capacity strengthening, another trend emerged – their capacity to engage as actors in their own right, either region-to-state with foreign governments or inter-regionally with other regions (Hettne 2010). Although it is clear that many inward-looking regional

¹ The research for this working paper was generously supported by the University of Toronto's Dean of the Faculty of Arts and Science whose funding enabled a student research team – Abdi Aidid, Felix Cowan, Christine Farquharson, John Henderson, Jason Li, and Anna Postelnyak – to spend the week of 18-22 March 2013 with Stephen Clarkson in Brasilia where many members of the Ministries of External Relations and Finance, and the Bank of Brazil, along with other experts, all of whom are listed in the Appendix, generously offered us their considered opinions. Successive drafts profited from other readers' observations, particularly those of Matto Mildenerger. Clarkson is responsible for writing this text, which is largely based on these students' research, and he bears sole responsibility for any errors it may still contain. He would greatly appreciate further responses: stephen.clarkson@utoronto.ca

organizations have been created and although these have, in turn, spawned outward-looking relationships with other governments and regions, it is not at all clear how *significant* either phenomenon is in the globe's political economy.

Nor is it obvious how scholarship can determine their relative importance. Regions can certainly be studied individually in terms of their institutional capacity, economic integration, cultural homogeneity, and international relations, but this kind of research tends to reify regions without necessarily assessing their importance. We know that ASEAN exists, for instance, but we do not always know how important it is *relative* to its members' traditional inter-governmental diplomacy, to their national economic-development policies, or even to new, less geographically defined forms of networking governance.

This working paper proposes to assess regionalism's importance by asking to what extent it helps individual governments achieve their economic, political, security, cultural, or diplomatic aspirations. To do this, it takes the single case of Brazil, because, in the course of becoming a significant player in global affairs, this country has demonstrated a deliberate engagement with regionalism both in its own continent and abroad. Brasilia's active regionalism allows us to ask whether its successes and failures would have been significantly different without these regional associations. In other words, our approach rests on an implicit counterfactual logic. Because we want to unpack the contribution that regionalism has made to Brazil's international position, we continually keep in mind the question, "How much more or less hard or soft power would it have generated in the absence of its regional associations?"

In this analysis, we had to be sensitive to the complexities of Brazil's spreading global footprint which markedly nuance how we should understand the significance of the various forms of regionalism with which it has engaged over time. Brasilia's post-World-War-II performance in the international arena was primarily characterized by its predilection for coalition building and reform-minded activism – the typical attributes of normal middle powers. With Lula's election in 2002, the country's involvement in world politics became more multifaceted, more multilayered, and more activist. Involved in a variety of issue areas and carried out through diverse diplomatic configurations, the Ministry of External Relations ('Itamaraty'), aimed to be a pivotal player present and vocal at the major decision-making tables of global governance. With few enemies but with many friends grateful for its political, social, and economic support, it profited from their presence in those multilateral organizations which give even the smallest state one vote to increase its bargaining power. Given the sheer plenitude of its natural and human resources, which make it by far Latin America's biggest economy, Brazil was exercising influence at a level well above what middle powers can typically achieve (de Almeida 2009: 180).

Our analysis starts by sketching the principal features of its hard power – military might and economic strength. The paper's third section will assess how much both its hard and its soft power assets have been affected by its domestic regional engagements. This means Part 3 will consider Brazil's founding membership in Mercosul (*Mercado Comum do Sul*), its own region of contiguous South American states which acquired an embryonic governance structure in 1991, and then UNASUL (*União de Nações Sul-Americanas*), which groups together all of South America's states with the declared aspiration to become a continentally integrated economic, political, and cultural zone. Brazil's engagement with its geographical region also includes two intriguing cases of more specialized functional forms of regionally constituted associations of

Latin American and Caribbean states that pursue targeted objectives such as promoting economic development or currency stabilization. Brasilia's ambivalent approach to these organizations casts some doubt on the economic value of financial regionalism to a burgeoning giant with disproportionately large, material assets.

Part 4 will address Brazil's experience with regionalism outside its own continent. In the "North," Brazil deals with the strongly institutionalized European Union along three trajectories: inter-regionally and state-to-region with Brussels and inter-governmentally with individual EU member states. With the weakly institutionalized NAFTA, it has no choice but to relate bilaterally and separately with the continent's three national governments. In the "South," its two most important interlocutors are geographically defined: ASEAN in South-East Asia and Africa, which is a region both because it can be identified cartographically with the continent for which it is named and because it has its own continental institution, the African Union, along with many sub-regional organizations. Brazil's membership in the historically rooted trans-regional "Lusosphere" represents a distinct, even exclusive relationship with Portuguese-speaking states with which it cultivates linguistically privileged but also economically profitable relations.

More recently, Brazil has been networking with other variations on the theme of region, most notably two organizations of like-minded nation-states, each of which is a giant in its own continent: IBSA (India, Brazil, and South Africa) and BRICS (Brazil, Russia, India, China, and South Africa). Institutionally "lite" though these trans-regions may be, they buttress Brazil's validation for its claims to great-power status.

Our conclusion will offer some reflections on our findings' more general significance – at least for regions whose power distribution is as asymmetrical as is Latin America's.

2. Background: Delineating Brazil's Hard Power

If we are to assess the role that regionalism has played in Brazil's 21st-century foreign and economic policies, we need to start with sketching the country's material hard power, whether considered in military or economic terms.

2.1 Military Might

During the Cold War, IR realists in the global North had trouble taking Brazil's ambitions to greatness seriously because its armed forces were so modest. Even now, Brazil may have the tenth largest military establishment on earth, but it ranks a very poor tenth: among the world's top ten, only Japan spends less on its military (one percent of its GDP) than Brazil (1.3 percent) (SIPRI 2012).

But a more appropriate approach might evaluate Brazil's military muscle *relative* to its defensive and offensive needs. Ever since its great foreign minister, the Baron of Rio Branco, resolved the country's outstanding

border disputes with its eleven geographical neighbors, Brazil's strategic regionalism has delivered greater sustained security against possible threats to its territory than any other large power over the past hundred years (Corrêa 2012). In this sense, Brazil's defensive hard power can be rated very high since it has virtually no security needs. Apart from the South Atlantic, where it is now strengthening its control through reinforcing its naval power (Abdenur/de Souza Neto 2013), its low offensive capacity is largely irrelevant to its geopolitical position which is far removed from the world's conflict centers.

Indeed, its small military investment actually does much to support its soft-power claims to legitimacy as a nation dedicated to the peaceful resolution of international conflicts. Limited in its desire to build up its armed forces because of its traumatic experience with its military dictatorship's repression and aware that the security risks in an increasingly interconnected world are intrinsically tied to socio-economic factors, Brazil has attempted to redefine the meaning of 'security' by emphasizing ways in which access to water and sustainable energy, disease prevention, and poverty eradication in the global South are not merely economic and social issues, but crucial global security concerns (Stolte 2012: 11). By conflating international security with international development – referring, for instance, to hunger as “the real weapon of mass destruction” – Brazilian diplomats discursively supplant traditional understandings and broaden their own claim for entitlement to a voice in global security debates (Amorim 2010: 226). In military terms, then, Brazil's hard, defensive power is intrinsically related to its tranquil position in its geographical space, while its lack of offensive power supports its quest to participate in global security institutions.

2.2 Economic Strength²

Even though Brazil does not need a prosperous economy to endow itself with a major offensive capacity, its economic muscle is nevertheless a basic constituent of any ability to play a significant role in such international-governance issues as managing natural disasters, resolving international financial crises, or providing technical assistance to less prosperous countries. So, if Brazil is to be considered an emerging world power, it must have an appropriately strong economy – whether judged by such quantitative indicators as size and growth rates or by its qualitative transition from “under-development” to being globally competitive. Evaluating the Brazilian economy's strength provides the necessary background against which to judge to what extent its successes have been driven by Brazil's engagement with regionalism at home or abroad.

Brazil did impressively well in the mid-twentieth century thanks to its state-driven import-substitution-industrialization strategy (ISI) featuring high levels of public-sector investment and the protection of its manufacturers against foreign imports. Widely adopted throughout Latin America in opposition to US-led liberalization after World War II, this development model succeeded handsomely for Brazil in the 1970s when spectacular growth rates doubled the economy's GNP (Bresser-Pereira 2009: 50; da Fonseca 2001: 9). But in the 1980s, the formula failed to deliver. Instead, persistent budget deficits, economic uncertainty,

² Felix Cowan researched this section.

and financial instability led to increasing debt, catastrophic inflation, and stagnant growth (Blanco et al. 2011: 99f; Hoffmann 2001: 104).

