Leaders, Ideas, National Interests, And Economic Strategies: Explaining The Regional Integration Decisions Of Mexico And Brazil

Roberto Genoves

Graduate Center, City University of New York
LEADERS, IDEAS, NATIONAL INTERESTS, AND ECONOMIC STRATEGIES: EXPLAINING THE REGIONAL INTEGRATION DECISIONS OF MEXICO AND BRAZIL

by

ROBERTO GENOVES

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Dr. Kenneth P. Erickson

__________________________
Chair of Examining Committee

Dr. Alyson Cole

__________________________
Acting Executive Officer

Dr. Stephanie R. Golob

Dr. Sherrie Baver

Supervisory Committee

THE CITY UNIVERSITY OF NEW YORK
Abstract

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Adviser: Professor Kenneth P. Erickson

Regional integration agreements (RIAs) facilitate economic integration by allowing member countries access to each other’s markets and by removing or reducing trade and investment barriers. Their increasing influence on international patterns of trade and investment flows has stimulated substantial academic work. Yet, scholars note that we lack an adequate comprehension of the factors that cause governments to seek RIAs, and why they prefer a particular type of integration arrangement. These are important questions because they speak to the forces that shape cooperation among states, a vital issue in international relations with implications for global governance.

Using an eclectic analytical approach, this investigation tackles those questions by focusing on the relative role of governmental leaders, ideas, national interests, and economic development strategies. It does so via a comparative study of the foreign policy processes and decisions that led Mexico and Brazil to seek economic integration with neighbors within their respective North and South American regions, which resulted in the North American Free Trade Agreement (NAFTA) between Mexico, the United States and Canada, and the Common Market of the South (Mercosur) between Brazil, Argentina, Paraguay and Uruguay. In-depth case studies of Mexico and Brazil are followed by a comparative analysis of similarities and differences in their respective processes and decisions.

The main conclusion confirms the importance of powerful decisionmakers within the
executive as pivotal political actors whose preferences are critical in determining regional integration outcomes. Leaders choose the economic development strategy that establishes how they want to configure the country’s relations with the world economy, which is a major factor influencing regional integration decisions. In turn, the interpretation of core national interests by top decisionmakers is an important variable shaping the choice of development strategy. Finally, leading policymakers’ political and economic ideas represent a crucial intervening factor because they provide the lens through which national interests are interpreted, economic strategies are chosen, and specific integration policies are decided upon.

The study was conceived as an empirical political investigation. It relies on data collected in Mexico and Brazil via interviews with local analysts and observers and relevant political and economic actors, and through archival research.
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Chapter 1

Introduction

Since the mid-1980s there has been a continued proliferation of regional economic integration schemes across the world. Also known as preferential trade agreements (PTAs), regional trade agreements (RTAs), or regional integration agreements (RIAs), these reciprocal arrangements between two or more countries facilitate economic integration by allowing access to each other’s markets and by removing or reducing trade and investment barriers. These integration agreements have become a major defining feature of the world economy.

According to the World Trade Organization (WTO), as of January 10, 2013 there were 354 RTAs in force and the number is expected to continue growing steadily (WTO 2013). The chart below shows the evolution of Regional Trade Agreements in the world, 1948-2012 based on RTAs notified to the GATT/WTO, including inactive RTAs, by year of entry into force (Source: WTO 2013):
There are four main types of regional economic agreements. Free Trade Agreements (FTAs) abolish or reduce tariffs and other non-tariff restrictions between members, but each country retains its own tariffs against third parties. Customs Unions (CUs) remove barriers to trade among members but erect a common external tariff (CET) vis-à-vis third parties. Common Markets (CMs) not only eliminate trade restrictions but also allow the free flow of factors of production among members. In Economic Unions (EU) members participate in a common market and coordinate national fiscal and monetary policies in order to remove discrimination that was due to disparities in these policies (Balassa 1961).

FTAs account for the vast majority of existing integration agreements, while Customs Unions represent only 10% of the total. Some best known examples of RTAs are: the European Union (EU), the European Free Trade Association (EFTA), the North American Free Trade Agreement (NAFTA), the Southern Common Market (Mercosur), the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA), and the Common Market of Eastern and Southern Africa (COMESA).

The increasing influence of RIAs on international patterns of trade and investment flows economic relations has stimulated substantial academic work on the subject. Yet, integration scholars note that we still lack an adequate comprehension of what causes governments to seek RIAs (Edward D. Mansfield and Helen V. Milner 2012), and what leads them to prefer a particular type of integration arrangement (Mansfield, Milner, and Jon C. Pevehouse 2008). These are important questions because they speak to the forces that shape cooperation among states, a vital issue in international relations with implications for global governance.

I address those questions by focusing on the relative influence of governmental leaders, ideas, national interests, and economic development strategies in deciding regional integration outcomes. My investigation confirms the critical role of individual top
policymakers as pivotal political actors with the power to determine the course of action at
critical points of the decision-making process. Leaders choose the economic development
strategy, which establishes how they want to configure the country’s relations with the world
economy, a major factor shaping regional integration preferences. In turn, powerful
individual decisionmakers define the country’s core national interests, which is an important
variable affecting the choice of development strategy. In this process, political and economic
ideas represent a crucial intervening factor because they provide the lens through which
leaders interpret national interests, select economic strategies, and decide on specific
integration policies.

Using an eclectic analytical approach, I develop a comparative study of the foreign
policymaking processes and decisions that led Mexico and Brazil to seek economic
integration with neighbors within their respective North and South American regions in the early 1990s, which eventually resulted in the North American Free Trade Agreement (NAFTA) and the Common Market of the South (Mercosur). NAFTA is a RIA between Mexico, the United States and Canada to implement a free trade area. It was signed in 1992 and came into force in January 1994. Mercosur is a quadripartite arrangement between Brazil, Argentina, Paraguay and Uruguay that was created by the signing of the Treaty of Asunción in March 1991. In December 1994, the four countries signed an additional protocol that established the institutional structure of Mercosur, its legal international personality, and further defined it as a customs union.¹

A particular puzzle contributes to make the comparison between Mexico and Brazil compelling as a means to achieve the purpose of my study. Why did Mexico and Brazil opt for different integration schemes in the early 1990s (i.e., a North-South FTA in the case of

¹ Currently, Mercosur includes Argentina, Brazil, Paraguay, Uruguay and Venezuela, as full members. Bolivia requested its entry as a full member, and since December 2012 is in the process of joining as such. Other countries (i.e., Chile, Colombia, Ecuador, and Peru) are recognized as “Estados Asociados” (Associated States) (Mercosur 2013).
Mexico and a South-South customs union in the case of Brazil)? Why did they not continue following a similar path as they did in 1960 when they both joined the Latin American Free Trade Association (LAFTA) and again in 1980 when both became members of the Latin American Integration Association (LAIA), the arrangement that replaced LAFTA? Simple functionalist logic would lead one to expect little variation in national preferences for integration arrangements from comparable developing countries that face similar types of cooperation problems (Acharya and Johnston 2007).

An incentive for my research is that the explanatory power of the theories that dominate the study of regional integration (i.e., neofunctionalism, realism/neorealism, liberal intergovernmentalism, neoliberal institutionalism, rational choice institutionalism, and constructivism) is limited by a substantial dependence on the European case (Choi and Caporaso 2005). Thus, by studying integration experiences that occurred in the Americas, I contribute to diversify the literature and enrich the understanding of the sources of regionalism.

In addition, this study allows me to examine a connection often overlooked by the relevant literature between regional integration, a topic associated with international political economy (IPE), and foreign policy (Milner and Tingley 2011). It also contributes to the field of comparative foreign policy as it probes for similarities and differences in the relative influence exerted by a set of factors that shaped the respective foreign policymaking processes of Mexico and Brazil that decided their participation in NAFTA and Mercosur. Finally, my research adds to the broader field of international cooperation.

**Theoretical Context**

The subject of the dissertation bears on two main interrelated literatures. One is dedicated to the study of regional integration. It aims to explain why and how countries agree to cooperate in the creation of regional institutions that facilitate the integration of their
economies. The other concerns itself with the analysis of foreign policymaking. Its main purpose is to explain the processes and decisions through which each country defines its external behavior and determines its international relations.

My review of these two literatures addresses the two central questions that motivate my study. Why do governments seek regional integration agreements? Why do governments choose different types of integration schemes? The purpose is to establish a frame of reference for my research and to identify valuable contributions to draw from in the analytical framework used to conduct the study.

1. Various Explanations of Regional Integration

1.1 Functionalism

The functionalist approach emerged originally in the early 1940s as a proposal to achieve a lasting world peace. Its proponent, David Mitrany, argued that “the evil of conflict and war springs from the division of the world into detached and competing political units [i.e., nation-states]” (Mitrany 2003, 101). He envisioned two possible ways to overcome such war-prone international structure:

One would be through a world state which would wipe out political divisions forcibly; the other is the way discussed in these pages, which would rather overlay political divisions with a spreading web of international activities and agencies, in which and through which the interests and life of all the nations would be gradually integrated (2003,101).

For Mitrany, the need to solve common practical (i.e., administrative and technical) problems made countries interdependent thus generating a demand for international institutions that functionally serve that purpose. He rejected any regional solution because it would lead to an enlarged version of the conflictive sovereign state instead of superseding it (Mitrany 1965).

Mityrany’s functionalism was based on a rational-technocratic approach that mistakenly derided the role of politics in international integration, and was also marked by a normative bias (Rosamond 2000). However, his claim that international institutions’ raison d’être derives from their functional capacity to solve interstate cooperation problems
remained an enduring legacy for the subsequent development of regional integration theory. In particular, Mitrany’s insight that countries learn to integrate with others through practical cooperation within institutional settings (see Haas 1964, 13) is a relevant contribution to a theory on the formation of states’ preferences regarding integration.

1.2 Classical Realism

Best represented by Hans Morgenthau, the classical realist approach argues that states’ actions are determined by “statesmen [who] think and act in terms of interest defined as power” (Morgenthau 2006, 5) as dictated by patterns of behavior rooted in an unchanging human nature. Therefore, the possibility of achieving lasting peace through international institutions under such conditions is at best uncertain. While sympathetic to Mitrany’s functionalism, Morgenthau argued that international institutions could only play a role subordinated to that of nation-states because “[m]ore important than anything else is the ability of the national government to defend its territory and citizens against foreign aggression” (2006, 528-29).

Morgenthau could explain the creation of the European Communities in the 1950s, which was based on cooperation in the coal and steel sectors, only as “a revolutionary departure from the traditional methods [i.e., balance of power] by which inferior powers [i.e., France] have tried to counter a superior one [i.e., Germany]” (Morgenthau 2006, 533). In other words, the European regional project was a new form of inter-power relations conceived by governments that were however ultimately driven by a traditional defense of national interests. This viewpoint underlies the arguments advanced by intergovernmentalist perspectives (see below, Hoffman 1966; Moravcsik 1993), which explain regional integration as the result of interstate bargaining.

Classical realism is not well-suited to explain international cooperation. Yet, Morgenthau’s contention that a concern for the defense of national interests is a necessary
part of the strategic calculations that governments make when deciding to join regional integration schemes is a valid one. It is thus a relevant insight when studying the factors that influence governments to join integration agreements.

1.3 Transactionalism

Karl W Deutsch, Sidney A. Burrell, Robert A. Kann, Maurice E. Lee, Jr., Martin Lichterman, Raymonde E. Lindgren, Francis L. Loewenheim, and Richard W. Van Wagenen (1957) proposed another approach to integration known as transactionalism, which emerged from studying the “possible ways in which men someday might abolish war” (1957, 3). The research focused on historical experiences of successful integration where political communities had become “security-communities,” defined as groups of people that eliminated the use of violence in their interactions, and developed stable expectations of peaceful means to achieve changes or solve conflicts. In this sense, Deutsch et al. define integration as a condition to be attained. At the same time, the “sense of community” necessary for integration is defined as a “perpetual dynamic process of mutual attention, communication, perception of needs, and responsiveness in the process of decision-making” (1957, 36; emphasis added), which is also characterized as “a process of social learning” (1957, 129).

The transactionalist approach equates integration to a multidimensional process of communication where the degree of match between the level of economic, political, social, and cultural transactions connecting the units involved and their respective capabilities to support that volume determines its success or failure. The units’ capabilities are two-dimensional: 1) capacity to act measured as “size, power, economic strength, administrative efficiency”, and 2) subjective ability of the units to be “responsive” or “to control [their] own behavior and to redirect [their] own attention” to the needs of integration (1957, 40).
Therefore, according to Deutsch et al.’s model, actors’ preference formation for integration is an attribute endogenous to the process and not externally given or assumed.

Transactionalism’s neglect of politics (see Haas’s criticism below) is an important drawback. However, its dynamic conception of integration where interaction and learning play an important role in molding actors’ preferences in favor of integration is a pertinent insight to be incorporated into the analytical arsenal used to study the sources of regional integration arrangements. The perspective developed by Deutsch and his associates contributed to the constructivist concept of security communities later developed by Adler and Barnett (1998) (see below).