Inspired by the neo-liberal “Washington Consensus,” Finance Minister Fernando Henrique Cardoso’s 1994 Real Plan – Brazil’s seventh stabilization effort in ten years (Blanco et al. 2011: 94) – finally wrestled Brazil’s inflation from 2,500 percent in 1994 to under 10 percent in 1995 (Luna/Klein 2006: 64; Doctor/de Paula 2008: 146). As President from 1994 to 2002, Cardoso then increased taxes, slashed government services, privatized state corporations, pegged the new currency, kept inflation low, and liberalized imports. Devaluing the *real* by floating it in 1999 helped Brazilian export competitiveness, reduced speculation, attracted more foreign direct investment, and contributed to reviving the country’s annual GDP growth to a respectable, if unspectacular, 2.7 percent (Blanco et al. 2011: 104f; Doctor/de Paula 2008: 148).

In the 2000s, the domestic market expanded and foreign trade accelerated. Continued fiscal discipline and continuing economic growth under Lula allowed the government to move its budgetary deficit back into surplus, to cut one third off the public debt, and to pay back its IMF loans (Pérez/Gerson 2009: 119; Blanco et al. 2011: 108). Over the same period, per capita GDP increased from some \$3,000 to \$12,000 (World Bank 2012) thanks in good part to government social programs such as pensions (Morais/Saad-Filho 2011: 35). Doubling the minimum wage after 2000 lifted tens of millions out of poverty and provided a massively increased consumer base for Brazilian firms (ECLAC 2013). Industry, which suffered most from the shocks of the 1990s, led the 2000s’ recovery. Productivity advances accounted for 29 percent of overall Brazilian GDP growth in that decade as firms adapted to new technology, new sources of investment, and increased competition (Blanco et al. 2011: 115f). Noticeably above 1990s levels, GDP growth was still driven primarily by increased domestic demand nurtured by labor market expansion (Blanco et al. 2011: 113, 116).

Paradoxically, Brazilian protectionism has made the economy highly dependent on foreign investment, which accounts for almost a fifth of its capital stock (OECD 2013).³ Whether serving the domestic market or extracting natural resources for export, FDI generally relies on imported technology rather than local innovation, so that, in any given manufacturing sector, the higher the level of FDI, the lower the level of domestic technological prowess (Grosse 2006: 186; Koeller/Cassiolato 2009: 64f). Brazil’s most modern, knowledge-based industries are *ipso facto* the ones with the highest concentrations of foreign investment (Pederson 2008: 59).

The 1990s shift towards neo-liberalism along with massive state support produced a new trend – the expansion of competitive Brazilian firms abroad. Through investing heavily in both the global North and South in industries like mining, steel, and meat-packing (UNCTAD 2010: 48), large Brazilian firms have grown into aggressive transnational corporations: twelve of the twenty-five largest Latin American non-financial TNCs are Brazilian (ECLAC 2012: 38).

Although Brazil’s economy remains relatively closed, exports quintupled from \$55 billion in 2000 to \$256 billion in 2011, with manufactured goods leading the way until a commodities boom saw enormous growth in primary exports (ECLAC 2013). The tripling of manufacturing exports from \$32 billion in 2000 to \$87

³ In 2010 Brazil had \$473 billion in inward FDI, out of a total GDP of \$2.17 trillion.

billion in 2011 demonstrated notable progress in the economy's modernization but was overshadowed by the even more dramatic, sevenfold increase of commodities exports from \$23 to \$170 billion in the same period (ECLAC 2013). Since the turn of the millennium, diversification in destinations and products away from the United States and Europe has reduced the economy's vulnerability and increased its stability.

Beyond the Brazilian economy's high GDP per capita, its most notable distinction from other rising powers is its far lower trade dependence, a self-sufficiency suggesting that Brazil's material power is less reliant than might have been expected on the various forms of regionalism in which it has engaged.

On the whole, Brazilian industry remains uncompetitive, so the government gives top priority to helping it become more competitive through technological linkages with foreign countries and corporations and through building ties between universities and industry that could promote innovation, development, and productivity. This drive for transformation motivated in good part its interest in developing its regional relationships, both on its own continent and overseas – as we explain in Parts 3 and 4.

3. Intra-regional Governance

In the 1990s, when Brazil was emerging from two decades of military dictatorship and many years of struggling with a malfunctioning economy (Blanco et al. 2011: 94f), it initiated a local regionalism which enhanced both its security and its economic strength. In the following decade it participated in but did not whole-heartedly support a more functionally specialized financial regionalism.

3.1 Economic-Integration Regionalization: First Mercosul, Then UNASUL⁴

With the signing of the Treaty of Asunción in 1991, decades of tempestuous relations with Argentina were laid to rest thanks in good part to the two countries' crucial agreement to desist from developing nuclear armaments. Despite Mercosul's apparently robust institutional framework, all major decisions have been made at the presidential level (Gardini 2011: 687), a practice that favors the member with 80 percent of the sub-region's assets (whether denominated in GDP or population) (Klom 2003: 355). While Mercosul's conflict-reducing contribution to Brazil's military security was scarcely visible, its prosperity-enhancing contribution to its economic power was more obvious, though relatively modest.

Centered on three core principles – the free movement of goods, services and factors of production among member states; the establishment of a common external tariff and trade policy in relation to non-member states; and the coordination of macro-economic and sectoral policies (Mercosul 1991) – Mercosul offered Brazil a first shot at making an economic *apertura* to the world because it opened three neighboring but protected markets to the export of Brazil's otherwise uncompetitive consumer manufactures. The

⁴ Jason Li researched Brazil's relations with Mercosul and the global South.

immediate benefit from Mercosul was the greatly increased volume of intra-regional trade, which rose from \$3.6 billion in 1990 to \$12 billion in 1994 (Biswaro 2012: 175). Almost 90 percent of Brazilian exports to the region are industrial or semi-industrial manufactures. The harmonizing of trade policies was also attractive to foreign investors in Brazil whose direct investments there increased from \$1.1 billion in 1991 to \$32.8 billion in 2000 (IMF 2013a). Apart from attracting incoming direct investment, Mercosul offered Brazilian companies a chance to experiment with investing beyond their borders. In effect, the extended market provided an economic nursery, offering Brazil's more competitive capitalists the opportunity to develop trans-border production chains in their neighborhood and thereby build both competence and confidence as would-be competitive trans-national corporation (TNCs).

A Union of South American Nations (UNASUL) was already mooted in 2000 when President Cardoso hosted South America's first summit in Brasilia (Kašpar 2011: 31). The resulting Brasilia Communiqué called for a "consolidation of sub-regional processes" in an apparently deft manoeuvre that fended off Washington's drive to establish a Free Trade Area of the Americas, while excluding its traditional Latin American rival Mexico (UNASUL 2000). Under Lula, the goal of a continentally inclusive free-trade area took on a more sectoral and cooperative approach centred on political dialogue, social policies, education, energy, infrastructure, financing, the environment, and eliminating socio-economic inequality. In 2004, the decision was made to move towards the "deepening the convergence between Mercosul, the Andean Community, and Chile through the perfecting of the free trade area ... based on existing institutions, avoiding the duplication and superimposition of efforts without, in so doing, involving new financial expense" (UNASUL 2004). After one more summit in 2007, Brazil, Argentina, Venezuela, Ecuador, Colombia, Chile, Paraguay, Uruguay, Bolivia, Peru, Guyana, and Suriname signed the Constitutive Treaty in 2008, which launched the Unión de Naciones Suramericanas, UNASUL.

By taking a leadership role in founding UNASUL, Brazil broadened its sphere of influence, affirming its position as the continent's principal country, and thereby boosting its international profile. It managed all this while quietly resisting any institutional developments that could empower its neighbors to impose political constraints or financial burdens on it (Malamud 2011: 8).

However qualitatively valuable local intra-regionalism may have been as a first stage for extending Brazilian companies' production systems and expanding the consumer base for their manufactured goods, its economic value to Brazil was relatively limited. Trade with all UNASUL countries amounts to less than one fifth of its exports and one seventh of its imports. Even its largest trading partner on the continent, Argentina, accounts for less than one tenth of its trade. This intra-regional story may be just a subplot in the main drama of Brazil's economic overhaul, but it is an important subplot nonetheless and is valued in Brasilia whose development bank, BNDES (*Banco Nacional de Desenvolvimento Econômico e Social*, 1952), guaranteed Buenos Aires \$2.7 billion in loans from 2005 to 2009 to support Brazilian firms' infrastructure projects in Argentina (da Silva 2009; World Bank/IPEA 2011: 81; BNDES 2012: 156).

Brazil's considerable economic growth and substantial social progress in reducing poverty and inequality over the past decade have been helped secondarily by Mercosul's market for its exports, but these achievements relied primarily on the domestic market's expansion and a boom in exporting commodities to its main overseas partners, the member states of the EU, the United States, and most recently, China (ECLAC 2013).