1.4 Neofunctionalism and Intergovernmentalism

Two perspectives dominated the scholarly debate on regional integration in the 1950s and 1960s influenced by the creation of the European Coal and Steel Community (ECSC) in 1952, and the European Economic Community (EEC) and the European Atomic Energy Community (Euratom) in 1957. Neo-functionalism, pioneered by Ernst B. Haas (1958) was inspired by Mitrany’s approach, and based on an in-depth study of the ECSC. It explains regional integration as a self-sustaining process of institution-building starting with economic integration by sector which “spills over” into other areas through the convergence of elites’ demands and expectations, which in turn leads to successively higher levels of political cooperation and integration, culminating in the formation of a regional political community and identity.

For Haas, regional political integration is “the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national state” (1958, 16). Therefore, actors’ preferences are developed during the integration process. They behave according to their perceived interests and
configured values. Yet, values change and interests are redefined during the process, so that “separate national group values will gradually be superseded by a new and geographically larger set of beliefs” (1958, 14).

Also, Haas’s notion of political community implies the development of a “supranational” institutional structure, akin to a central government, that is capable of modifying expectations through adequate policies because economic integration by itself “does not necessarily lead to political community” (1958, 12; emphasis in the original). Thus, Haas criticizes Deutsch for ignoring that “[i]ntegration is the result of specific decisions made by governments acting in conjunction with politically relevant, organized groups” (Haas 1958, 285). Whether integration is making progress or not depends on the actual interaction of “national ideologies on the one hand and the beliefs of the office-holders in the central institutions on the other” (1958, 19), that is, whether it produces positive changes at the national level in terms of ideologies, expectations and behavior patterns.

While Haas was initially skeptical that the European experience could be successfully applied to other regions of the world, he eventually examined this possibility (Haas 1961; 1967). He argues that whether the European experience can be replicated in Latin America, raises “one the most puzzling of questions: can only industrialized nations integrate or can the very fact of underdevelopment be a spur to regional unity?” (1961, 382). He recognizes that the motivation for regional integration in Latin America was different from Europe’s, noting that the idea originated in the U.N. Economic Commission for Latin America. It was driven by the urge to develop and to enlarge markets to stimulate industrialization, and it reflected the unifying ideological influences derived from a similar situation of backwardness. It also represented a defensive reaction to the perceived economic threat posed by a united Europe.

Haas (1967) revised his neofunctionalist approach in view of the unanticipated stalling of the European integration process in the mid-1960s caused by the stern opposition
of French President Charles de Gaulle to any supranational authority. The author acknowledged that his gradual theory of integration where “pragmatic interest politics” prevailed over “high politics,” was grounded on a teleological assumption of automatic integration, and thus it was unable to account for the recent setback. It thus acknowledged that “[i]ntegrative decisions based on high politics and basic commitment are undoubtedly more durable than decisions based on converging pragmatic expectations” (1967, 328).

Haas’s emphasis on learning, changing expectations and beliefs, and redefinition of interests is pertinent to an analysis of the processes underlying regional integration.

Stanley Hoffman (1965; 1966) developed the intergovernmentalist perspective at the time that President de Gaulle’s nationalist posture forced the freezing of the European integration process. He argued that de Gaulle’s opposition to supranationality revealed that, while national governments were amenable to delegating authority with respect to matters of economic cooperation, they remained reluctant to relinquish power over the “high politics” of national sovereignty and foreign policy. For Hoffman, this event contradicted the tenets of neofunctionalism, which according to him were based on two flawed assumptions: “first, the obsolescence of the nation-state […] if not for all nations at least for those of Western Europe; secondly, the belief in the capacity of the supranational procedure to solve problems on which governments cannot agree if they are left to themselves” (1965, 94).

Haas and Hoffman also differ on the relationship between economics and politics. For the pioneer of neofunctionalism, economics aided by a supranational bureaucracy can “spill over” into politics via the shift in expectations. For Hoffman, economics and politics pertain to parallel domains and develop according to different logics which rarely converge. Thus, economic cooperation cannot by itself evolve into political integration.

Hoffman (1966) claims that world politics tends to pull state actors apart: “[e]very international system owes its inner logic and its unfolding to the diversity of domestic
determinants, geo-historical situations, and outside aims among its units; any international system based on fragmentation tends, through the dynamics of unevenness [...] to reproduce diversity” (1966, 864; emphasis in the original). The author does not reject the possibility of integration, but “the chance depends on the timely convergence of too many variables to be counted on” (1966, 903).

Hoffman concedes to neofunctionalists that integration requires similar domestic structures, but “what matters is not that the units be in ‘objectively’ similar situations at the time when integration begins and while it proceeds. What matters is ‘subjective’ similarity -a similarity that is not the scholar's assertion, but the policy-maker's conviction” (1966, 905). It is “high politics” that guides states to integration, not “spill-over” effects or supranational institutions. In this sense, Hoffman’s intergovernmentalism resonates with Morgenthau’s realism.

1.5 Realism and Neorealism

Robert Gilpin’s (2001) realist approach is state-centered. It emphasizes “the importance of power, national political interests, and interstate rivalries” in processes of regional integration (2001, 356). It argues that the success of regional integration requires the leadership of one or more powerful, hegemonic actors (Kindleberger 1973; Krasner 1976). Gilpin asserts the traditional realist’s view that politics prevails over economics in explaining outcomes, that is, economic union follows, rather than precedes, political union. According to him, the neofunctionalist dynamics may work only after a political choice has been made in favor of the union. Regionalism “has been a response by nation-states to shared political and economic problems [...] in order to strengthen their autonomy, increase their bargaining position in disputes about distributive issues, and promote other political or economic objectives” (2001, 357).
He considers the spread of regionalism as a result of the efforts by states to benefit from a global economy, while at the same time they strive to secure a larger share of relative gains and guard themselves against external risks. The competitive threat of globalization has impelled nation-states to form defensive regional alliances or arrangements led by one or more major economic powers (Gilpin 2001). Gilpin’s approach offers plausible insights on the forces that may have compelled Mexico and Brazil to join integration agreements.

Whereas state-centered realism focuses on the pursuit of power and the defense of national interests to explain state behavior, neorealism emphasizes the role of the anarchical (i.e., lacking a central authority) structure of the international system of states and the distribution of power capabilities within it (Schweller and Priess 1997). According to its founder, Kenneth Waltz (1979), such a structure encourages states to behave in a self-regarding manner, seeking their own survival. On the other hand, differing economic capabilities propel states to cooperation and interdependence via the international division of labor. Waltz predicts that ultimately international cooperation will be thwarted by states’ fear of an adverse distribution of mutual gains and their worry that cooperation will make them dependent on others.

Based on the basic assumptions of its structural approach, neorealism can only conceive the possibility of international cooperation as the result of a change in the distribution of material capabilities among states. Thus, for Waltz, the shift from a multipolar to a bipolar world after WWII, which was a change in the distribution of power, facilitated the European integration process, because “for the first time in modern history, the determinants of war and peace lay outside the arena of European states” (1979, 70), that is, it mitigated their mutual fear that any unequal distribution of gains could result in military advantage for others.
The broad strokes afforded by the neorealist approach cannot account for a phenomenon as complex as regional integration in a satisfactory manner. It does provide a first cut into potential triggers of governments’ decisions to join regional integration schemes by focusing on the impact of changes in the structure of the international political economy.

Joseph M. Grieco (1999) modifies the basic neorealist argument to explain why Germany remained committed to the European Union while Japan was reluctant to promote any East Asian integration scheme after the end of bipolarity (i.e., Cold War), thus contradicting expectations of similar attitudes toward regional integration based on realist theory about the role hegemonic leadership in international regimes. In his view, the answer to this puzzle requires one to take into account the influence that U.S. power and strategy during and after the Cold War had over the respective national preferences of Germany and Japan. That influence was exerted through the impact of “asymmetries of interdependence”, that is, via the relative vulnerability of a country to external pressures due to unequal dependence on certain markets (i.e., Japan was more vulnerable than Germany due to higher dependency on U.S. markets).

Grieco provides a valuable perspective to assess external causes of variation in regional integration. It can thus help to account for the influence that U.S trade policies may have had on the different paths to regional integration that Mexico and Brazil followed in the early 1990s.

1.6 Neoliberal Institutionalism (NI)

Robert O. Keohane is the main architect of NI, which he developed as an alternative to, and in debate with, neorealism to explain world politics (Keohane 1984; Keohane and Nye 1989; Keohane 1993). Like neorealism, NI has a systemic, “top-down” view of state behavior and assumes that states are unitary rational actors motivated by self-interest. Contrary to neorealism however, NI contends that international cooperation is possible when states’
interests coincide. International institutions play a crucial role in this regard because they prevent cheating or defection, which are major obstacles to cooperation, by supplying information, transparency and monitoring, low transaction costs, and convergence of expectations.

One can also discern the influence of functionalism on the NI conception of international institutions as instruments to overcome inter-state problems derived from interdependence: “[f]acing dilemmas of coordination and collaboration under conditions of interdependence, governments demand international institutions to enable them to achieve their interests through limited collective action” (1993, 274). In their analysis of the European integration process, neoliberal institutionalists tend to focus on the intergovernmental bargains that underlie the building of the complex European institutional arrangements (Hurrell 1995).

More generally, NI would explain regionalism as a response to the demand for inter-state cooperative institutions derived from processes of regionalization where states in a certain geographical area become more interdependent and integrated among themselves than with other parts of the world mainly driven by markets, trade, investment flows, and corporate decision-making (Hurrell 1995). This view on the sources of regional integration is important for the analysis on the causal factors that led Mexico and Brazil to join integration agreements in the early 1990s.

1.7 Rational Choice Institutionalism (RCI)

RCI is an analytical approach to political science characterized by four major assumptions (Peter A Hall and Rosemary C. R. Taylor 1996): 1) pertinent actors have a static set of policy outcome preferences and behave in a purposive and strategic manner, that is, taking into account the potential behavior of others, to maximize the satisfaction of their preferred outcomes; 2) politics is conceived as a series of collective action problems
requiring the existence of institutions to solve them; 3) institutions configure the strategic interaction of actors by supplying information and enforcement mechanisms that mitigate the lack of certainty concerning the behavior of others, thus shaping individual conduct in a manner that is congruent with desired social outcomes; and 4) institutions emerge because of their value to actors in performing desired functions, that is, in ensuring the achievement of gains from cooperation.

Geoffrey Garrett (1992) uses RCI to explain puzzles posed by the institutional structure of the EU’s internal market, that is, why its sovereign members accepted an arrangement that constrains their autonomy, and why a certain institutional arrangement was chosen over others. In doing so, Garrett probes for the forces that drive countries to join regional arrangements. He contends that the main external factors that triggered the renewal of European economic integration in the 1980s were declining economic performance vis-à-vis Japan and the United States and growing economic interdependence among European countries.

Once European states accepted the need of international cooperation to surmount economic decline and respond to interdependence, they had to face the dilemma of institutional design. In this regard, Garrett claims that the issue was decided through a process of strategic bargaining among rational actors (i.e., states) unequally endowed with power resources and guided by different agendas based on their governments’ outcome preferences. The author finds that while the EC constrained member states’ autonomy, the most powerful members’ preferences (i.e., of Germany) prevailed.

Contrary to other RCI explanations, Garrett notes that regional institutional arrangements among sovereign states do not necessarily result in rational-optimal solutions to collective action problems. He illuminates the power dimension in inter-state bargaining processes that shape regional institutional outcomes, emphasizing the dynamic interaction of
elites’ preferences and the distribution of power resources. This is a valuable analytical contribution for my study.

1.8 Constructivism

According to Young Jong Choi and James. A. Caporaso (2005), constructivism asserts that norms, ideas and identities rather than material forces shape regionalism, not just by constraining agents’ preferences and behavior but more importantly by “constructing” or forming them via processes of interaction and socialization. Constructivism disputes rationalist approaches (i.e., neorealism, realism, neoliberal institutionalism, rational-choice institutionalism, liberal intergovernmentalism) that conceive actors’ interests and identities as fixed qualities that are attributed by the analyst prior to actual investigation. It claims instead that those attributes emerge and are shaped in the process of integration, and are therefore subject to continuous change. This approach appears relevant to analyze how Mexico and Brazil decided their different regional integration policies because it can help to illuminate how political and business elites in each of the two countries developed their particular interests and preferences in this regard through interaction and international socialization.

Emanuel Adler and Michael Barnett (1998) illustrate the use of constructivism to build on the concept of “security communities” first advanced by Deutsch et al. (1957) and develop a framework to study these entities. They define a pluralistic security community as “a transnational region comprised of sovereign states whose people maintain dependable expectations of peaceful change” (1998, 30), and apply it to different regions where such communities are deemed to exist. Their work is relevant to this study inasmuch as it attempts to unravel conditions which facilitate the formation of regional communities, or why and how states engage in regional integration, via “[t]ransactions and interactions [that] generate reciprocity, new forms of trust, the discovery of new interests, and even collective identities” (1998, 14).
Adler and Barnett’s framework offers a three-tiered process of security community building. The first tier identifies initial conditions where states “begin to orient themselves in each other’s direction and desire to coordinate their relations” (1998, 37-38) such as changes in technology, demographic conditions, economic patterns, novel understandings of social reality, and the emergence of external threats. The second tier examines the interaction of “factors conducive to the development of mutual trust and collective identity” (1998, 38), that is, the dynamics between the regional structure of power and knowledge, and social processes determined by organizations, transactions, and social learning. Finally, the third tier identifies the “necessary conditions of dependable expectations of peaceful change” (1998, 38) created on the basis of the previous tiers: mutual trust and collective identity.