Brazil's engagement with its own region stabilized its military security and supported its hard, material power, thus laying the cornerstone for its bolder international engagements in soft-power terms. But what was formerly true is not necessarily so any more. Politically, its intra-regionalism appears to be yielding diminishing returns. Brazil's efforts to position itself as a global advocate for the South are openly challenged by its own Mercosul partners. Even though Venezuela under President Hugo Chavez was a candidate for joining Mercosul, it directly competed with Brazil for ideological influence (Malamud 2011: 12), and, in 2005, Argentina openly opposed its bid for a permanent seat on the UN Security Council (Vieira/Alden 2011: 517). In behavior similar to India in South Asia but opposite to that of the United States in North America, Brazil has refrained in either Mercosul or UNASUL from developing a hegemonic leadership in which the smaller and weaker partners support its lead because they get more benefits from collaborating with their regional giant than they would from opposing it. "Hegemony costs a lot of money and creates enemies," one diplomat told us.⁵ As we will now show with financial regionalism, Brasilia does not calculate that the benefits of getting support from its regional counterparts are worth the huge expenditures that would be necessary to yield commensurate gains.

3.2 Functionally Specific Regional Governance: First Public, Then Private⁶

Barriers to intra-regional trade and investment are typically addressed with forms of bottom-up regional governance that are generated by neighboring states' decisions to prioritize cooperation over competition. Another type of cooperation derives from the top-down decentralization to the regional level of financial institutions originally established with global mandates. The following section addresses Brazil's engagement with two types of public financial governance, leaving the next section to address a more recent form of private-public international regulation.

3.2.1 Public Financial Regionalism

Even before World War II came to an end, the Anglo-American allies were planning how to institutionalize for the post-war era international governance for financial stability, developmental growth, and commercial expansion. They established, respectively, the International Monetary Fund (IMF) to manage member states' monetary relations and currency crises, the International Bank for Reconstruction and Development (now the World Bank) to provide funding for post-war reconstruction and post-colonial development and, later, the General Agreement on Tariffs and Trade (GATT). Regional supplements to the GATT in the form of common markets or free trade agreements have received sustained scholarly attention, while regional counterparts to the World Bank and the IMF have been less generally examined in the international political

⁵ Confidential interview, Brasilia, March 2013.

⁶ This section was researched and drafted by John Henderson and borrows from the more extensive analysis to be found in Henderson/Clarkson (forthcoming).

economy (IPE) literature. Since Latin America has a long experience with regional financial organizations, Brazil's approach to this less studied form of regionalism deserves careful attention.

Development Lending. For the Western Hemisphere, Washington promoted the Inter-American Development Bank in 1959 but the IADB was itself supplanted in importance by the Latin American Development Bank (CAF, *Corporación Andina de Fomento*, 1968), which now provides more lending in the region than the World Bank and the IADB combined. The regionalization of development lending did bring Brazil some gains. For example, it received 17 percent of CAF disbursements between 2007 and 2011 despite holding less than seven percent of the bank's shares.⁷ But this support amounted to less than 0.05 percent of Brazil's GDP (CAF 2012; IMF 2013b). In contrast, far greater contributions to the country's economic development have been self-generated via the state-owned Brazilian Development Bank, the world's second largest bank of its kind (Leahy 2013a).

BNDES' government-subsidized loans, such as the \$30 billion disbursed since 2003 for the sale of transportation equipment abroad (BNDES 2013a), have helped Brazilian firms prosper in domestic and international markets, thereby promoting economic development and facilitating Brazil's international emergence. The sheer scale of the BNDES' investments – \$300 billion from 2008 to 2012 – could not have been matched by regional institutions (BNDES 2013b). In recent years, the BNDES has loaned more for infrastructure and industry in Brazil than the CAF, IADB, and World Bank have collectively provided for the whole of South America.⁸

Regional development lending may be economically insignificant for its domestic economy, but Brazil's involvement in this financial regionalism is not without political value. By supporting other Latin American states' adhesion to the CAF in 2007, Brasília contributed to regional stability (Reuters 2007). Perhaps more importantly, an enlarged CAF tempered Venezuela's ambition to create a regional rival to the World Bank and the IMF which would have entrenched President Hugo Chavez' anti-American ideals in a continent-wide institution and have put great pressure on Brazil to contribute significantly to its capitalization (Sanahuja 2012).

Liquidity/Crisis Lending. During financial crises, the IMF's member states are able to borrow from the Fund in order to stave off illiquidity and insolvency while adjusting their macro-economic policies. These loans are subject to stringent conditions that are designed to ensure that member states' economic reforms will translate into financial sustainability. However, many Latin American states resented these neo-liberal pressures, particularly after their debt crises in the 1980s. Since then, these states have considered at length how regional financial cooperation might help them weather economic crises and avoid sovereign default without having to resort to the IMF at the price of having to implement its draconian structural adjustment conditions.

7 Calculations by authors based on: CAF (2012).

8 Calculation by authors based on BNDES (2012: 34); Beattie (2012); CAF (2012).

In this domain, Brazil has been unwilling to create an effective regional monetary fund. Because of its disproportionate size, Brasilia fears that it would be either a perennial net lender or, in a crisis of its own, be beyond the help of its smaller neighbors (Ocampo/Titelman 2012: 27). Because it derives political gains from asserting its power through soft-power diplomacy, Brazil has never outright rejected the idea of a regional monetary fund. Rather, it used the negotiations surrounding the expansion of the Latin American Reserve Fund (FLAR, *Fondo Latinoamericano de Reservas*) to block Venezuela's promotion of radical Bolivarianism on the continent. Specifically, Caracas sought to establish a *Banco del Sur* to compete with the Washington-based international financial institutions. Backing a modest expansion of the FLAR as an alternative to Venezuela's ambitious proposal allowed Brazil to demonstrate solidarity with those states calling for a distancing from the IMF while not allowing a Bolivarian plan to come to fruition.

Regional integration is generally assumed to bring economic benefits to states through increased cross-border flows of goods, services, labor and investment. Indeed, recent contributions to the IPE literature have reaffirmed the specific benefits of regional *financial* cooperation in South America (Ocampo/Titelman 2009; Armijo/Echeverri-Gent 2014). However, this has not been Brazil's experience. It has gained little from financial regionalism in comparison with what it has generated domestically. Amassing sizeable foreign exchange (forex) reserves over the past decade (\$377 billion in April 2013) provided Brazil with its own self-insurance against financial shocks and improved its perceived stability, thereby making it a more attractive site for FDI. It is beyond the scope of this analysis to establish a direct causal relationship between forex reserves and FDI, but it is nevertheless noteworthy that, when Brazil doubled these reserves in 2007, net incoming FDI subsequently grew 130 percent from \$20 billion to \$45 billion (IMF 2013c; IMF 2013d).

In soft-power terms, these foreign exchange reserves allowed Brazil to become a net creditor within the IMF in 2009 (Goodman 2009). This sea change leant – and continues to lend – greater weight to Brazil's calls for quota reform and a larger role for itself within the Fund while also helping it to enjoy more credibility in other multilateral forums, such as the Financial Stability Board. For these reasons, the regional giant has felt better off going it alone than making what, from its point of view, would be a disproportionate contribution to regional solidarity mechanisms.

3.2.2 *Private-Public Transnational Business Regionalism*⁹

Whereas devastating global financial crises push governments to seek top-down, cooperative solutions that only giants like Brazil can resist, transnational business governance generates bottom-up pressure for norm-diffusion and institution-building that states may support or resist individually, globally, or, of course, regionally (Eberlein et al. 2012). Given that investment disputes in which national governments are sued by corporate actors blur the lines between public and private international law, they tend to escape social scientists' attention, although they impinge directly on issues of regional actorness. Despite its state-

⁹ Abdi Aidid researched foreign investment protection and investor-state arbitration.

centric orientation, the academic literature on world regions has been notably silent on the global economic regime regulating states' relationship with foreign investment.¹⁰

Since 1966, when the World Bank institutionalized legal procedures to protect TNCs against host governments' protectionist actions by proposing a model International Convention for the Settlement of Investment Disputes (ICSID), foreign investor-protection clauses have become a staple feature of international economic agreements, particularly international investment agreements (IIAs) between capital-exporting and capital-importing nations (Schreuer 2001: 1118).

What makes the diffusion of foreign-investment-protection rights and their corresponding arbitration institutions pertinent to our analysis is that Brazil has not been the apostle of regional solidarity one might have expected, but a regional dissident. While most developing states accept the prevailing neo-liberal wisdom that conceding special legal privileges to TNCs is necessary to attract their foreign direct investment (FDI), Brazil has presented a paradox. Although not following the trend to adopt this part of the Washington Consensus, it remains one of the world's most popular sites for FDI.

Since 1966, it has refused to sign the ICSID convention or join those Latin American states that entrenched special rights for TNCs. More significantly for our analysis, it has not even supported those neighboring states that proposed alternative arbitration processes – whether bilaterally, sub-regionally, or regionally.

As a result of Brazil's refusal to accord special rights for foreign investment and concomitant international dispute arbitration, it is of no consequence for this analysis that some Latin American countries first signed investor-protection agreements and then, when they suffered substantial damages awarded by private arbitrators, began a process of disengagement from ICSID and abrogation of their individual IIAs as they reaffirmed their national sovereignty and designed new models reaffirming their original national development objectives.

But it is relevant to discussing Brazil's engagement with regionalism that its government went so far as not to endorse two positions collectively taken by its Mercosul colleagues in the first years of their collaboration. The Protocol of Colonia for the Promotion and Reciprocal Protection of Investments (1994) was designed to facilitate investment within and between Mercosul states. Article 9's dispute-settlement mechanism permitted investors to choose international arbitration, though only if a dispute had not been resolved by conciliatory means. The Protocol of Buenos Aires for the Promotion and Protection of Investments from Non-Member Countries (1994) (Kalicki/Medeiros 2008: 434) offered the choice of jurisdiction, meaning that the host and home states could agree to settle their disputes in the domestic courts of either party. In addition to permitting investors to seek redress in international courts, the protocol stipulated that states were individually responsible for the enforcement of arbitral awards (Mercosur 1994b). Curiously, it concluded by pledging that a Mercosul member will "execute [arbitration sentences] in accordance with its own legislation," a claim that was interpreted as a contradictory reaffirmation of legislative autonomy

¹⁰ Hurrell (2007: 143) called attention to the "emergence of a structure of law and institutionalized governance that is qualitatively different from traditional international law."

(Mercosur 1994b). This concession to national sovereignty was not enough to cause Brazil to waver from its consistent refusal to accept private international dispute arbitration.

Almost two decades later, Brazil's legal isolationism extended to not supporting an Ecuadorian initiative to set up a UNASUL Arbitration Centre (UAC) as a regional arbitral authority that would replace the World Bank's ICSID. Governed by a board composed of representatives from each of UNASUL's member states, the UAC would permit disputing parties to submit to arbitration, but, in the case of claims that arise from a particular state's legislation, the UAC would require parties first to exhaust domestic judicial remedies before submitting to international arbitration – a principal demand of the opponents to private investor-state dispute settlement (Fiezzoni 2011: 134, 140).

Supporting Latin American resistance to external infringements on policy autonomy and reaffirming the supremacy of state legislation, the UAC proposal would reject arbitral claims if they undermined national policies on education, health care, and natural resources. For instance, warnings on cigarette packaging would remain in the public health domain and not have standing under the UAC. Supporting Latin America's defence of its judicial autonomy, the proposal would require a filing party to demonstrate that the disputed action had jeopardized the incoming capital's security. The proposed institution also addressed the common criticism of ICSID's opacity by permitting states to challenge arbitral awards by way of judicial appeals, a provision that would make investor-state arbitration subject to the same standards of procedural fairness as are provided by UNASUL members' domestic legal systems (Fiezzoni 2011: 141).

It is important for our argument that the UAC would contribute to regional cohesion by mitigating the frequent intra-regional conflicts over investment arbitration that have had a profoundly disintegrative effect in South America (ICSID 2015). Bringing such disputes under the aegis of a regional arbitral authority would mean introducing common standards of treatment for countries that have, in principle, already agreed on the need to deepen the region's economic and political integration.

That Brazil kept its distance from UNASUL's regional initiative, which defended the very same principles of judicial sovereignty that had motivated its past refusal to institutionalize foreign investor rights, tells us that a supportive engagement with regionalism is far from being an automatic instrument in Brasilia's external relations. Insofar as this economic and political giant is also a self-sufficient legal giant, it could distance itself both from its Mercosul colleagues' and from its UNASUL partners' efforts to generate new norms that reaffirm old Latin American values and build institutions to defend them.

4. Relating Inter-regionally Abroad

The political and economic integration of contiguous states is not just of parochial importance to the member-states themselves. By their very nature, the existence of more than one regional organization raises the possibility of region-to-region, state-to-region, and state-to-state relations.

From the point of view of non-members, Mercosul represented a problem as well as an opportunity. As a common market, its tariffs set up barriers against other countries' exports. But as a more integrated economic system, the four partially consolidated economies offered a larger clientele for foreign TNCs if they could set up operations within its market, typically from a base in Brazil. From Brazil's point of view, Mercosul also represented an opportunity and a problem, which we will successively address in terms of its relations with the European Union and North America in the North and with ASEAN and Africa in the South.

4.1 Mercosul and Brazil in the Global North: The European Union¹¹

The two politically, economically, and culturally most important northern regions provide strikingly different prospects for Brazilian diplomats. Whereas North America's regionalization in the form of a lightly institutionalized NAFTA provided Brasilia with no alternative to pursuing its interests via three bilateral relationships, Europe's regionalization in the form of the heavily institutionalized European Union offered Brasilia a viable interlocutor through Mercosul above and beyond its bilateral relations with such key countries as Germany.

4.1.1 Region-to-Region Relations

Inter-regional relations with the EU were ground-breaking and central to Brazil's foreign policy in the 1990s. Europe's "transformative power" was evident in its passive role as an institutional and economic model for Mercosul during the organization's gestation. Once established, Mercosul members received the EU's active support for their socio-economic progress via funds for training, technological transfers, and social programs. But later on, developing a productive region-to-region economic relationship across the Atlantic proved much more difficult and became a source of continuing frustration in Brasilia.

Privileging an inter-regional approach was based on the EU's desire to cement its soft power abroad by championing other manifestations of regionalism (Pietrangeli 2009: 11; Ruiz/Puntigliano 2009: 102). Brazil and its Mercosul counterparts were eager to accept the EU's partnership and assistance in order to support their rapidly growing economic ties (Faust 2006: 162). During the 1990s, Mercosul doubled its share of EU trade, while European investment in and trade with Brazil and Argentina skyrocketed following these countries' macro-economic reforms (Faust 2006: 160). Begun in 1999, trade negotiations experienced stalemates due to changes in the international context and to Mercosul's incoherence (Hardacre 2010: 154).

One of the reasons that pushed the EU to make meaningful offers was Washington's campaign to extend NAFTA into a Free Trade Area of the Americas (FTAA). Because both the EU and the United States were concerned about losing their influence in South America, their competition strengthened Mercosul's negotiating position. But once Brazil succeeded in blocking the FTAA negotiations, the EU's zeal to deepen its

¹¹ Christine Farquharson researched Brazil's relations with Europe.

engagement in Latin America cooled (Doidge 2011: 154). Mercosul's weak regional cohesion undermined its ability to resolve differences between Argentina's continuing protectionism and Brazil's more liberal stance and thus to put forward market-access offers that would be attractive to Brussels. The lowest-common-denominator position accepted by its four members was not enough to tempt the EU to make concessions of its own (Doidge 2011: 156). The negotiations broke down in 2004, leaving Brasilia empty-handed.

Two years later, Brussels inverted its approach to the regional dimension of its trade agreements. Instead of promoting the *Third World's* development through regional cooperation efforts, the rationale for the EU's trade negotiations was redefined instrumentally as a means of "stimulating growth and creating jobs in Europe" (European Commission 2006).

It is within the context of this harder-nosed shift in the EU's priorities that inter-regional negotiations were re-launched in 2010, suggesting that both sides expected there were benefits to be had from an EU-Mercosul agreement. Disappointed by their Mercosul partners' repeated impositions of protectionist measures, Brazil's industrialists set aside their fears of European competition and joined their agricultural fellow citizens to forge a consensus favoring more open trade relations (Leahy 2013b). With a distinctly conservative Paraguay in the process of reintegration after its temporary suspension, with Venezuela and Bolivia newly recruited to the organization but still anti-imperialist, and with Argentina soured on all forms of international economic agreements, Mercosul's incapacity to reach a consensus on contentious issues lowered the likelihood that an inter-regional agreement could be reached that would meet Brazil's needs to compete globally (Santander 2010: 110). Anxiety within its business community also mounted since, having risen to the status of a middle-income country, Brazil faced the loss of its preferential, low-tariff access to the European market under the EU's Generalized Scheme of Preferences program (MercoPress 2013). Given the gains expected for its competitive agricultural sector from obtaining freer access to the EU market, Brazil's membership in Mercosul, which prevented it from negotiating a trade agreement with Brussels bilaterally, was clearly hindering its economic prospects.

4.1.2 State-to-Region Relations

With region-to-region relations proving troublesome, Brazil developed one newer form of bilateralism, and then reverted to an older type. New was the way Brasilia tried to further its interests directly with the EU on a state-to-region basis. In August 2013 it announced that it might press for its own, direct economic agreement with the EU (Rathbone/Leahy 2013). This tactical shift responded to the re-thinking in Brussels which downgraded the EU's support for regionalism overseas and shifted its strategy to a region-to-state approach that privileged bilateral relations with the strongest third-world economies.