1.9 Other Approaches Emphasizing the Role of Ideas

The three different perspectives examined below have valuable contributions for my study. They highlight different situations in which ideas can become important factors influencing regional integration outcomes. Craig Parsons (2002) accounts for the conditions under which leaders can assert their autonomy and thus impose a policy agenda based on the ideas that shape their thinking. Kathleen R. McNamara (1998) reveals how policymakers adopt new policy paradigms under the influence of external structural changes. Geoffrey Garrett and Barry R. Weingast (1993) shows the way in which ideas can serve as focal points that help actors with differing interests and unequal power capabilities to agree on a certain institutional arrangement.

Focusing on France’s policymaking process in his study of European integration, Parsons (2002) contends that “[w]ithin vague structural and institutional pressures, only certain ideas led Europeans to the EEC [European Economic Community] rather than to less extensive cooperation in much weaker international institutions (or without formal institutions at all)” (2002, 47-48; emphasis in the original). The author singles out leaders’
ideas as the main causal variable. According to Parsons, a key intervening factor that facilitates this possibility is the leader’s political capacity to set the agenda, which includes the use of political power to pressure or induce a certain policy outcome. A necessary condition is the existence of ideas that cross-cut “lines of shared material interests” fragmenting coalitions and parties thus creating enough political space for leaders to obtain the autonomy “to set the policy agenda around their own personal ideas” (2002, 48).

In her study of the European Economic and Monetary Union (EMU), McNamara (1998) explains why European states agreed to a monetary integration scheme. She argues that “[t]he key to solving the puzzle of European monetary cooperation lies in the historic economic policy convergence that occurred across the majority of the European governments” (1998, 3). In her view, both structural changes affecting the international economy and the ideas that influenced decision-makers’ reaction to those changes were critical to the emergence of the EMU.

On one hand, increasing levels of capital mobility created the necessary structural condition for an international monetary agreement. On the other hand, also necessary was a convergence of ideas, defined by McNamara as “shared causal beliefs” regarding macroeconomic policy, particularly in evaluating the costs and benefits of monetary cooperation. Thus, “[a] process of policy failure, policy paradigm innovation, and policy emulation unfolded among the states of the European Union, producing a new, neoliberal view of monetary policy” (1998, 5). An additional factor was the success of the German experience with a monetarist policy, which thus served as an example. The author emphasizes that the neoliberal consensus did not directly emanate from the increased international capital mobility but from policymakers’ interpretation of their past experience, the influence of neoliberal monetary ideas, and the example of Germany’s success.
Garrett and Weingast (1993) offer an explanation for the choice of institutional design made by European Community (EC) members to complete the integration of their internal markets into a single European one. Like Garrett (1992), they base their argument on rational choice institutionalism but introduce the notion of ideas as a crucial causal factor that served to coordinate expectations and behavior. The authors criticize prevailing functionalist views of international cooperation for assuming that institutional designs chosen for cooperative arrangements constitute uniquely efficient solutions to collective action problems. They argue that for every cooperation problem there are several potential solutions and yet, existing studies do not explain why a particular set of institutional arrangements was chosen over others.

Garrett and Weingast’s (1993) explanation incorporates the role of ideas in combination with interests and institutions. Ideas can act as focal points when they facilitate an agreement between parties with different preferences and power capabilities in strategic situations where there is no unique equilibrium:

Only certain ideas have properties that may lead to their selection by political actors and to their institutionalization and perpetuation. It is not something intrinsic to ideas that gives them their power, but their utility in helping actors to achieve their desired ends under prevailing constraints. Given the complexity and uncertainty of most political economic interactions, appropriate ideas may serve as pivotal mechanisms for coordinating expectations and behavior (1993, 178).

In this explanation, institutions serve as a mechanism that helps to transform the idea of cooperation into a shared belief system in a manner that shapes behavior and expectations accordingly.

1.10 The New Regionalism Approach (NRA)

The NRA takes its name from the notion advanced by Bjorn Hettne, Andras Inotai and Osvaldo Sunkel (1999/2000) that the global wave of regional integration initiated in the late 1980s is different from the one developed in the 1950s and 1960s, and it thus demands a new type of analysis that transcends traditional theories of regional integration. They contend
that the old regionalism, which appeared during the Cold War era, was mainly state-driven; it was protectionist and inward-oriented; it had specific objectives (i.e., security or economic); and it was circumscribed to interstate cooperation within a geographical region.

Instead, the new regionalism appeared in a world subject to globalization and in transition toward a multipolar order; it emerged not only driven by the state but also by non-state actors who felt the urgent need to cooperate; it was “open”, that is, oriented towards integration with the world economy; it had a more multidimensional character involving economic, security, environmental, cultural, and other issues; and it included not only states but also an array of non-state actors. The interaction between globalization and regionalization under varied conditions in different parts of the world has induced diverse paths to regionalization” (Hettne 2003). This is a relevant assessment that concerns processes of integration like NAFTA and Mercosur, which were devised as open models of regional integration (Robert Devlin and Antoni Estevadeordal 2001).

The NRA is a very broad perspective that prefers not to prescribe in advance a definite causal theory and set of variables because these, according to its proponents, are “unlikely to capture the complex heterogeneity and multidimensional dynamics of regionalization” (Miclael Schulz, Fredric Soderbaum and Joakim Ojendal 2001, 16). Instead, in attempting to understand each region’s integration process, the approach is rather “open-ended” and interdisciplinary, emphasizing the need for historical analysis, and the importance of adopting a global perspective.

The NRA approach also adopts a social constructivist view of regionalization in the sense that it is conceived as socially constructed and based on collective intersubjective understandings. This notion underlies the possibility that actors’ interests and identities can change during the process of interaction thus allowing for new forms of regional cooperation and identity. At the same time, the NRA emphasizes a focus on the role of agency, actors,
and strategies in shaping regional structures as “agency, and particularly the role of often previously excluded transnational actors, is an under-researched field in the study of regionalism and regionalization” (Schulz, Soderbaum and Ojendal 2001, 15). These are relevant forces to be examined in my study. Thus, for example, I probe for the role of transnational corporations in the decision-making processes of Mexico and Brazil, and examine the influence of development strategies in the articulation of regional integration policies.

The NRA views regional integration as a possible response to the forces of globalization, that is, as an attempt at defending society by establishing political control over markets, in line with Karl Polanyi’s (1957) conception of the “double movement.” In this connection, the approach also sees a connection between power and regionalization: “[r]egionalism today is emerging as a potent force in the global restructuring of power and production” (Mittelman 1999, 25, cited in Schulz, Soderbaum & Ojendal 2001, 257). Thus, the pattern of distribution of power in a region is highly relevant to the conditions underlying regional integration, subject to the level of conflict among actors, that is, “where conflict resolution has taken place and/or where power is distributed fairly equally, regionalization has advanced the most” (2001, 259).

1.11 Approaches Stressing the Role of Domestic Factors

Simon Bulmer (1983) examines the European Community’s (EC) process of integration focusing on the linkage between domestic politics and EC outcomes, particularly on the domestic structures of policy-making and the attitudes of domestic actors. His approach emerges in a debate against intergovernmentalism, which emphasizes the role of governments and thus overlooks the more complex domestic sources of national policies for integration. For the author, the unit of analysis should be the broader “national polity” because it is there that “governments, interest groups, parliamentary bodies and political
parties” bargain and make decisions that shape “national interests and policy content” (1983, 354). Only an analysis of respective national conditions can determine if governments are actually as powerful as intergovernmentalism proposes or, on the contrary, if they are highly constrained and influenced by domestic interests and international forces (Bulmer 1983).

Helen V. Milner (1997) offers a theory of domestic influences on international politics. Her central argument is that international cooperation is largely affected “by the domestic distributional consequences of cooperative endeavors” (1997, 9; emphasis in the original). It is the domestic contest between supporters (winners) and opponents (losers) that determines the creation and makeup of international cooperative agreements. Debating with Realism, Milner argues against the notion of the state as a unitary actor noting instead that it is “composed of actors [i.e., mainly the presidency, the legislature and political parties, and socio-economic interest groups] with varying preferences who share power over decision-making” (1997, 11).

In her view, three key variables determine the extent to which a state is hierarchical (i.e., unitary) or polyarchic: the policy preferences of domestic actors, the institutional structure of power sharing among them, and the distribution of information among them. The interaction of these factors defines the policy-making dynamics of a particular state and thus the possibility of international cooperation among states. Milner finds that domestic politics tends to make international cooperation among states more difficult, mainly because of the likely presence of internal divisions regarding policy preferences derived from concerns about the domestic distributional consequences of international cooperation.

Andrew Moravcsik (1998) develops a Liberal Intergovernmentalist (LI) approach to explain the European integration process by means of a detailed comparative analysis of German, French, and British national preferences formation. His account is an essentially domestic-societal explanation of integration: “economic interest groups and economic
officials, along with ruling parties and chief executives, will take the lead in formulating policy” (1998, 50). Its basic argument claims that regionalism arises from a three-stage process.

In the first phase, increasing economic interdependence affects the commercial interests of rational domestic actors who are thus motivated to re-formulate their states’ preferences in favor of integration through a selection process involving domestic bargaining and aggregation via national institutions. In the second stage, states, acting as unitary rational actors and guided by their preferences, engage in intergovernmental negotiations, which are conducive to bargains determined by relative power measured in terms of asymmetrical interdependence. Finally, international institutions lock-in commitments and ensure enforcement following the rationalist logic advanced by neoliberal institutionalism.

LI contends that the main source of European integration was “the great post-Second World War shift from north–south inter-industry trade and investment (i.e., exchanges of manufactures for primary goods) to north–north intra-industry trade and investment (i.e. exchanges of similar manufactures or commodities)” (Moravcsik and Schimmelfennig 2009, 70). Thus, changes in the world economy, that is, the expansion of productive forces and the consequent transformation of the international division of labor, shaped states’ domestic interests in favor of European integration. Moravcsik does not deny that geopolitical factors played a role, but it was overall secondary.

Moravcsik views the process of national preference formation as “a series of rational adaptations by national leaders to constraints and opportunities stemming from the evolution of an interdependent world economy” (1998, 472). The influence of structural factors (i.e., the underlying evolution of the international economy) facilitates the progress toward regional integration. Policies are “rational adaptations” to structural “constraints and opportunities.” Therefore, in the main, there are no “unintended consequences,” policy
mistakes, or erroneous strategies. Rational actors, according to Moravcsik (1998), know what they are doing: “The historical record reveals that the consequences of major decisions were in fact foreseen and desired by national governments to a much greater extent than most analysts have been aware” (1998, 491).

This view of the conditions surrounding state policy decision-making process is problematic. Contrary to the rationalist assumption of perfect information, in practice policymakers operate under conditions of “bounded rationality” (Herbert A. Simon 1955), that is, they are limited by the amount of available information and the level of knowledge or expertise at their disposal (Emanuel Adler and Peter M. Haas 1992).

Moravcsik’s view of national preferences formation misses the potential effect of ideational factors which may intervene in the ultimate definition of policies. In other words, interests are first interpreted by decision-makers through the lens of prevalent political and economic ideas, and then translated into actual foreign economic policies toward trade and integration (Kathryn A. Sikkink 1991). On the other hand, Moravcsik’s explanation of integration as the result of a structural process of increased trade and investment flows between countries of a region underestimates the importance of geopolitical (i.e., security) factors which under certain conditions may lead the way to economic cooperation.

Edward D. Mansfield and Helen V. Milner (2012) focus on the role of domestic politics to explain why and when governments choose to enter regional integration agreements. In addition, the authors consider an issue that Mansfield et al. (2008) studied earlier from a similar perspective, that is, what determines the type of integration arrangement that a government chooses defined in terms of the depth of integration that it seeks to achieve. They mainly contend that the type of political regime and the constraints faced by the chief executive in the form of veto players are key factors influencing the demand for and the design of preferential trade agreements (PTAs). Their argument portrays
chief executives as rational actors who seek to remain in office: “[l]eaders enter PTAs to reassure their publics about their policies in the hope that this will increase their longevity in power” (2012, under “Conclusions,” in Chapter 6).

The executive’s proclivity to enter PTAs would be greater in democratic regimes because in such settings they face a higher risk of being thrown out of office by disenchanted voters if they appear not to be competent. Thus, for the president or prime minister, joining a PTA can serve the purpose of assuring voters “that they are not rent-seekers or captured by special interests” (2012, under “The Argument and Evidence in Brief” in Chapter 6), that is, it can further executives’ political interests. Likewise, the authors claim that the depth of integration preferred by leaders will depend on their domestic political situation. If they feel that their position is weak and need to offer greater reassurance to constituents then leaders will opt for deeper agreements. Thus, Mansfield and Milner expect that democracies will be more likely to pursue PTAs that lead to deeper integration.

On the other hand, the presence of numerous veto players can create obstacles for the conclusion of PTAs. In this manner, there is a trade-off between the level of competitiveness in a democratic regime and the number of veto players when it comes to the decision of whether to join a PTA or not, where the benefits of a policy change (i.e., signing a PTA) is weighted against the costs of veto players’ opposition to the PTA. In the case of non-democratic regimes the political calculation is different because the authors assume that “[i]nterest groups’ pressures for protectionism in autocracies vest leaders […] with an incentive to resist entering PTAs that reduce the rents they can provide to supporters. Equally, leaders do not face as great a cost since electoral competition is less likely to determine their fate” (2012, under “The Effects of Domestic Politics on PTAs: The Argument in Brief,” in Chapter 1).
One can question the fundamental premise of the argument presented by Mansfield and Milner (2012), which assumes that leaders’ main rational political motivation is simply to stay in office. Instead, it is also plausible to assume that leaders often want to pursue national goals for the benefit of their countries and not just for their own personal interest. Likewise, the assumption that autocratic leaders are more prone to be prisoners of protectionist interest groups than leaders in a democracy is problematic. An autocratic leader may be more insulated from the pressure of interest groups and thus have more autonomy to pursue a policy change, such as joining a PTA, than his/her counterpart in a democratic country.

1.12 Other Perspectives

Jacob Viner (1950) offers explanations of some historical experiences that resonate with realist arguments. He contends that powerful actors play an important role in integration. Thus, Prussia led the formation of the Zollverein, or customs union, in the nineteenth century “to gain hegemony” (1950, 98), and the United States helped to shape European integration by conditioning Marshall Plan aid in post-WWII Europe to the pursuit of economic and political cooperation and unification.

Bela Balassa (1961) argues that developing countries seek integration to achieve economic development and greater bargaining power. They try to emulate Europe, while at the same time offsetting adverse competitive effects. Political and economic factors interact in alternative ways to motivate integration depending on circumstances. The author notes that “[p]olitical motives may prompt the first step in economic integration, but economic integration also reacts on the political sphere; similarly, if the initial motives are economic, the need for political unity can arise at a later stage” (1961, 7).

Richard E. Baldwin (1997) explains the diffusion of regionalism as the result of “a domino effect.” When a regional arrangement arises, an outsider is negatively affected by being excluded. Affected domestic sectors pressure their government to seek incorporation.
into the new regional scheme. If joining is not possible, the excluded country will seek to form a new entity or join a different one. Baldwin does not explain why the initiative triggering the domino effect arises in the first place, or why regional arrangements differ.

John Whalley (1998) identifies some objectives pursued by countries that lead to various regional trade arrangements: trade gains, support of domestic reforms, strengthening of negotiation power, assurance of market access, and reinforcement of security agreements. His study correlates objectives and agreements, but fails to explain the causal mechanisms, and the source of states’ objectives.

For Wilfred J. Ethier (1998), the demand for foreign direct investments makes developing countries more receptive to participate in free trade agreements with developed countries to gain comparative institutional advantage. Tim Buthe and Helen V. Milner (2008) argue that for multinational corporations contractual commitments through trade agreements lend credibility to developing states’ policy choices by making their non-compliance dearer. The emergence of “multilatinas,” or Latin American multinational corporations, with increasing regional and international interests motivates states of the region to revise their preferences in favor of regional integration (Benedicte Bull 2008).

Edward D. Mansfield and Eric Reinhardt (2003) causally link the rapid spread of preferential trade agreements to the influence of the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). They argue that these organizations encourage their members to seek regional integration as a means to attain bargaining leverage in multilateral trade negotiations. The continuing increase in GATT/WTO membership size has helped to promote this trend because it reduces the capacity of individual states to influence outcomes and makes multilateral negotiations more difficult to settle. Thus, GATT/WTO members “may find it useful to enter smaller preferential groupings composed of states with common economic interests” (2003, 856).
Wayne Sandholtz and John Zysman (1989) explain why the revival of the European integration process leading to a unified internal market by 1992 started in the 1980s. In their view, structural change in the form of a shift in the international distribution of economic power resources (i.e., relative economic decline of Europe vis-à-vis the United States and a newly surging Japan) forced European elites to reconsider their interests and position in the world. The process however required the agency role of the European Commission with the active support of business through the Roundtable of European Industrialists, which represented the largest and most influential European corporations. Their combined political entrepreneurship helped to marshal a pro-market integration coalition of governmental elites that carried the project through a process of bargains among the nations of the region. The authors plausibly contend that “structural situations create the context of choice and cast up problems to be solved, but they do not dictate the decisions and strategies [...] The choices result from political processes and have political explanations” (1989, 127).

I assessed a diverse array of perspectives in connection with the study of the factors that cause countries to engage in regional economic integration and to choose different types of institutional arrangements. I limited the number of approaches examined to those I deemed most appropriate to provide a relevant context for my research. In the process, I highlighted appropriate contributions that inform my investigation. The exercise confirmed that regional integration is a phenomenon resulting from the complex interaction of material and ideational factors acting at the international and domestic levels.

2. Approaches to Studying Foreign Policy

The purpose of this section is to examine theoretical perspectives that explain foreign policymaking processes and decisions. I already reviewed some of them (i.e., Realism, Neorealism, Neoliberal Institutionalism, Constructivism, and Liberalism) when discussing approaches to regional integration since they constitute broader theories of International
Relations (IR) applied to different substantive issues. Thus, here I focus on those approaches not already surveyed that emphasize foreign policy decision-making as opposed to foreign policy outcomes (Valerie Hudson 2007).

2.1 The Individual Decisionmaker

Richard C. Snyder, H. W. Bruck, Burton Sapin, Valerie M. Hudson, Derek H. Chollett, and James M. Goldgeier (2002) points to the key role played by the human decision-maker to explain state behavior: “State action is the action taken by those acting in the name of the state. Hence, the state is its decision-makers” (2002, 59). According to the authors, the fundamental role of the decision maker resides in that he/she is the one who defines the situation according to his/her perceptions and acts accordingly producing outcomes, which ultimately appear as a result of state behavior. In performing his/her role, the decision-maker expresses in a concentrated fashion the dynamic relation between the individual and the structure (the unit and the whole), and also the point of articulation between the internal (domestic) and external (international) domains of action.

Alexander L. George (1969) places a similar emphasis on the role of the individual decision-maker: “the way in which leaders of nation-states view each other and the nature of world political conflict is of fundamental importance in determining what happens in relations among states” (1969, 190). The author argues that decision-making is greatly affected by the individual leader’s set of beliefs, including the way in which he/she relates “means and ends” (“instrumental” beliefs), and his/her outlook on fundamental political issues (“philosophical” beliefs). The combination of the two determines what the author labels the “operational code” under which decision-makers determine courses of action. For George, the “operational code” is just a framework, “a set of premises and beliefs” (1969, 196) which provide general guidance rather than specific “rules and recipes to be applied
mechanically” (1969, 197), and should not be understood unilaterally as the only determinant of decision-making.

Janis G. Stein (1994) inquires how learning by political leaders can impact foreign policy by studying the case of former Soviet leader Mikhail Gorbachev. Her general argument is that structural/systemic or domestic accounts of political change are “undetermined”, and that any causal explanation must also take into account the individual. Her interest is in studying the development of a leader’s cognitive constructs and its subsequent translation into foreign policy change. The author finds that Gorbachev “did not learn in an orderly linear fashion or through deductive reasoning” but rather by means of “a complex interactive relationship between political learning and action [...] through a process of trial and error” (1994, 178). As Stein (1994) reflects, “openness to new ideas and the capacity to create new representations of ill-defined problems are in part functions of personality” (1994, 182).

Robert Jervis (1976) focuses on the role of decision-makers’ perceptions of the world and of other actors as an important factor affecting foreign policymaking decisions. According to the author, these perceptions often conflict with reality “in patterns that we can detect and for reasons that we can understand” (1976, 3). Thus, misperceptions can be explained and this understanding can help us to explain patterns of international interactions and to increase our knowledge of international relations. Jervis claims that “it is often impossible to explain crucial decisions and policies without reference to the decision-makers’ beliefs about the world and their images of others” (1976, 28). Thus, he proposes a two-step model to explain foreign policy decisions where the analyst first examines a leader’s perceptions “as one of the immediate causes of his behavior” (1976, 30), and then attempts to understand how the decision-maker’s images developed, that is, what were the causes for his/her perceptions.
Jack S. Levy (1994) explores the role of individual learning, particularly from experience, in foreign policy. He defines experiential learning “as a change in beliefs (or the degree of confidence in one’s beliefs) or the development of new beliefs, skills, or procedures as a result of the observation and interpretation of experience” (1994, 283). In Levy’s view, experiential learning can be a factor affecting a leader’s behavior and thus influence foreign policy decisions, but it is neither a sufficient nor a necessary condition for policy change. In addition, it is difficult to establish “when learning occurs and whether it has a causal impact on policy” (1994, 307) because other variables, such as interests or preexisting belief systems, may also intervene to shape policy preferences thus making causal inferences about learning problematic.

Margaret G. Herman et al. (2001) examine the role of single, powerful individuals in foreign policymaking. They focus “on the importance of leadership style in understanding what predominant leaders will do in formulating foreign policy” (2001, 84). The powerful leader becomes the decision unit because he/she has the authority to decide on behalf of the nation or is at the top of the hierarchal structure that decides foreign policy and is accountable for the decision taken. Leadership style is broadly defined by the authors as the “different ways of dealing with political constraints, processing information, and assuming authority” (2001, 84). Four main conditions facilitate the playing of a prominent role by powerful leaders in foreign policy decision-making: 1) they are actively involved and/or have an interest in foreign policy matters; 2) the critical nature of the foreign policy issue attracts or demands the attention of the government; 3) the international problem includes high level diplomacy; or 4) the leader has a special concern or interest in the foreign policy issue.

Herman and her collaborators identify four major types of contrasting leadership styles: crusader vs. pragmatist, directive vs. consultative, task-oriented vs. relations-oriented, and transformational vs. transactional. In general, these types are based “on the assumption
that the leadership style of one type of leader [i.e., goal-driven] is guided by a set of ideas, a cause, a problem to be solved, or an ideology, while the leadership of the other type [i.e., situationally responsive] arises out of the nature of the leadership context or setting in which the leader finds him or herself’ (2001, 86). Whether a leader is goal-oriented or contextually responsive determines his/her sensitivity to the constraints of the political situation, the flow of information, and the pressures from domestic or international sources when deciding foreign policy matters.

2.2 Group Decisionmaking and Bureaucratic Politics

Graham Allison (1971) focuses on the role of bureaucracy in policymaking, noting that “the ‘maker of government policy is not one calculating decision-maker but is rather a conglomerate of large organizations and political actors” (1971, 3). His argument criticizes the Rational Actor model that was then prevalent in analyses of foreign policy for its limited “black box” approach that neglected the inherent complexity of governmental policymaking. The center of his critique is the model’s assumption that policy decisions were the product of a choice made by a unitary actor (the government) that behaves rationally in the pursuit of certain goals or strategic objectives. Allison proposes instead two alternative “conceptual models,” the Organizational Process Model and the Governmental (bureaucratic) Politics Model, to remedy the weaknesses of the first model by confronting “the intra-national mechanisms from which governmental actions emerge” (1971, 6).

The first of the two models focuses on the processes and procedures of the organizational complex that comprises a government and attempts to explain decisions by identifying the governmental unit(s) from which the policy output emanated and uncovering the pattern of organizational behavior that shaped it. Allison’s second model centers on processes of political bargaining as the source of the foreign policy decisions, and determines
“the perceptions, motivations, positions, power, and maneuvers of the players” (page 6) in order to understand patterns of interaction that shape policy.

The Organizational Process Model exhibits a structural approach to policymaking based on the organizational makeup of government, whereas the Bureaucratic Politics Model evidences an agency approach focused on the political bargaining of actors (Carlsnaes 2002). Thus, Allison’s dual approach to foreign policymaking opens up the “black box” of decision-making and exposes a new level of analysis to investigate the causal factors that shape foreign policy.

Morton H. Halperin and Priscilla Clapp (2006) emphasize the role of political processes within the governmental bureaucracy to explain foreign policy decisions. Like Allison (1971), they contend that foreign policy decisions do not simply emerge from a top decision-maker influenced by a single set of national goals but from a complex process that involves many individuals working in various governmental organizations who are driven by diverse motives, interests, and sources of power. The authors do not deny that foreign policy decisions are shaped in a process where domestic politics and the international environment play a role, but their focus of analysis is on the portion of that decision-making process involving the president and the bureaucracy “where organizational or personal interests are brought to bear on the issue at hand” (2006, 4). Thus, their analytical approach starts by identifying who is involved, what interests motivate them, and how those interests shape their views on issues. It then examines how organizations and individuals fight and negotiate to produce a decision that satisfies them taking into consideration how the issues emerge and are shaped by the institutional setting, and probing for the sources of power in the bureaucracy.

3. Analytical Framework

Scholars recommend an eclectic framework to study a phenomenon as complex as regional integration (Gilpin 2001; Moravcsik and Schimmelfennig 2009). In following this
advice, I incorporate contributions from various perspectives and approaches identified in the literature reviews with a view to develop a multifaceted analytical tool.

International factors can help to explain why countries decide to pursue a regional integration scheme. The international political economy provides the external context within which countries determine their interests and roles, which are largely shaped by the international distribution of economic and political power. In this sense, changes in the structure of the international economy can act as triggers of new foreign policies in favor of regional integration (Viner 1951; Waltz 1979; Keohane and Nye 1989; Gilpin 2001; Grieco 1997; Garrett 1992; Sandholtz and Zysman 1989; Moravcsik 1998; Moravcsik and Schimmelfennig 2009). Yet, these external factors, while generally necessary, are rarely sufficient to explain governments’ decisions to join regional trade agreements.