Its 2007 decision to announce a Strategic Partnership with Brazil reflected Brussels' awareness that an excessive focus on unsuccessful inter-regional negotiations with Mercosul had caused it to neglect its region-to-state relationship with its most important Latin American partner (Sautenet 2012: 127). In 2010, the European Council emphasized the EU-Brazil Strategic Partnership's (EUBSP) importance for environmental cooperation and "exchanges, contacts, and transfers of know-how between the [Commission] and Brazil"

(European Commission 2007a). Recognizing Mercosul's competence in trade issues, the EUBSP achieved such secondary political gains as supporting progressive environmental policy and fostering technical cooperation and knowledge transfers in a variety of sectors.

The putative convergence of environmental values between the EU and Brazil focused on Brussels providing financial support for Brazil's fight against deforestation and biodiversity loss (European Commission 2012). At the same time, the EU's ambitious renewable-energy targets (ten percent of its energy was to come from biofuels by 2020) made access to the Brazilian biofuel sector particularly important (Bendiek/Kramer 2010: 38). Despite self-identifying as a partner which shared the EU's "essential values" of democracy and human rights, Brazil has in practice tended to align itself with its BRICS partners Russia, India, China, and South Africa (Gratius/Gonzalez 2012: 14). While, for instance, the EU favored a binding, post-Kyoto regime in which developing countries would have to reduce their emissions, Brazil sided with the South, insisting on a comprehensive, ambitious, but voluntary global agreement centered on technology transfers from the rich to the developing world (Sautenet 2012: 135).

Although the EUBSP highlights technology transfers and building cultural connections in order to further Brazil's development and to strengthen relations between the partners, it only achieved such minor successes as a visa waiver agreement (Council of the European Union 2011: 18) and a consortium of European and Brazilian universities within an Institute for Studies Brazil-Europe. Most EU programs for development cooperation, knowledge transfer, and cultural exchanges are implemented through the dialogue between the EU and the super-region of Latin America and the Caribbean. Brazil tends to take disproportionate advantage of ALBAN (academic exchanges), AL-INVEST (facilitating the internationalization of Latin American businesses), ALFA (higher education cooperation), and URB-AL (local-level partnerships between European and Latin American authorities), but these programs operate at the continental level and cannot be credited to the EU-Brazil relationship (Haglund Morrissey 2010: 175-179).

The EUBSP was conceived as subordinate to inter-regional negotiations between the EU and Mercosul so as to prevent Brazil and the EU from reaping the benefits of freer trade at the cost of a full Association Agreement (European Commission 2007b: 3). Although the Joint Action Plan explicitly acknowledged that the inter-regional relationship "restricts the scope of our [state-to-region] dialogue" (European Commission 2007a: 14), the Brasilia-Brussels partnership has made use of the 29 technical-sector dialogues (TSDs) to pursue joint projects and even address issues more properly belonging to the inter-regional negotiations.

The region-to-state TSDs' projects range from large issues such as energy and environmental cooperation to more specialized ones such as satellite navigation, improving national statistics collection, and promoting knowledge transfer between relevant European and Brazilian ministries (Diálogos Setoriais 2011c). The Sector Dialogue on Energy developed a 2009 Cooperation Agreement between EURATOM and Brazil dealing with fusion energy research, while the Dialogue on Science and Technology created a National Monitoring and Warning Centre for Natural Disasters in Brazil, which applies European predictive models to Brazilian data (Diálogos Setoriais 2009).

Technical conversations in the state-to-region sector dialogues can also have region-to-region spillovers. Should Brazil achieve an agreement with Brussels on sanitary and phytosanitary measures (SPS), this could

play a significant role in facilitating the counterpart inter-regional negotiations because the EU's more stringent SPS regulations are considered by Mercosul's members to be a potent barrier blocking Latin America's agricultural exports (Diálogos Setoriais 2011b).

Competition issues have proven difficult to resolve at the inter-regional level. By addressing them through their state-to-region Dialogue on Competition, Brazil and the EU circumvent an inter-regional obstacle. At the same time they may be laying the foundation for a workable inter-regional compromise which other Mercosul members could later adopt. In this respect, Brazil speaks as the voice of Mercosul, but in so doing gives primacy to its own policy preferences on such issues as prosecuting cartels (Diálogos Setoriais 2011a).

Assessing the EUBSP on the basis of its stated goals of increasing coordination in multilateral discussions and fostering academic and personal exchanges, it has been underwhelming. But as an umbrella for the TSDs about thorny inter-regional policy differences, Brasilia has benefited from its relationship with Brussels – perhaps more than the EU has benefited from its relationship with Brazil. That it intends to benefit still more economically, even at the cost of its region's solidarity, was made clear by its threat – subsequently denied – to go it alone and negotiate its own economic agreement with Brussels.

4.1.3 Bilateral State-to-State Relations

Of even greater significance for this analysis, Brazil's bilateral, state-to-state relations with major European countries still yield it the most obvious benefits. Brasilia has long been highly committed to bilateral diplomacy by maintaining an active presence in thirty-five European states, developing particularly strong relationships with the United Kingdom, Portugal, and the Netherlands. Even small Norway offers Brazil an important regulatory model for such a specific policy challenge as managing its vast oil reserves.

Relations with Germany stand out as the exemplar of what Brazil achieves through its traditional state-to-state ties independent of regional bodies, whether in South America or in Europe. Germany is Brazil's largest European trade partner and fourth-largest economic partner world-wide. Its trade flow of \$21.5 billion in 2012 represented a 54 percent increase over 2006 levels – albeit with a large trade deficit (United Nations 2012). Unlike many of its economic relationships, Brazil's trade with Germany is not weighted towards agricultural products. Although Brazil does find an important market there for soya and coffee products as well as unprocessed iron ore, the list of Brazilian exports is more notable for such manufactured goods as vehicle parts, civil aircraft, and other machinery, which dovetail with German exports (Federal Foreign Office 2013). This Brazil-Germany intra-industry trade indicates that companies in both countries are diversifying their suppliers, transferring technology, and moving up the value chain, which are Brazil's top economic development priorities (OECD 2002). At the micro-political level, intra-industry trade enhances relations and generates constellations of interests favoring freer trade (OECD 2002). Indeed, Brazil and Germany have on several occasions issued joint calls goading their respective regional organizations to progress more quickly in negotiating their much-needed but long-blocked trade agreement (MercoPress 2012).

Intra-industry trade generates large amounts of FDI as companies seek to expand their operations abroad. Much German investment in Brazil is based on knowledge-sharing between firms in the same industry and sectoral cooperation agreements that are “geared to the comparative strengths of German companies” but also take into account Brazil’s growth sectors and development needs (Deutsche Bank Research 2010: 1). The bilateral 1996 Framework Agreement for Scientific Research and Technological Development aimed to “maintain a balanced and beneficial partnership for both countries” through cooperation in the aeronautical and space industries as well as on climate change, sustainability, health, education, and technological training (Itamaraty 2007). In this spirit, German direct investment in Brazil has evolved from tweaking existing products in order to appeal to local markets to becoming a more collaborative process in which Brazil is seen as a legitimate place to conduct research (Deutsche Bank Research 2010: 2).

Technological transfer is not limited to the private sector. There are over 380 partnerships between Brazilian and German universities, mainly seeking to improve environmental sustainability in industry and government services, a priority for both Germany and Brazil (Federal Foreign Office 2013). In addition, knowledge is transferred through personal contacts: since 1993, over 16,000 students have participated in academic exchanges funded by the German Academic Exchange Service, thousands more have profited from the corresponding EU-sponsored exchange programs (Federal Foreign Office 2013).

Whether relating to the EU inter-regionally through Mercosul or through its state-to-region Strategic Partnership, Brazil’s involvement with the European Union is less than meets the eye. The European Union may be more visible politically but it remains less important economically for Brazil than its traditional bilateral relations with the EU’s leading members. Theoretically helpful, Mercosul has actually become a hindrance to Brazil in achieving its national objectives, so that, by default, Brasilia’s most important diplomatic mechanism remains its traditional bilateral foreign policy. At the same time, its membership in Mercosul still enhances Brazil’s attractiveness as the preferred investment site for European corporations aiming to serve this regional market.

4.2 Mercosul and Brazil in the Global North: North America

As for Brazil’s relations with the North’s other world region, they remain obstinately bilateral, channelled as they are through three traditional bilateral relationships. NAFTA changed many rules primarily affecting Canada and Mexico but it created no institutional structure for the continent (Clarkson 2008). So, whatever economic successes can be attributed to NAFTA in the 1990s (the North American economy’s share of global product grew from 25 to 31 percent (Pastor 2012: 17), it failed to consolidate North America as a world region other than in security terms after “9/11” (Clarkson/Mildenberger 2011). Thus, Brazil has no entity with which to engage on a state-to-region basis, forcing it to keep dealing separately with the United States, Canada, and Mexico.