The impact of pressures and influences created by international or systemic variables is ultimately defined in the domestic arena through the dynamic interplay between political (i.e., executive, legislature, parties) and socio-economic actors, and the institutional structure of power sharing among them (Milner 1997; Mansfield and Milner 2012; Bulmer 1983; Moravcsik 1998). Actors’ behavior is driven by the interaction of interests and ideas through which interests and events affecting them are interpreted (Sikkink 1991; Parsons 2002; McNamara 1998). In this regard, the views on learning and beliefs exposed by Mitrany (1943), Deutsch et al. (1957), Haas (1958), as well as constructivists, are relevant. Actor’s identities, interests and preferences are initially shaped by the social milieu, but they are subject to further change as agents interact with each other and with structures.

The institutional structure of power sharing affects the policymaking process and its ultimate outcome by both determining the degree of autonomy from societal influences enjoyed by decision-makers and shaping the intra-governmental dynamics between the president, the cabinet, and governmental bureaucracies. In this connection, policy outcomes
largely depend on the type of issues under consideration, the President’s leadership style, the
interests that motivate key decision-makers as interpreted through the ideas and approaches
that are prevalent among them, and the actual distribution of political power among these
actors (Snyder et al. 2002; Jervis 1979; George 1969; Stein 1994; Allison 1971; Halperin and
Clapp 2006; Herman et al. 2001).

**Argument**

Governmental decisions to seek regional integration agreements and the preference
for a particular type of integration scheme depend on the chosen strategy for economic
development, inasmuch as the latter determines how leading policymakers want to configure
a country’s relationship to the world economy (Gary Gereffi and Donald L. Wyman 1990).
Top decisionmakers choose a development strategy based on their assessment of national
interests in light of internal and external conditions. Dominant political-economic ideas
constitute a crucial intervening variable that shapes decisionmakers’ perceptions,
assessments, analyses and decisions concerning national interests and economic strategies.

My argument focuses on the domestic decision-making processes that determine a
country’s policies for regional integration, but it does not imply that international factors are
irrelevant. The analytical framework that I adopted takes into account the constraints and
opportunities derived from the structure of the international political economy, which can
precipitate domestic decision-making processes leading to a policy in favor of regional
integration.

Applied to the cases of Mexico’s and Brazil’s decisions to join NAFTA and
Mercosur, respectively, my argument contends the following. The international debt crisis of
1982 was a severe blow for Mexico and Brazil. The interruption of international lending
made their strategies of growth through indebtedness unviable and severely constrained their
economic development. The impact of the crisis led policymakers in both countries to
reconsider their national interests and the position of their economies in the world economy. In Mexico, this process led to the replacement of the import-substitution model of industrialization (ISI) by another based on the opening up of the economy and market liberalization. In Brazil, policymakers did not immediately abandon the ISI strategy and opted for a project of bilateral integration with Argentina as a strategic response to the new adverse international environment. Eventually however the Brazilian government began a process of trade liberalization, but it came later than in Mexico and it was more gradual.

Subsequent additional external pressures came from substantial changes in the structure of the international political economy in the aftermath of the end of the Cold War. The emergence of competing regional economic blocs, the effects of international policy diffusion, and changes in the foreign economic policies of the United States were some of the most significant external factors that led Mexican and Brazilian policymakers to devise new ways to insert their countries in the world economy as a means to ensure continued economic growth. It was at this junction that Mexico and Brazil devised their different policies of regional integration.

Their different integration paths emerged from the particular way in which their respective policymakers reinterpreted national interests in light of the changing external conditions and more directly in connection with the new development strategies conceived to satisfy the urgent need for economic development. The key intervening variable in this process was the different set of political-economic ideas that guided the respective behavior of Mexican and Brazilian decision-makers.

In the case of Mexico, the prevalence of a coherent set of neoliberal ideas led the government to consider the possibility of a free-trade agreement with the United States in order to structure an open integration with the world economy. In Brazil, a more ambivalent ideational framework that mixed neoliberal ideas with traditional developmentalist views
guided the government’s decision to seek a customs union with neighbor developing countries as a means to a less open, more defensive type of integration with the international economy.

The main argument leads to the following related hypotheses:

i) The greater the institutional power of the executive vis-à-vis the legislature and the greater the political autonomy of the Presidency from domestic societal influences, the greater will be the role of top decision-makers and their ideas in foreign economic policymaking, including regionalism.

ii) The greater the spread of regionalism across the world the higher will be the pressure on developing countries to join regional economic integration schemes.

iii) The greater the influence of neoliberal ideas on the ruling political elite of a developing country, the more open will be the model of economic development pursued, and the greater the possibility that it will seek North-South integration schemes, in addition to South-South ones.

iv) The greater the influence of traditional developmentalist ideas on the political leadership of a developing country, the more defensive will be the strategy for economic development, and the greater the possibility that it will privilege South-South economic blocs over North-South ones.

v) The greater the influence of traditional developmentalism, the more the management of the integration process will depend on intergovernmental bargaining and consensus in decision-making, and the less it will be ruled by a contractual agreement.

vi) The greater the influence of neoliberal thinking, the more the running of the integration process will rely on a highly developed legal framework to manage the integration process, and the less it will allow for intergovernmental bargaining.
Research Design

I designed the research as a comparative case study of Mexico’s choice of NAFTA and Brazil’s choice of Mercosur. The case selection is based on the advantages it offers in terms of allowing in-depth study of issues affected by such complex causal variables as those involved in regional integration (George and Bennett 2004). It combines in-depth within-case study and cross-case comparison which “greatly reduces the risks of inferential errors that can arise from using either method alone” (2004, 234).

I complement the comparative methodology with the method of “structured, focused comparison” and the method of “process-tracing,” as proposed by Alexander L. George and Andrew Bennett (2004). The first one uses standardized data collection to facilitate systematic comparison of cases, and “focuses” on selected historical events according to the research objective. This method allows the researcher “to study historical experience in ways that would yield useful generic knowledge” (2004, 66). The second method “attempts to identify the intervening causal process –the causal chain and causal mechanism- between an independent variable (or variables) and the outcome of the dependent variable” (2004, 206). Thus, it seems particularly appropriate for tracing the influence of ideas on policy decisions and for testing the causal chain put forward by my argument.

The choice of Mexico and Brazil is mainly justified on the basis of the leading role that each of them played in the emergence of major regional integration initiatives (i.e., NAFTA and Mercosur), and the fact that they are key regional economic and geopolitical players in Western hemisphere affairs. The basic unit of analysis is the individual country in connection with specific foreign policymaking processes for regional integration, as the central goal of the research is to explain why governments choose to join regional integration agreements, and why they choose a particular type of agreement.

The validity of the research is limited by the following. I only study two cases, which
I did not select using scientific sampling methods. The integration processes studied (i.e., NAFTA and Mercosur) occurred more or less simultaneously in the early 1990. Mexico and Brazil are large developing economies located in the same hemisphere. These qualities impose some arbitrary restrictions on the number and variety of possible causal factors and causal mechanisms affecting decisions for regional integration and choices of schemes. Still, I believe the results of my study contribute to fill noted lapses in the literature.

**Definition of Key Terms**

I distinguish between *regionalization* and *regionalism*. The first refers to the process by which states in a certain geographical area become more interdependent and integrated among themselves than with other parts of the world mainly driven by *markets*, trade, investment flows, and corporate decision-making (Hurrell 1995). The second alludes to *state policies* aimed at establishing different forms of institutionalized regional cooperation, ranging from free-trade agreements to multidimensional arrangements that include interrelated political, economic, security, cultural, and social aspects leading toward the strategic building of regional cohesion and identity (Farrell et al. 2005).

*Regional integration* is at the same time the *outcome* derived from state-led regionalism and/or market-led regionalization, and is a *process*. *Regional integration scheme* (a.k.a. arrangement, project) is the actual *institutionalization* of regional cooperation or formal *agreement* between the member states of a region. *Types of regional integration schemes* are the different *forms* that these arrangements take (i.e., customs unions vs. free trade agreements).

**Interests, Preferences, Strategies and Policies**

In the International Relations and Foreign Policy Analysis literatures one often finds that scholars use key terms such as interest, preference, policy, and strategy in different ways, attaching different meanings to the same concepts. This lack of uniformity or absence of
standard definitions affects the exchange of ideas or debates by obscuring the understanding of differences between contending arguments (Jeffry A. Frieden 1999). I examine here the ways in which various authors define these terms, and then specify how I use them in this study.

Helen V. Milner (1997) differentiates between interests and preferences. For her, “actors’ interests represent their fundamental goals, which change little,” while “[p]references refer to the specific policy choices that actors believe will maximize either their income or chances of reelection on a particular issue” (1997, 15). Both Andrew Moravcsik (1997) and Frieden (1999) define preferences as an ordering or ranking of possible outcomes derived from interaction. Moravcsik emphasizes the distinction between preferences, “a set of fundamental interests [which] are by definition causally independent of the strategies of other actors and, therefore, prior to specific …political interactions,” and strategies or tactics, “policy options defined across intermediate political aims” (1997, 519). Frieden, on the other hand, identifies strategies as “tools the agent uses to get as close to its preferences as possible” (1999, 45). Thus, while Milner refers to preference as predilection for a policy, Moravcsik and Frieden allude to the same term as inclination for an outcome. Moreover, none of these writers makes a clear distinction between policy and strategy.

Alexander Wendt (1999) contends that interests are “what actors want” (1999, 231), that is, they constitute actors’ needs. These needs can be either material or spiritual. Human beings for example, require not only food and clothing (material needs), but also love and self-esteem (spiritual needs). Some human needs are more primordial than others. The need to survive is perhaps the most elementary, since it constitutes a pre-requisite for the existence of other needs. In this sense, it can be argued that some basic human material wants (food, health, shelter) antecede in importance other material or spiritual wants.

In addition, Wendt suggests that interests can be also classified as either objective or
subjective. Objective interests refer to those needs that exist independently of the actor’s recognition of them. Subjective interests constitute “those beliefs that actors actually have about how to meet their […] needs, and it is these which are the proximate motivation for behavior” (1999, 232). Therefore, actors’ beliefs about their needs may or may not coincide with their objective interests. Wendt notes that subjective interests represent what rationalists (i.e., Milner, Moravcsik, and Frieden) refer to as preferences, while “subjective interests are ‘preferences over outcomes,’ not ‘preferences over strategies’” (1999, 232).

Peter A. Hall (2005) offers a similar description of preferences as “an actor’s perceptions of what is in his/her interest” (2005, 154n1). This author further distinguishes between fundamental and strategic preferences. The former are basic perceptions of interests formed prior to full interaction with other actors, whereas the latter emerge during the bargaining process with other actors. Thus, the choices that ultimately an actor makes may differ, sometimes significantly, from its fundamental preferences.

My study mostly follows Wendt’s and Hall’s suggestions. It refers to objective interests as interests, and to subjective interests as preferences. Thus, preferences are what actors perceive or believe are their needs or wants. I also distinguish between fundamental and strategic preferences in the sense that Hall does. Moreover, when discussing the formation of Brazil’s and Mexico’s national preferences the study mainly alludes to fundamental preferences. In addition, I adopt the following definition of policy: an actor’s plan or course of action to guide his/her behavior with respect to a certain issue or set of issues with the purpose of obtaining a desired outcome as identified by the actor’s preferences.

I identify strategies as a more or less coherent set or package of policies (Stephen Haggard 1990; Aggarwal et al. 2004) aimed at achieving an actor’s goals as determined by his/her preferences. I adopt the definition of development strategy provided by Gary Gereffi
and Donald L. Wyman (1990): “sets of government policies that shape a country’s relationship to the global economy and that affect the domestic allocation of resources among industries and major social groups” (1990, 23).

**National Interests**

National interests constitute an enduring and yet elusive concept in International Relations and Foreign Policy. In examining its history, Rosenau (1980) concludes that it has little value as an analytical instrument to understand foreign policy because of its ambiguity. He distinguishes two main schools of thought. One composed by analysts, whom he brands “objectivists,” contends that national interests can be objectively determined, and thus they serve as yardsticks to appraise the adequacy of foreign policies pursued by governments. The other, integrated by analysts that he labels “subjectivists” argues that national interests cannot be determined unambiguously, and therefore the concept is used to explain foreign policy rather than evaluate it. In other words, since national interests can only be defined subjectively and their definition varies according to the preferences of various societal groups, the analyst can only determine how a certain conception prevailed through domestic bargaining processes but cannot establish its adequacy with respect to an objective standard.

For Rosenau, neither of these views concerning the national interest is satisfying. On the one hand, the objectivists cannot escape the fact that “[a] description of the national interest can never be more than a set of conclusions derived from the analytic and evaluative framework of the describer” (1980, 289). On the other, the subjectivists end up reducing “the substantive content of the national interests […]to] whatever a society’s officials decide it to be, and the main determinant of content is the procedure by which such decisions are made” (1980, 291).

Rosenau’s skepticism is understandable but not sufficiently justified. National interests represent the material and spiritual needs of a nation as a sovereign collective entity
within the international community of states. As such, they exist as an objective reality independent of the subjective interpretation of the politician or the political scientist. They are distinguishable from other kinds of objective interests such as those of individuals, domestic groups, social classes, or international/systemic interests. They may at times coincide or overlap with each other but they remain different.

I follow Wendt’s proposition that “behavior is caused not only by what an actor wants [interests] but also by what he thinks it possible to attain [preferences]” (1999, 232). I contend that both what a nation needs (national interests) and what policymakers deem a nation can or should achieve (national preferences) constitute empirically identifiable motivations for action. Moreover, I also adopt Wendt’s claim that decisionmakers’ interpretation of national interests constitute the proximate motivation for action (Wendt 1999).

**Collection of Data**

Data collection included both primary and secondary sources. I collected primary data in both Mexico and Brazil through personal interviews and archival research. I list all interviews at the end of the dissertation, starting on page 309. I interviewed academics and other local analysts and observers using a “data probe” (open-ended) interview format mainly to gain an initial orientation and understanding of the issues. In interviews with political and economic actors, I used a “strategic interview” (semi-structured) interview format, asking the same set questions to all respondents, and adding others according to the specific circumstances of the interview. This approach helped to recreate complex decision-making processes in which the interviewees may have participated (Gereffi 1995).

I conducted archival research in the Foreign Ministries of each country. I collected secondary data through available or published quantitative and qualitative analyses performed by other scholars and analysts, either comparative or case-based. I tried to “triangulate” the
data collected whenever possible using existing written documents and/or cross-respondent analysis of interviews other respondents in order to mitigate bias.

**Organization of the Dissertation**

Chapter 2 is dedicated to the study of Mexico’s decision to pursue an FTA with the United States, which eventually led to NAFTA. Chapter 3 analyzes Brazil’s decision to seek bilateral economic integration with Argentina during the government of José Sarney (1985-1990). Chapter 4 examines Brazil’s decision to join Mercosur during the government of Fernando Collor de Mello (1990-1992). Finally, Chapter 5 compares the findings of the previous three chapters and presents the conclusions of the study.

Chapters 2, 3, and 4 are structured according to the methodological approach of Foreign Policy Analysis (FPA) (Hudson 2007). They are divided into several sections each pertaining to a different level of analysis: the individual decision-maker, group decision-making or bureaucratic politics, domestic politics, and international system. A final section discusses the findings and articulates an explanatory synthesis.
Chapter 2

Mexico Changes Course: Seeks an FTA with the U.S. and Joins NAFTA

In March 1990, President Carlos Salinas de Gortari (1988-1994) stunned his country and world opinion by publicly acknowledging that Mexico was seeking a free trade agreement (FTA) with the United States, an initiative that eventually led to the signing of the tripartite NAFTA, including Canada, in December 1992. The decision represented a remarkable change of course for a country that since the end of 1950, under the influence of a long-standing nationalist political culture, had sternly refused to establish a bilateral trade agreement with the United States claiming that it would undermine its sovereignty. It also seemed a surprising policy turnabout for the government of a President that as late as October 1989 was still dismissing the idea of a trade agreement with the United States arguing that the great asymmetry between the two economies rendered it impracticable.

Why did the government of President Salinas undertake such a sharp departure from Mexico’s traditional foreign policy concerning regional economic integration? In this chapter I develop an answer to this question by examining the complex process through which a variety of factors interacted to produce that outcome. Key among them are the ideas that influenced the President and his small circle of foreign economic policymakers, their re-interpretation of Mexico’s national interests amid profound changes in the international order driven by globalization and the formation of economic blocs, and the lobbying efforts of a powerful Mexican-U.S. business coalition.

I organize the chapter into sections, each pertaining to a different level of analysis: the individual decision-maker, group decision-making or bureaucratic politics, domestic

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2 On December 31, 1950, the Reciprocal Trade Treaty (RTT) that Mexico and the United States had established in December 1942 expired leaving both countries without a formal treaty to regulate their trade relations. The RTT “was a wartime agreement that lowered specific duties on a long list of manufactured items entering Mexico from the United States, and gave Mexican oil, metals, and other raw materials needed for the defense effort similar privileged treatment above the Border” (Howard Cline 1965, 389-90).
politics, and international system. I end the chapter with a final section that discusses the findings and articulates an explanatory synthesis.

**The Individual Decisionmaker**

In seeking to explain the decision to undertake an FTA with the United States it is important to focus on the role of the individual political leader in foreign economic policymaking because: 1) the presidency has been preeminent in the Mexican political system in the Mexican policymaking system; 2) Mexico was facing urgent simultaneous political and economic crises that demanded the president’s attention; and 3) President Salinas’ leadership style, tended to concentrate political decision-making in his own hands.

**The Role of the President in the Mexican Political System**

At the time Carlos Salinas de Gortari became Mexico’s president, the head of the executive branch of government enjoyed substantial political power, particularly with regards to foreign policy and trade policy (Miguel A. Centeno 1999; Blanca Heredia 1996). Mexican *presidentialism* emerged from the Revolution (1910-20), consolidated during the government of Lázaro Cárdenas (1934-1940), and developed in the following decades into a centralized political decision making system (Hernández Chávez 1994).

As noted by Kenneth P. Erickson and Kevin J. Middlebrook (1982),

> [t]he 1910-1917 revolution produced a new conception of the Mexican state: as a representative of all groups and classes, the modern state was given responsibility for the moderation and conciliation of conflicting interests (1982, 221).

The Constitution of 1917 gave the Mexican state a prominent role in directing the economy and ample latitude in the determination of economic policy. It helped to institutionalize the expansion of centralized political power by granting dominant authority to the president,

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3 A presidential system includes the following key characteristics: 1) The head of state or president is elected by direct or direct-like popular election for a fixed period of time; 2) The president or the executive is neither appointed nor dismissible through parliamentary vote; and 3) the president is both the head of state and the head of government, that is the president directs the government that he or she appoints (Sartori 1997).
eliminating the vice-presidency, and reducing the powers of Congress and the judicial branch (Erickson and Middlebrook 1982; Heredia 1992).

Yet, the Constitution also established the principle of “no reelection” for the president and all federal, state and municipal governments. Heredia (1992) notes the uniqueness of this feature in the presidential system of Mexico:

[a]mong the various mechanisms that have granted the Mexican political system its remarkable resiliency, the prohibition against reelection is paramount. This prohibition constitutes one of the few, and clearly the most important, formal objective constraints on presidential power. Non-reelection has provided for significant political mobility and has allowed the system to periodically adjust to new configurations of power. Losers in any particular six-year term can reasonably assume that compensation will be forthcoming during the next presidential period. This reduces the incentives for defection while increasing those in favor of continued cooperation (1992, 8).

The Mexican presidential system developed as a new political structure began to take shape after the Revolution. In 1929, President Plutarco Calles formed the Partido Nacional Revolucionario (PNR) as the party of the State. It marked the end of *caudillismo*⁴ and the emergence of a new Mexican state (Pablo González Casanova 2006).

Lázaro Cárdenas replaced the PNR with the Partido de la Revolución Mexicana (PRM) in 1938, and instituted a corporatist-like structure that integrated the representation of four social actors: workers, peasants, other popular sectors, and the army.⁵ In 1946, the PRM was transformed into the PRI, maintaining the sectorial representation, further centralizing the party’s leadership, and reducing the power of labor unions (Steven Levitsky 2003).

The consolidation of the PRI as the paramount political party went hand in hand with

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⁴ This is defined as a regime without a strong central authority characterized by the authoritarian rule of local chieftains, or *caudillos*, which struggle and compete among themselves for political domination (William H. Beezley 1969; Hugh Hamill 1992).

⁵ The labor sector was represented by the Confederation of Mexican Workers (CTM) and other large national unions (oil, electricity, telephones, mining, etc.). The peasant sector was mainly composed by the National Peasant Confederation (CNC) and the League of Agrarian Communities. The popular sector was constituted by public workers, teachers, and other middle strata organized in National Confederation of Popular Organizations (CNOP). The army was subsequently eliminated from sectorial representation in the party.
the development of the Mexican corporatist state.\textsuperscript{6} For María Amparo Casar (1996),

\[t\]he variable that explains [Mexican] presidentialism is the existence of a party and a system of party hegemony that have allowed the executive to penetrate the political institutions and define not only their composition but their behavior (1996, 61; translated from Spanish).

The political power of the presidency was reinforced by the dominance that the sitting president had over the party’s National Executive Committee. As such, he enjoyed significant discretion in establishing the internal rules of the party, choosing party leaders, and hand-picking presidential candidates (Levitsky 2003).

The president’s power was particularly strengthened by the unified government through the PRI, the strong party discipline, and the president’s capability to determine the political agenda of the PRI and punish any disloyal conduct among the PRI’s representatives in Congress (Lehoucq et al. 2008). Thus, as noted by Heredia (1996),

The extreme concentration of power in the Presidency finds its roots in two basic factors. Firstly, the large array of legal faculties and prerogatives bestowed upon Mexican Presidents by the 1917 Constitution. Secondly, the equally large set of informal faculties derived from their position as heads of the official party. Together, these two factors centralize virtually all governing functions in the President, thus effectively cancelling both the formal separation of powers and the federal structure contemplated in the constitutional framework (1996, 23-4).

According to De la Madrid (2004), in the context of Mexican political culture, the president was expected to arbitrate conflicts between contending interest groups and lead them:

The President cannot limit himself (herself) to the process of negotiating between groups […] its function requires that it orients and leads them. That is why, in the context of our society, presidentialism, as manifestation of state interventionism, results indispensable (2004, 124; translated from Spanish).

Moreover,

\textsuperscript{6} “Corporatist institutions developed during the 1920s and 30s in the course of a vast process of social and political reorganization. Through it all major societal groups came to be incorporated into the political system through a network of mostly compulsory, state-controlled organizations endowed with monopolistic representational rights. The arrangement was based on a series of bilateral pacts between social groups and the state and had an essentially dualistic structure: one for popular sectors and one for business. The operation of corporatist institutions has been decisively shaped, though, by the centrality of informal clientelistic networks in the actual process of intermediation. These networks have been anchored upon discretionary state power and have long acted as the true rails of government in Mexico” (Heredia 1996, 25-26).
The arbitration of the President of the Republic is respected by the leaders of the party because knowing their differences they wish to avoid the division of our polity. There is a very broad consensus in favor of the preservation of a strong system, because we are afraid of falling into internal conflicts that, in addition, would make us very vulnerable to external pressures (2004, 756).

**Political and Economic Crises**

By the time Salinas assumed the Presidency of Mexico, the country was confronting serious political and economic challenges that threatened his strategic goal of continuing the structural reforms initiated by his predecessor. First, despite advances in economic stabilization and structural reforms attained by the administration of Miguel de la Madrid, economic growth was negligible and inflation remained a major issue. From 1982 to 1988 the Mexican GDP grew at an average of 0.2% in real terms; the average annual inflation rate was 91.1%; real salaries suffered an accumulated erosion of more than 50%; the rates of unemployment and sub-employment experienced substantial increases. Additionally, the external debt problem remained largely unsolved. In December 1988, the total external debt reached more than 100 billion dollars (José A. Gurria 1998).

Second, Salinas’ political authority as president was weakened from the start by questions of legitimacy that arose from the contested presidential elections that took place on July 6, 1988. Salinas had emerged victorious but his triumph was tarnished by serious allegations of fraud.

Third, the reported electoral results had shaken the image of the PRI as the dominant political force in Mexican politics. It was the first time that a presidential candidate for the PRI had obtained less than 60% of the total votes (Aldo R. Flores-Quiroga 1998). The weak performance of the PRI reflected growing popular dissatisfaction with the government of Miguel de la Madrid, and the unexpected electoral appeal of the Frente Democrático Nacional (FDN) (National Democratic Front), a coalition of left-leaning political groups headed by Cuauhtémoc Cárdenas Solórzano, the son of former president Lázaro Cárdenas.

Fourth, in 1987 the PRI had suffered an important breakup when De la Madrid had
the Corriente Democrática (CD) (Democratic Current) expelled from the party. Once the members of the CD were ousted, they propitiated the creation of the FDN to compete with the PRI in the presidential elections of 1988.

The CD had been created as an internal faction of the PRI in 1986 by Cuauhtémoc Cárdenas and Porfirio Muñoz Ledo, a former president of the party, with the stated goal of achieving the democratization of the PRI’s selection process for presidential candidates. In reality, behind this apparent objective of the CD there was a political struggle for the direction of the PRI and for the strategic course of the country, which had started since Miguel de la Madrid was selected as presidential candidate of the PRI for the elections of 1982, in the wake of the worst crisis since the Great Depression.

The selection of De la Madrid was the beginning of a fundamental shift in the balance of power within the PRI. Traditional advocates of statist developmentalism\(^7\) were displaced from the political direction of the party by those who favored a new development strategy based on market liberalization, opening up of the economy, and the shrinking of the state role in the economy. De la Madrid confirmed this change when he expressly excluded from his government those who within the traditional political bureaucracy of the party did not agree with his program of reforms (De la Madrid 2004). Thus, the emergence of the CD within the PRI represented the resistance of those displaced from the power structure of the party.

The split of the group headed by Cárdenas and Muñoz Ledo marked the beginning of the end of the PRI as an all-encompassing organization capable of accommodating a wide variety of political views and interests (Centeno 1999). The CD gained popularity during 1987 as the economic situation deteriorated, inflation reached record levels of more than 150%, and the government appeared unable to control the situation. The internal tension

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\(^7\) A long-standing approach to Mexican economic development based on the nationalization of key economic sectors, active State participation in the economy, and industrialization through highly protectionist import-substitution policies.
reached its climax when Cárdenas attempted to promote himself as a rival candidate to Salinas for the Partido Auténtico de la Revolución Mexicana (PARM) (Authentic Party of the Mexican Revolution) while still being a member of the PRI, thus provoking his expulsion and that of the other CD members from the party.