4.2.1 Brazil and the United States of America

As South America's leading power, Brazil has resisted the United States' efforts to project its economic hegemony throughout the hemisphere by thwarting Washington's effort to morph NAFTA into a trade and investment rule-book for the whole Western Hemisphere. The deal-breaker for the two countries' struggle for institutional control was Brazil's refusal to accept an asymmetrical Free Trade Area of the Americas that would have maintained US protection against Brazilian competitive textiles, clothing, and footwear and preserved US agricultural subsidies while requiring Brazil to lower its barriers to US products. Meanwhile, the United States' relative decline and Brazil's relative rise are making their relationship more balanced. This state-to-state relationship's current agenda has less to do with regionalism than with Brazil's increased clout within multilateral organizations previously dominated by Washington.

4.2.2 Brazil and Canada

Despite being two very large countries with complementary economies in the same hemisphere, Canada and Brazil have had an extraordinarily inconsequential relationship. Apart from reciprocal disputes at the WTO concerning each country's export subsidies for its respective medium-sized Bombardier and Embraer aircraft, the relationship has been polite but distant. As a first-world country whose own TNCs are major players in international mining, Canada has long been pushing its interlocutors in Latin America to negotiate IIAs. Although Lima and Bogotá have signed such IIAs with Ottawa, Brasilia has refused to do so. On the multilateral level, another obstacle to close political relations is the growing gap on human rights issues between the two powers, the Brazilian government being more progressive, the Canadian more reactionary. While Ottawa has latterly distanced itself from such liberal internationalism as the "Responsibility to Protect" doctrine (which it had formerly played a leading role in instituting at the UN), Brasilia has claimed ownership of the concept with its advocacy of a "Responsibility while Protecting" variant which emphasizes the protection of civilians during hostilities.

4.2.3 Brazil and Mexico

Even if Brazil is the largest recipient of Mexican foreign investment, this bilateral relationship is far from having reached its commercial or political potential. In different periods, the two countries have competed to be seen as Latin America's leader. During the Cold War, Mexico assumed the ideological high ground by preventing Washington from getting the Organization of American States' endorsement for an invasion of Fidel Castro's Cuba and by opposing US support for right extremist paramilitary movements in Central America. Its much criticized abandonment of its Iberian solidarity symbolized by signing NAFTA has recently been partly rectified by Mexico City's sponsoring the Pacific Alliance, a new hemispheric regional organization that excludes Canada and the United States but is led by itself. Beyond abrogating their trade agreement in the automobile sector, Brasilia's bilateral relations remain touchy, particularly after Mexico voted against Brazil's gaining a permanent seat on the UN Security Council. A further indicator of the two

countries' continuing alienation is that Mexico joined the negotiating table for the Trans-Pacific Partnership from which Brazil remains excluded.

4.3 Mercosul and Brazil in the Global South

Regionalism has played an integral part in Brazil's engagement with the global South, a term denoting less a geographical than a notional region – the mainly ex-colonial countries which are trying to pull themselves out of poverty and economic backwardness in order to approach the levels of wealth and development achieved in the North. Exploiting the perception that the global centre of economic gravity was shifting towards the South, Lula recalibrated his foreign-policy efforts there in favor of a more active search for political followers and for Brazilian business' international opportunities (Soares de Lima/Hirst 2006: 25). The diversity of the global South's various regional markets offers different economic benefits to Brazil which, in 2005, exported primary products to Asia in return for imported manufactured goods but sold chemical products and vehicles to South Africa (Maag 2005: 5f).

By offering technical cooperation, Brasilia has reinforced its image as the developing countries' big brother—a country which shares their historical, cultural, and socio-economic legacies from imperialism but which has more experience in successfully overcoming the difficulties that they have in common. Brazil has already become one of the world's largest aid donors, its contributions having soared by a factor of twenty between 2007 and 2010 (The Economist 2010). In an effort to raise Brazil's profile, its cooperation agency (ABC, *Agência Brasileira de Cooperação*) differentiates itself from other countries' aid programs and wins friends in the bargain by only working with public institutions, by requiring no ideological quid-pro-quo, by imposing no conditionality, and by providing no handouts. Instead, it trains personnel for projects that respond to requests from recipient governments which then take responsibility for their implementation. But lines between North and South get blurred: Brazil's trilateral partnerships with such developed countries as Japan, Great Britain, and Germany have enabled it to punch above its weight in its disbursement of cooperation assistance by mitigating its shortcomings in resources and experience.

Mercosul's weak supranational structure leaves Brazil great freedom in its pursuit of extra-regional ties except when negotiating formal trade agreements. Wanting to sign free trade agreements (FTAs) with particular Middle Eastern states, Brazil had no alternative but to do so through Mercosul. A South-America-Arab Countries Summit facilitated Mercosul's subsequent negotiations of FTAs in 2010 with Egypt and in 2011 with Palestine (Amorim 2010: 52).

4.3.1 ASEAN

By their sheer numbers, regions are more visible in the South, where they have proliferated, if seldom effectively. An exception by age and sophistication is ASEAN which, tracing its roots back to the US-sponsored,

anti-Soviet South-East Asia Treaty Organization, re-branded itself under Indonesian leadership as the Association of South-East Asian Nations in 1967.

Mercosul's formal, inter-regional relationship with ASEAN potentially gives Brazil access to improved connections with its members, but relations are at an early stage and are largely driven by private sector entities hoping to transcend the psychic and physical barrier presented by the Andes and break into the region's growing market.¹² At the first formal Mercosul-ASEAN ministerial meeting in 2008, the two regional entities reaffirmed the "spirit of South-South cooperation" and called for economic and cooperative partnerships because of the "importance of international trade as an engine for economic growth and social development" (ASEAN-Mercosul 2008). In actual fact, no trade agreement has been negotiated, and the most significant subsequent development was the 2012 Treaty of Amity and Cooperation, which, by affirming a policy of non-interference in the domestic affairs of ASEAN member-states, was deemed the political prerequisite for Brazil's further deepening its own diplomatic and trading ties there (Santosa 2012).

Although the two groupings are making an effort to maximize economic returns, and although ASEAN-Mercosul commerce increased more than fivefold in the 2000s, the relationship only accounted for 3.5 percent of Brazil's trade in 2010 (European Commission 2011). Future prospects for Brazil-ASEAN state-to-region economic relations are left largely to the private sector's own devices (METI 2011). In 2011, the Brazilian Minister for External Affairs made an effort to manage expectations by not committing his government to a specific timeline for any trade agreements (Adamrah 2011). The relationship's tentative tenor indicates that Brazil does not find it worth expending much energy on trans-Pacific inter-regionalism when it has so much more to gain from – and to worry about – with its bilateral, almost overwhelming Asian relationship with China which has become its first, if somewhat threatening economic partner.

4.3.2 Africa

Africa is a region where Brazil's self-projection as a cooperative partner from the South has considerable traction. In fact, of the eighty developing countries with which Brazil has signed technical cooperation projects, thirty-eight are African. Short of negotiating formal trade agreements through Mercosul, Brazil can engage with individual African countries on a bilateral basis or directly interact with them in their various regional permutations to enhance its economic ties. One such configuration was cultural. Brazil's engagement with Africa started with the former Portuguese-speaking colonies Angola, Guinea-Bissau, and Mozambique as privileged destinations for its investment, business internationalization, and development assistance. This trans-regional "Lusosphere" was given organizational identity with the formal creation of a Community of Portuguese Language Countries (CPLP, 1996). Along with Portugal itself, this Association offered Brazilian corporations with transnational ambitions a linguistically distinctive terrain where they could learn how to develop potentially rewarding foreign markets.

¹² Confidential discussions with Brazilian diplomats on 20 March 2013.

Culture and history also turned Brazil's centuries-long heritage of slavery into a connection that made all of Africa's states – whether singly, collectively, or sub-regionally configured – targets for Lula's extraordinary diplomatic efforts to celebrate special relationships that supported Brazil's economic expansion. Africa's natural resources were attractive to Brazilian heavy industry and for engineering corporations seeking contracts, and the continent's growing middle-class consumer demand was enticing for Brazilian manufacturers not yet ready to take on their first-world rivals in more competitive markets.

Given their numerical weight in major institutions of global governance, these countries were singled out by Brasilia as candidates for political cultivation through its exemplary technical cooperation efforts. Brazil has also made extensive use of bilateral technology-sharing agreements, loans, infrastructure projects, educational and scientific cooperation, poverty relief, and military training to establish its own sphere of influence in the continent.