**Leadership Style**

Alba E. Gámez Vázquez (2006) notes that although the centralization of decision-making is a characteristic of the elaboration of foreign policy in Mexico, the personality of the sitting president seems to be a determinant variable in how relevant that feature is. Thus, De la Madrid’s relatively weak presidency was largely due to his personality, which drove him to delegate and keep a low profile in political decision-making rather than to exert active control over it (Centeno 1999). Carlos Salinas de Gortari represented just the opposite case.

The prominent institutional position of the presidency and the severe political and economic situation that he faced as president-elect were conditions that demanded a major role for him as an individual decision-maker, but the determinant factor was his leadership style. Salinas was a strong president who was keen in asserting his political authority over the policy decision-making process and was very much in control of his government and the PRI (Gámez Vázquez 2006; Centeno 1999).

Salinas was also acutely aware of the need to forge alliances in order to sustain economic reform: “when you want introduce an economic reform that is so strong, you must be sure of building a political consensus around you” (cited in Gámez Vázquez 2006, 194). Thus, he placed high value on building political bridges even with adversaries, and in doing so, he also demonstrated to be a pragmatic politician rather than a rigid ideologue.

He personally cultivated close political relationships with political, labor, peasant and business leaders, which served to advance his agenda by forming a pro-NAFTA coalition. He engaged in a political dialogue with those key political figures who initially questioned and
opposed his integration project, such as the paramount leader of the Confederation of Mexican Workers, Fidel Velázquez, and the leader of the Senate, Emilio M. González, in order to change their minds or at least to neutralize their opposition.

**Intellectual Formation**

Carlos Salinas de Gortari (2002) offers an account of the evolution of his political and economic thinking which helps to understand why and how he continued and deepened the reforms initiated by De la Madrid, and eventually decided to seek a trade agreement with the United States. Thus, he describes the process through which he arrived at his doctrine of Social Liberalism as

...the result of a long and intense personal journey. *It meant revising my beliefs and also my actions*. My family and educational background was very influential. School in Mexico, UNAM, Harvard, debates, conversations with colleagues, [including long conversations with John Womack Jr., an expert on the Mexican Revolution] and experiences with popular groups were all decisive (2002, 305-06; emphasis added).

Fundamentally, this process of critical reassessment shaped his views on the Mexican Revolution in a way that predisposed him to be open to new ideas and ways to interpret Mexican national interests according to how he perceived the changing conditions of his presidency. Thus, Salinas concluded that

...no common revolutionary ideology existed, nor was there a lasting revolutionary party […]. I understood, I repeat, that the Revolution was not monolithic: many revolutions occurred in different states of the country with different and sometimes opposing claims […] The 1910 Revolution was above all a political movement with many contradictory aspects: it was conservative and anti-popular at some stages, populist and for a populist front in others […] nationalism was understood in different ways by the different factions that were fighting for power […] The Mexican Revolution, in the end reformist, modulated the market, without abolishing it […] *Owing to the multiple misconceptions about what the Mexican revolution was and meant, the commitment to sovereignty was defined very differently throughout the twentieth century*. For me, understanding these truths required real awareness. *It meant questioning everything I had learned at home and in my early years at school* (2002, 309-10; emphasis added).
Early Collaborator of Miguel de la Madrid

Salinas was a member of De la Madrid’s camarilla\(^8\) since the late 1970s, and became his economic advisor as director general of Economic and Social Policy (1979-1981). In addition, Salinas headed the PRI’s Instituto de Estudios Políticos, Económicos y Sociales (IEPES) (Institute of Political, Economic and Social Studies) during De la Madrid’s political campaign.

In December 1982, he participated in a meeting that De la Madrid had with his close collaborators where they began to sketch the theses that would frame the ideological platform of his campaign. They analyzed the different categories of reality, questioning ourselves the actual meaning of the postulates that form the ideology of the Mexican revolution. In that process, they compared the ideological contents of our historical evolution with the real demands of our society at the present moment […] emerging from there the theses that were developed and exposed in the speeches that I subsequently delivered (De la Madrid 2004, 26-7).

According to Centeno (1999),

Salinas had not only been a loyal assistant but had played critical role in De la Madrid’s success prior to the latter’s designation as the candidate in 1981. Many believed that he was the real author of the Global Development Plan produced by the SPB [Secretariat of Planning and Budget] in 1980, which had first brought de la Madrid recognition as a potential presidential material. During the election of 1982 Salinas had served as the ‘point man’ for the candidate, defending the latter’s economic policies in a variety of forums (1999, 165).

Secretary of Planning and Budget in De la Madrid’s Administration

For Salinas, being responsible for the Secretariat of Planning and Budget (SPB) required continual political work on his part, particularly in negotiations regarding the allocation of budgets, and dealing with different social sectors in order to attain an accord with De la Madrid’s adjustment policies (Salinas 2002). This experience was invaluable for him as a potential presidential candidate because it helped to acquire extensive knowledge of

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\(^8\) “It can be accurately characterized as the cement of the Mexican political system. It provides a human link which joins disparate groups together in a fluid, dynamic pool of political leadership. This pool of political leadership since the Revolution has until recently been commonly referred to as the "Revolutionary Family." The word family in that descriptive terminology is symbolic of the importance of personal political ties” (Roderic A. Camp 1990, 85).
national politics by means of actual political engagement with diverse political, economic and social actors.

Moreover, in that important position, Salinas was able to exert influence on policymaking in accordance with his evolving liberal thinking. Thus, the Global Development Plan presented by De la Madrid and elaborated by the SPB tended to stress the need for increased integration of Mexico into the international economy following the successful example of the East Asian Newly Industrialized Countries (NICs) (Centeno 1999).

Perception of the International Political Economy

Salinas’ sexenio (1988-1994) took place at a time of drastic transformations at the international level that profoundly affected Mexico’s position in the world and demanded responses from the government. He reflected about those changes as they began to unfold in his first report to Congress, six months into his presidency:

In the recent years, a great world transformation has been happening. The political, military and economic post-war configuration has been displaced at an extraordinary speed by a less predictable scenario, multipolar, highly competitive, technologically revolutionary and with a great capacity to affect the life of all countries. This change does not know of frontiers, does not respect ideologies, nor considers levels of development (Salinas 1989).

According to Salinas’ own account, his interpretation of the international events taking place at that time greatly impacted and ultimately shaped his decision to enter into negotiations for a free trade agreement with the United States and Canada:

…huge changes occurred: economic globalization; the disappearance of the ‘Second World’ with the fall of the Berlin Wall and the breakup of the socialist camp; and the consolidation of the United States as the world’s undisputed economic and military leader […] The globalization of markets became an inevitable phenomenon of capitalist development […] The negotiation of the North American Free Trade Agreement was Mexico’s answer to globalization. It was a way to respond to that inevitable process (Salinas 2002, 225).

A major consideration in Salinas’ thinking was his perception that the formation of economic blocs tended to accompany the spread of globalization, and that Mexico’s future depended on how it adapted to that new reality which posed the need to belong to a trade region:
…economic globalization was a reality. Proof was the huge trade bloc formed by the newly ratified U.S.-Canada Free Trade Agreement. The European Community, for its part, was preparing to unify both monetarily and economically. Signing of the Maastricht treaty would formalize the existence of what would be the largest trading bloc. In Southeast Asia, the world’s most dynamic economic zone was taking shape. In this way, and with great rapidity, trade blocs unparalleled in history were forming worldwide […] While for some, regions were opening up, for Mexico, they threatened to close (Salinas 2002, 39).

Interpretation of Core National Interests

In March 1988, during a speech as a presidential candidate for the PRI, Salinas conveyed his belief that a reinterpretation of Mexican national interests was necessary. He noted that in order to uphold their sovereignty and independence “national states are obligated to revise structures, redefine modalities of economic behavior and to establish with clarity the orientation that they will follow” (Javier Garciadiego 1994, 11).

Several months later, during his acceptance speech in December 1988 the president advanced the view that modernization was the necessary condition to defend the country’s sovereignty in a world in transformation towards increasing interdependence: “…to modernize the country in that sense means opening ourselves up to the contemporary world reaffirming our identity” (GarciaDiego 1994, 12). In his first presidential report to the nation in 1989, Salinas qualified his vision of modernization as “nationalist and popular,” linking it with the very character of the Mexican Revolution, and thus seeking to legitimize it within the national political culture (Salinas 1989).

The analyst can discern in Salinas’ discourse a preoccupation with presenting the need for change as an adaptation of traditional Mexican values to new conditions: “There is no change that lasts without the present memory of the essential of yesterday and of always. But there is no change either in the mere contemplative evocation of the past” (Salinas 1989). He interprets change as part and parcel of the cherished ideals of the Mexican Revolution: “…we change because we want to make reality the Revolution (Salinas 1989).

Salinas further advances in his redefinition of the national interests during his second
presidential report to the nation. He stresses the need to integrate Mexico into a world in rapid change in order not to remain marginalized.

The nations that do not know how to creatively adapt will not be able to preserve their integrity. Those who do not do it on time will allow the possibilities that the new situation offers to pass by, but will be forced to pay, one by one, all the disadvantages… at the end, national weakness, that is to say, effective loss of sovereignty... (Salinas 1990).

He warns against narrow conceptions of the national interest: “Mexico’s strength and sovereignty do not exhaust themselves today in its frontiers. They must also prevail outside our territory, on the chessboard of interdependence and globalization” (Salinas 1990). In a reference to the need for Mexico and the United States to overcome their conflicted relationship, he notes,

Nobody can escape from these decisive impacts [i.e., the rapid international changes]. The task of changing reaches everybody, not only the developing countries. Today, we see old enemies [i.e., European nations], heirs to a history of confrontations, proposing common goals, articulating their economies, responding to the free encounter of their cultures (Salinas 1990).

In reinterpreting Mexico’s national interests, Salinas offers a new idea of sovereignty to confront an increasingly interconnected international system:

Sovereignty never meant self-sufficiency or autarky, lack of influences or of relationships. Interdependence is not necessarily opposed to sovereignty; it supposes it when it is based on the control of the direction of the internal change, since interdependence can only exist among sovereign States. Otherwise it would be subordination, which for us is unacceptable […] We want Mexico to be part of the First World, and not of the Third one (Salinas 1990).

He frames his new vision as a reinterpretation of Mexican nationalism rather than as a rupture with it. Thus, the defense of core national interests paradoxically demanded greater economic integration with the United States:

Mexican nationalism has today new ways. Sovereignty already is not something rigid […] given the increasing globalization of the world trade relations, it is indispensable a connection to the great economic centers. Without the interrelation the risk is greater: disintegration” (Salinas 1990).

Salinas’ definition of the national interest reflects his critical reassessment of the legacy of the Mexican Revolution and highlights his pragmatic approach to politics:
Each moment of our history needed from Mexicans a response that privileged the national interests of the country that we have been and within the world in which we have lived. Because of that, our nationalism has itself been expressed in diverse manners along the history and it does not exhaust itself in any of them. These expressions have never been permanent or immutable: they have always responded to its circumstances (Salinas 1991).

Eventually, the logic of his thinking in the face of the circumstances that surrounded his presidency led him to believe that for Mexico,

[i]n the international arena at the end of the twentieth century, the defense of sovereignty implied greater economic integration with the United States. That was, and still is, my conviction (Salinas 2002, 281).

**Trade Agreement with the United States**

It is not easy to establish with absolute certainty when and how President Salinas began to conceive the idea of concluding a trade agreement with the United States. For example, in recalling an electoral speech during his campaign for the presidency in May 1988, Salinas appears to have simply avoided the issue rather than to reject it:

… I also mentioned advances Mexico had achieved through a policy of import-substitution industrialization. Nevertheless, I gave a clear warning regarding the exhaustion of that strategy, which my predecessor, Miguel de la Madrid, had already recognized with Mexico’s decision to enter the General Agreement on Tariffs and Trade (GATT) […] I underlined the need for renewed growth. Two priorities were on the agenda: reducing Mexico’s high level of debt and stopping inflation […] I pointed out that non-petroleum exports would be ‘a permanent prime factor in the growth of our production’, and I stated, ‘The opening of the economy to outside competition is an irreversible fact.’ However, *I made no mention of free trade or agreement of any sort*… (Salinas 2002, 9; emphasis added).

On the other hand, his account of the meeting with the United States president-elect George Bush in November 1988 seems to indicate that at that time he did not reject the initiative of a Mexico-U.S. trade agreement as a matter of policy but as a matter of timing:

… I began the conversation with the topic I considered to be of central concern: the excessive foreign debt […] postponement of payments was insufficient. The debt had to be reduced […] President Bush intervened and replied positively to my explanation; he said that in January, as soon as he entered office and his new Treasury Secretary appointment was ratified by Congress, action would be taken […] We moved on to the subject of trade. Right from the start, President Bush proposed the establishment of a free trade zone between Mexico and the United States. The free exchange zone between the United States and Canada had just been created. Bush’s proposal, however, came unexpectedly. I preferred that two subjects as broad and complex as free trade and the reduction of the debt should not be mixed in a single negotiation. I was concerned that the Americans would attempt to gain trade
concessions in exchange for the negotiation of the debt […] And so I answered that that while we were agreeing on the reduction of the debt, it would not be the time to begin negotiating a free trade agreement. I stated that in the area of trade our interest was in negotiations area by area […] He did not insist on free trade, but he had brought up the topic, and I would remind him of that in due time (Salinas 2002, 11-12; emphasis added).