4.4 Trans-regionalism: IBSA and BRICS

Its predilection for coalition-building to promote international stability and to compensate for its own weaknesses led Brazil under Lula to nurture innovative groupings that are “trans-regional” examples of networking governance in the sense that they bring together non-contiguous states that share the characteristic of being giants in their own regions. Joining India and South Africa in IBSA and associating itself with Russia and China through BRICS allowed Brazil to gain greater voice as it advocated for recalibrating the South's presence in international governance institutions.

IBSA. Reluctant to remain on the margins of North-defined international institutions (Vieira/Alden 2011) and wanting to assume what it sees as its rightful role as a major country in world affairs, Brazil engaged with the two regional giants in south Asia and southern Africa which were also trying to boost their status in the international community. Goals were set to increase trade volumes between India, South Africa, and Brazil from \$5 billion in 2004 to \$25 billion by 2015. Consultations between these states and their regional organizations led to preferential trade agreements being signed between Mercosul and India, Mercosul and the Southern Africa Customs Union (SACU), and India and SACU. Tariffs were lowered for a number of products, and working groups were established. Consistent with other state-to-region efforts since 2003, the political benefits that Brazil derived from IBSA overshadowed its economic value.

With neither permanent headquarters nor an executive secretariat, IBSA relies on summits, ministerial meetings, and working groups. The absence of a bureaucracy has promoted goodwill and a significant level of cooperation but has not produced a united voice. For instance, in the WTO, India is less willing to compromise on agriculture and market-access issues, while Brazil and South Africa are more willing to accept measures of economic liberalization.

At another level, IBSA is also a way for Brazil to promote its soft power with lesser developing countries, especially in Africa. Each IBSA member contributes \$1 million annually to the IBSA Fund, which has sponsored fifteen self-contained projects. Through this trans-regionalism, Brazil reinforces its image as a benign force

in the global political economy. That said, while IBSA has achieved and surpassed its trading goal, neither India nor South Africa has become a major trading partner for Brazil (European Commission 2011).

BRICS. Like IBSA, BRICS' unstructured institutionalization comprises little more than annual summits and meetings when ministers release joint communiqués and attempt to pool the five states' voices to increase their combined pressure to create a "multi-polar world" (BRIC 2010) in which they can each play a more active role in global decision-making. BRICS is calling for a level playing field that would correct the current inequities in the prevailing North-biased global trade rules. This constitutes both a political and economic objective, because strengthening the group's bargaining position vis-à-vis the global North yields indirect economic benefits.

During their 2013 Summit, the BRICS countries announced that they were creating a New Development Bank (NDB) with an initial capital pool \$50 billion and a Contingent Reserve Arrangement of \$100 billion to forestall short-term liquidity pressures, provide mutual support, further strengthen financial stability, and, by implication, rival the US-dominated World Bank and International Monetary Fund. The NDB's main difference with the World Bank and the IMF is that it will not attach to its loans such political conditions as requirements that loan recipients must structurally adjust their governance systems in conformance with neo-liberal standards. Another key development is BRICS' focus on Africa. Its Multilateral Infrastructure Co-Financing Agreement for Africa supports a chief Brazilian priority. Even though the BRICS' members contribute equal amounts of capital to the NDB, China seems in control: the person charged with establishing the bank is Chen Yuan from the China Development Bank (Forbes 2013).

Association with BRICS' more powerful members originally boosted Brazil's international prestige, although the Latin American giant is nevertheless too small to set the organization's agenda. As Beijing's opposition to Brasilia's UN Security Council candidacy suggested, Brazil will only be able to reap benefits in so far as its interests converge with China's. This asymmetry puts limits on how far BRICS can support its aims.

Another limitation is BRICS members' inability to shape global developments in a way that reflects the grouping's interests (Beausang 2012: 92). They failed to persuade the European Union to reduce its high agricultural subsidies and so terminate what Brazil perceives as a lasting injustice, but are nevertheless powerful enough to block new global initiatives that hurt their interests.

But this impotence could be changing. In 2013, the Brazilian Roberto Azevêdo was chosen to be Director-General of the WTO, the first time a developing country national has headed the organization for a full term. This appointment suggested that the strengthening of the global South's voice was already yielding some tangible returns for Brasilia (McClanahan 2013). Because social science scholarship cannot uncover many hidden causal factors, including the inner motivations of key decision-makers, evaluating regionalism's role in this success cannot be reduced to quantitative proof. It stands to reason that Brazil's emergence in the 2000s had much to do with its engagements in various types of regions which legitimized its stature as one of the South's most respected powers. By the same token, the downgrading of Brazil's international stature generated by Dilma's troubles in the 2010s can only be exacerbated by BRICS fellow-members Russia, South Africa, and China's own economic troubles, declining growth rates, and foreign investment losses.

5. Regions' Secondary Role in Brazil's International Political Economy

In its use of the various available forms of regionalism to develop its economy at home and to expand its influence abroad, Brazil has taken an à la carte approach.

- Memberships in more functionally specialized continental organizations such as FLAR and CAF clearly demonstrate Brasilia's quietly pragmatic approach to regional engagement: use it when it helps, ignore or even block it when it hinders. When it came to a fundamental international stance, notably its rejection of investor-state dispute arbitration, its regional solidarity with Mercosul and UNASUL did not trump its deeply entrenched juridical commitment to the defense of its constitutional autonomy.
- Among overseas regions in the global North, the European Union's importance far outweighs NAFTA's insignificance from an inter-regional perspective, but even Brazil's state-to-region relationship with the EU cannot match the value to of its traditional trans-Atlantic bilateral relations.
- Among regions in the global South, ASEAN has only modest potential for Brazil. In contrast, the Lusosphere and Africa, along with the continent's many sub-regional entities, have concrete value for both cultural and economic reasons.
- As for trans-regionalism, symbolically identifying with major global players who garner considerable international expert and media attention has enhanced Brazil's global stature (notably at the WTO), if not its ultimate objective – definitive recognition as a great power through gaining permanent membership on the UN Security Council.

Having reviewed the gamut of Brazil's regional memberships in the context of its traditional foreign policy instruments, we are still left with some uncertainty in evaluating the *relative* importance of both sets of foreign and economic policy tools.¹³ Acknowledging that Brazil's international position must first be understood in traditional realist and institutional terms, we asked to what extent it could be fully comprehended without splicing Brazil's flexible use of regionalism's various forms – intra-regional, functional, inter-regional, and trans-regional – into explanations of its advances and reverses.

At first glance, we could have deleted regionalism from the mix of factors explaining Brazil's early-21st-century successes. Surely its admission to such key clubs at the helm of global economic governance as the G20, or its getting a larger quota in the IMF on whose Financial Stability Board it plays a bigger role, or winning the presidency of the WTO could be amply explained by conventional indicators of the country's hard power (with 50 percent of South America's population but 80 percent of its GDP) and its soft power (Lula dynamically cutting a swath on the world stage supported by Itamaraty's highly competent diplomatic corps capitalizing on his charisma). Many of its aid efforts have been mediated through Brazil cooperating trilaterally with a first-world partner without reference to its regional associates. To be sure, Brazil's leadership in the rescue effort for Haiti was supported by its Latin American neighbors but it was not dependent on them (Malamud 2011). This was also true of Dilma's unilateral advocacy of a "Responsibility while Protecting"

¹³ Anna Postelnyak researched Brazilian diplomacy for this paper.

codicil to supplement the UN's "Responsibility to Protect" doctrine. While this region-free analysis is coherent as far as it goes, these indicators of Brazil's success cannot be fully accounted for without at least considering Mercosul's and UNASUL's contributions to its increased security and economic growth at home, or the benefits it has derived from the EU's collective engagement with Mercosul and Latin America, or the economic access that regionalism has given Brazil in Africa, or the political value-added derived from linking arms with other rising powers through IBSA and BRICS.

We could also have argued that regionalism is not relevant to an account of Brazil's international failures. The flop of its attempted mediation with Turkey in the troubled dossier of Iran's quest for a nuclear weapon-building capacity had nothing to do with its membership in Mercosul. Its bid for permanent membership on the UN Security Council was supported by some of its regional partners but it was also opposed by one Mercosul member, Argentina, while another, Uruguay, had definite reservations, notwithstanding Lula's commitment to deepening South American integration (Amorim 2010: 227). But this line of argument cannot negate the counter-factual possibility that Brazil's over-reaching intervention in the Iran issue or its frustrated candidacy at the United Nations were nevertheless made more credible by its image as the leading player in Latin America's principal regional organizations, its participation in regional organizations overseas, and its identification with other emergent forces through trans-regional networks.

This research assessed the importance of regions by asking the general question, to what extent they help their members achieve their economic, political, security, or cultural aspirations. It took on the case of just one country – but a highly important one – in order to identify the role that belonging to regional organizations has played in facilitating or hindering the achievement of its national goals.

Our exploration has led us to the ultimate point that, even when defined as broadly as is possible, regionalism appears to be a less important reality for the subject of our research than its many incarnations would have led one to expect. Although regionalism's forms continue to multiply and morph, Brazil's early 21st-century experience with them shows that, as a giant in its own sphere of influence, it still has more to gain economically by relying on its own market and governmental muscle than by diverting excessive resources to strengthen various local forms of regionalism. Politically speaking, these regions may be more help than hindrance but they have less headline-making value than working with giant states in other regions could offer.

If this is the case, the question arises as to the rationale for Brazil devoting so much diplomatic energy to regionalism at home and abroad. The answer appears to lie in the institutional imperative of a highly professionalized diplomatic service. Itamaraty's officials want to be members of all appropriate international clubs in order to be present at their continuing deliberations where they can defend Brazil's interests.

We thus conclude from this case study that, where a continent is dominated by a giant, its regional organization's prospects for evolving into governance forms that boast significant international actorness capabilities are not promising. A giant participates in regional organizations offensively to extract marginal benefits from its associates and defensively to control their agendas. It has few identity needs that its region can ameliorate. Policy coordination can be largely achieved by pressing its neighboring states to bring their standards into sync with those of the continent's major power (Clarkson/Mildenberger 2011:

280). For giants like the USA in North America, Russia in the Commonwealth of Independent States, India in South Asia, or, in this case, Brazil in South America, this continuing scholarly debate about the phenomenon's significance can be summed up by adapting a familiar political slogan: "regionalism if necessary, but not necessarily regionalism." In other words, secondary, not primary.

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Appendix I: Consultations in Brasilia, 18-22 March 2013. Collective meetings of the Research Group

Name	Date	Institution	Position/Department
Ambassador Santiago Mourão	18 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Director of the Department for Europe
Minister Luís Fernando Abbott Galvão	18 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Head of the Division for Europe - III
Ambassador Carlos Henrique Moojen de Abreu e Silva	18 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Department for the United States of America, Canada and Inter-American Affairs
Counsellor Claudia de Angelo Barbosa	18 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Department for the United States of America, Canada and Inter-American Affairs
Maria Cristina de Castro Martins	18 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Counselor and Head of Division for ASEAN and Timor-Leste
Gustavo Rocha de Menezes	18 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Counselor and Head of Division for China and Mongolia
Márcia Maria Adorno Cavalcanti Ramos	19 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Head of Department for Central America and the Caribbean
Olimpio Flasso	19 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Counselor of Department for Central America and the Caribbean
Minister Luís Antonio Balduino Carneiro	19 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Director of the Department of Financial Affairs and Services (G20)
Pedro Veloso		Ministério das Relações Exteriores ('Itamaraty')	Secretary, Cooperação Sul-Sul, Agência Brasileira de Cooperação
Minister Rubens Gama Dias Filho	20 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Director, Department for Trade and Investment Promotion
Igor Barbosa	20 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Assessor, Department for Trade and Investment Promotion
Minister Norberto Moretti	20 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Minister International Peace and Security Division
Ricardo Poletto	21 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Secretary, Division of Economic Coordination and Trade Affairs of Mercosul
Breno Hermann	21 March 2013	Ministério das Relações Exteriores ('Itamaraty')	Head, Division of Political, Institutional, Juridical, and Social Issues of Mercosul
Ambassador Carlo Cozendey	20 March 2013	Ministry of Finance ('Fazenda')	Secretary for International Affairs

Appendix II: Consultations in Brasilia. Individual Meetings of the Research Group's Members

Name	Date	Institution	Position/Department
Meetings preceding March 2013			
Ambassador Everton Vieira Vargas	28 June 2012	Ministério das Relações Exteriores ('Itamaraty')	Ambassador of Brazil to Germany
Ambassador Ricardo Tavares	19 July 2012	Ministério das Relações Exteriores ('Itamaraty')	Ambassador of Brazil to the European Union
Ambassador Afonso José Sena Cardoso	24 February 2013	Ministério das Relações Exteriores ('Itamaraty')	Consul-General of Brazil in Toronto, Canada
Brazil's relations with North America			
Jamal Khokhar	22 March 2013	Department of Global Affairs of Canada	Ambassador of Canada to Brazil
Sergio Saavedra	23 March 2013	Mexican Embassy in Brazil	Minister
Brazil's economic development			
Prof. Antônio Brussi	21 March 2013	University of Brasilia	Department of Political Science
Prof. Rebecca Abers	22 March 2013	University of Brasilia	Department of Political Science
Jackson De Toni	22 March 2013	Agência Brasileira de Desenvolvimento Industrial	Planning Manager
Roberto Sampaio Pedreira	22 March 2013	Agência Brasileira de Desenvolvimento Industrial	Industrial Policy-Coordinator
Patrícia Helena Vicentini	22 March 2013	Agência Brasileira de Desenvolvimento Industrial	Project Coordinator of International Cooperation
Brazil's engagement with financial regionalism			
Carlos Alberto de Resende	21 March 2013	International Monetary Fund	Advisor to the Executive Director for Canada, Ireland and the Caribbean
Isabela Ribeiro Damaso Maia	21 March 2013	Central Bank of Brazil	Head of Department, Executive Office for Corporate Risk and Benchmarks
Paulo Mauricio Fonseca de Cacella	21 March 2013	Central Bank of Brazil	Senior Advisor, Executive Office for Corporate Risk and Benchmarks
Daniela Pires Ramos de Alcântara	21 March 2013	Central Bank of Brazil	Senior Advisor, International Affairs Department
Paulo César de Freitas Mamede	21 March 2013	Central Bank of Brazil	Deputy Advisor, International Affairs Department
Rodolfo de Fontes Oliveira	21 March 2013	Central Bank of Brazil	Head of Division, External Debt and International Relations Department
Investment Protection and Investor-State Dispute Settlement			
Hussein Ali Kalout	21 March 2013	Superior Court of Justice	Head of the International Division
George Rodrigo Bandeira Galindo	21 March 2013	University of Brasilia	Professor of International Law and Dean, Faculty of Law
Marco Chirullo	21 March 2013	Delegation of the European Union in Brazil	Deputy Trade Counsellor, Trade Section

Ivan Tiago Machado Oliveira	22 March 2013	Instituto de Pesquisa Econômica Aplicada (IPEA)	Coordenador de Estudos em Relações Econômicas Internacionais, Diretoria de Estudos e Relações Econômicas e Políticas Internacionais
Tiago Ribeiro Dos Santos	22 March 2013	Ministério das Relações Exteriores	Deputy Head, Division for Europe
Brazil's Relations with Europe			
Marco Chirullo	21 March 2013	Delegation of the European Union in Brazil	Deputy Trade Counsellor, Trade Section
Ivan Tiago Machado Oliveira	22 March 2013	Instituto de Pesquisa Econômica Aplicada (IPEA)	Coordenador de Estudos em Relações Econômicas Internacionais, Diretoria de Estudos e Relações Econômicas e Políticas Internacionais
Tiago Ribeiro Dos Santos	22 March 2013	Ministério das Relações Exteriores	Deputy Head, Division for Europe
Brazil's Foreign Policy			
Iara Costa Leite	20 March 2013	University of Brasilia	Research Associate, South-South Cooperation Research and Policy Center
Fernando Meirelles de Azevedo Pimentel	21 March 2013	Ministry of Finance ('Fazenda')	Associate Secretary of International Affairs, Journal submission

Appendix III: Other Consultations in 2013

Name	Date	Institute	Position/Department
Sergio Fausto	7 March 2013	Fundação Fernando Henrique Cardoso	Superintendente Executivo
Kai Lehmann		University of São Paulo	Associate Professor, Institute of International Relations
Albert Berry		University of Toronto	Department of Economics
Scott Aquanno		University of Toronto	Department of Political Science
Louis Pauly		University of Toronto	Department of Political Science
Richard Sandbrook		University of Toronto	Department of Political Science
Matto Mildenerger		Yale University	School of Forestry and Environmental Studies

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The Kolleg-Forschergruppe (KFG) is a funding program launched by the German Research Foundation (Deutsche Forschungsgemeinschaft - DFG) in 2008. As a Research College, it is intended to provide a scientifically stimulating environment for innovative research within a small group of senior and junior researchers.

The Kolleg-Forschergruppe „The Transformative Power of Europe“ investigates how ideas spread across time and space. During its first phase of research, from 2008-2012, the KFG studied the diffusion of policy ideas and institutions within the European Union (EU), its candidates and neighborhood. During the second phase, from 2012-2016, the KFG realigns its focus of interest on the diffusion of ideas, policies, and institutions beyond Europe (comparative regionalism) and the analysis of the EU at the receiving end of external influences. Its two main research areas are:

- The EU and Regional Institutions in Latin America, Africa, the Middle East and Asia
- Europe and the EU and Recipients of Diffusion

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