Yet on February 7, 1989, in response to a statement from the head of Mexican Business Council for International Affairs (CEMAI), Enrique Madero Bracho, that eventually Mexico should integrate itself to the North American common market, the president declared that bilaterally, and in relation to zones, I reiterate that Mexico will not associate itself with any bloc. On the contrary, we will widen our scope of action according to the perspectives that the different integrating experiences are showing us (Garcia diego 1994, 16).

It is important to recall here that at the time Salinas became president, bilateral trade relations with the United States had already been improving steadily in terms of negotiations and agreements implemented during the administration of president De la Madrid. Besides entering the General Agreement on Tariffs and Trade in 1986, a step that, among other things, signaled the United States that Mexico was serious about liberalizing and opening up its economy, the two countries had been working diplomatically to allay obstacles to a freer flow of trade and investments between them.

In 1985, they signed the Bilateral Understanding on Subsidies and Countervailing Duties, which required the U.S. government to demonstrate unfair advantage before applying compensatory duties against any Mexican export. In 1987, Mexico and the U.S. signed the Framework of Principles and Procedures for Consultation Regarding Trade and Investment Relations, which established formal mechanisms of bilateral consultation in order to anticipate and avoid commercial sanctions affecting exports, and offered a forum for the discussion of issues related to the liberalization of trade and investments (Flores-Quiroga 1998).

As head of the Planning and Budget Secretariat during the government of President De la Madrid, Salinas was no stranger to those agreements. On the contrary, it is safe to
assume that he actively participated in the decision process that led to their conclusion.

Salinas had become a key decision-maker within the De la Madrid’s government to the point that many observers considered “that Salinas was the effective president after 1986” (Centeno 1999, 95).

Therefore it was natural for Salinas, once he became the new president, to adopt as one of his goals the continuing transformation of the bilateral relations with the United States in order to achieve a beneficial regulation of the close economic relationship:

Our new strategy had to establish clear rules for economic relations. It was necessary to establish trade rules that would be based on norms and verifiable by independent bodies. We had to ensure that certain issues fundamental for Mexico’s growth should not depend on the power games of the United State (Salinas 2002, 41).

This acquired particular relevance for Salinas since at the time he initiated his presidency many issues in the Mexico-United States trade agenda remained unsolved. Additionally, the new Omnibus Trade and Competitiveness Act passed by the U.S. Congress in 1988, which aimed at “unjustifiable and unreasonable” foreign trade practices that threatened US exports was the source of new U.S. trade sanctions to Mexican exports (Flores-Quiroga 1998; I. M. Destler 2005). Thus, in October 1989 he signed the Understanding Regarding Trade and Investment Facilitation Talks with the United States that expanded the 1987 Framework Agreement and established a joint committee to identify areas where trade and investment between the two countries could be expanded (Flores-Quiroga 1998).

These bilateral agreements and the established mechanism for negotiation and consultation between Mexico and the United States cleared the way for the eventual decision to start negotiations for a comprehensive bilateral free trade agreement in early 1990. It would seem that from the point of view of Salinas as the individual decision-maker it was a question of when and how, not why:

At the beginning of the 1990s, with globalization a reality, Mexico could aspire to a sustained rate of growth only if participated in the international flows of free trade. There was no possibility of faster domestic growth unless we joined the great world movement toward free trade (Salinas 2002, 41).
Salinas’ thinking on regional integration with the United States appears to have been further influenced by his contacts with other world leaders that took place during his trip to Europe in early 1990 on his way to attend the World Economic Forum in Davos, Switzerland. In Portugal, he met with President Mario Soares in a private lunch:

> Soares was also a firm promoter of Portugal’s participation in the European Union. *His comments encouraged me to find a way to participate in regional economic integration.* The conclusion was obvious: the most important socialist leaders were moving toward the political center and were open to participating in economic globalization (Salinas 2002, 44; emphasis added).

Days later Salinas met with British Prime Minister Margaret Thatcher. According to his own account of the conversation:

> Her comments confirmed my alarm and the insistence of Mario Soares on confronting globalization from an economically integrated region. They also corroborated the fact that if we acted in time, we could join in economic regions, and so compete for economic resources with a certain advantage (2002, 44).

Salinas also met Chancellor Helmut Kohl in Germany, who stressed to him that in a world divided into three great zones Mexico needed to be part of the North American zone in order to avoid being left behind and marginalized from any bloc. Further meetings in Germany with Willy Brandt, leader of the International Socialist Movement, and in Brussels with Jacques Delors, president of the Commission of the European Community, to whom he suggested a free trade agreement between his country and the EU, only resulted in a similar response: integrate a regional market with the United States first and European investment flows will follow. In Salinas’ view, the conclusion was paradoxical: “in order to diversify our trade relations with parts of the world other than just the United States, we first had to concentrate on joining the enormous and powerful market of our neighbor to the north” (Salinas 2002, 46).

According to Salinas (2002), the trip to Europe in January 1990 was instrumental in triggering his decision to move ahead with the negotiation of a trade agreement with the United States in the face of European reluctance to his requests for deeper economic
It was clear to me that globalization’s inevitability made it urgent to negotiate a free trade agreement […]. Once we decided to negotiate a free trade agreement, it was essential to sound out the interests of the United States in light of my refusal to discuss it in November 1988. There, in Davos, the occasion arose […] I asked [Jaime] Serra to begin making contacts to start the negotiation of a free trade agreement with the United States. The following morning, Serra went to find Carla Hills, the person responsible for trade negotiations for the U.S. government, who was also in Davos. He let her know that my government was interested in initiating negotiations with the United States to set up a free trade zone between our nations (2002, 47-48).

Even though in retrospect it would seem that NAFTA was a historically inevitable event, in reality it was not a forgone conclusion. It still required the additional political inevitable step taken by President Salinas in making the decision to reach out to the United States requesting a free trade agreement. And the decision, independently of its actual correctness, defined the political style of a pragmatic, self-assured president.

It was a ground-breaking initiative at that time that required considerable political courage because of its controversial nature. It was politically unpopular in Mexico, a
country with a long-standing nationalist political culture, where many viewed an economic pact with the United States as a threat to the nation’s sovereignty and autonomy.¹⁵

**Type of Integration Agreement**

Ever since former U.S. president Ronald Reagan publicly called for the formation of a North American accord during his political campaign for the U.S. presidency in November 1979, the specter of a possible North American *common market* emerged periodically as a sensitive subject in the international politics of the North American region. Before that initiative, the U.S. Trade Agreements Act of 1979 had already established in its Section 1104 that:

> The President shall study the desirability of entering trade agreements with countries in the northern portion of the western hemisphere to promote the economic growth of the United States and such countries and the mutual expansion of market opportunities and report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate this findings and conclusions within 2 years (by July 1981) after the date of enactment of this Act.

Additionally, during a visit of President Carter to Mexico in February 1979, his Secretary of State, Cyrus Vance, had suggested the creation of a common market between Mexico, Canada and United States (Urencio 1981).

Reagan’s idea was never developed into a full and detailed proposal for regional integration that indicated the type of agreement sought. However, in the media and the political discourse of that time it was loosely interpreted to be a proposal for the creation of a

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¹⁵ “What is his ideology? I don’t know. He’s a politician that adapts to anything. Salinas proved also to be an extraordinary leader. In that sense, he fulfilled a function very similar to that of Cardoso or Lula, in the sense that he established a direction. Not everybody liked what Salinas proposed but there was no doubt where he was going […] The risk that Salinas took was enormous” (Luis Rubio (CIDAC), personal interview by author, in Mexico on October 22, 2010).
common market between the three North American countries. Nevertheless, regardless of the type of agreement, the governments of both Canada and Mexico in the early 1980s rejected the idea of a trilateral economic pact with the United States.

On September 29, 1989, Salinas declared to the Boston Globe that Mexico was seeking a broad trade accord with the United States to invigorate the bilateral relations in that area. Such agreement, according to the Mexican president, could have the following consequences: access of free scale of textiles, steel, automobiles, and other vehicles made in Mexico to the U.S. market. He also declared that a greater access of Mexican products to the U.S. market was essential part of the economic opening policy (Garciadiego 1994).

Shortly thereafter, during the work tour through the United States in October 1989 that included a meeting with President Bush and the signature of the Understanding Regarding Trade and Investment Facilitation Talks (URTIFT), Salinas declared that at the moment there were no conditions to establish a North American common market between Mexico, United States and Canada, due to the significant differences of their economies. That same day, during an interview by the TV network Univision, in response to questions about the recent signature of the Canada-United States Free Trade Agreement (CUSFTA), the Mexican president declared that

…the U.S. and the Canadian economies are relatively similar. Instead, between the Mexican and the U.S. economies there are very big imbalances […] a free trade agreement, at this time, would not correspond to the conditions of our two countries (cited in Garciadiego 1994, 29; translated from Spanish).

A day later, in his speech before the Joint session of the U.S. Congress, Salinas demanded reciprocity and access of Mexican goods to the U.S. market through sectorial accords: “We wish a bilateral agreement that, sector by sector, would bring down the barriers to trade” (Garciadiego 1994, 34; translated from Spanish).

Therefore, at that time, the Mexican president seemed to be still thinking only of
sectorial agreements and not of comprehensive trade accords, and therefore the issue of a common market versus a free trade agreement did not appear yet relevant. Thus, in an interview with Newsweek on October 8, 1989, he manifested his preference for bilateral accords that could give Mexico access to the U.S. market, but rejected again the idea that his country would form a common market with United States and Canada.

It would seem that ultimately, the example of the CUSFTA helped both the United States and Mexico to agree on a free trade agreement as the most functional scheme. For Salinas, a free trade agreement granted Mexico an acceptable level of autonomy that mitigated the risks of integrating the developing economy of his country to a much more developed and more powerful neighbor such as the United States. He explained his rationale during his second government report on November 1, 1990:

The negotiation of an agreement like the one that we intend to reach with the United States will not include any subject outside strictly commercial confines. This is the difference between a free-trade agreement and a common market treaty. We keep our autonomy in front of third countries (Salinas 1990).

He referred again to the type of agreement chosen by Mexico during his third government report one year later:

In the European continent it has been decided to create not only a free trade zone but a common region, without frontiers or passports, with common currencies, banking, parliament and army. Differently from the European project, in Mexico, for historic reason and by political conviction, we only promote greater economic interrelation and freer exchange with all nations, always maintaining our character of sovereign country (Salinas 1991).

In summary, President Salinas’s pivotal role regarding NAFTA was not just based on his position as President, that granted him enormous political power, or on his leadership style, which ensured that he was in firm control of the government. It was, more decisively, based on the strategic political guidance that he provided. Grounded in new liberal ideas about the legacy of the Mexican Revolution, the notion of sovereignty and the conception of Mexico’s national interests, and oriented by a pragmatic approach to politics, President Salinas came to the realization that Mexico needed to do something else besides market
liberalization and the opening up of its economy. It had to look anew at its main economic partner and close neighbor to the north, the United States, and forge a new path to economic integration through a comprehensive trade agreement.

**Group Decisionmaking and Bureaucratic Politics**

Heredia (1996) provides an important reason for studying the role of the governmental bureaucracy in Mexico:

> executive dominance over the legislative placed Mexico’s economic bureaucracy at the center of economic policymaking. Economic ministers as all members of the cabinet are answerable only to the head of the Executive. Though subordinated to the President, economic ministers faculties for granting favors, their control over information and their key role in defining policy options have provided them with significant sources of independent power (1996, 56).

This section examines the variables acting at the level of the relatively small group of government officials that together with the president had control of the political decision-making process dedicated to foreign economic policy.

The Mexican president has enormous political power within the state apparatus. He or she enjoys ample discretion over three key governmental areas: 1) the selection of cabinet members, 2) foreign policy, and 3) economic policies (Jorge Carpizo 2002). The combination of these three attributes has helped to shape the pivotal importance and the makeup of the decision-making group that defines foreign economic policy.\(^16\)

The relative participation of various ministries in the group that dominates Mexican foreign economic policymaking depends on the issues at hand, the president’s leadership style, the policy-making institutional makeup, and the actual distribution of power among the cabinet members (Gámez Vázquez 2006). Traditionally, within the Mexican executive branch of government three main secretaries had shared and competed for influence over the elaboration and execution of trade policy and conclusion of trade agreements. They are: the

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\(^{16}\) Heredia (1996) notes that “[t]he absence of electoral competition and the declining importance of the PRI as a ladder into the upper echelons of the state apparatus increased the political significance of the economic bureaucracy, turning it—especially from the 1970s onward- into the pivotal locus of the struggle for state power’ (1996, 28-29).
Secretaría de Relaciones Exteriores (SRE) (Ministry of Foreign Affairs), the Secretaría de Comercio y Fomento Industrial (SECOFI) (Ministry of Commerce and Industrial Development), and the Secretaría de Hacienda y Crédito Público (SHCP) (Ministry of Finance).

In the beginning of post-revolutionary Mexico, the SRE had control over all aspects of foreign relations, including the promotion of trade and the negotiation of international agreements (Jorge A. Schiavon and Antonio Ortiz Mena L. N. 2001). The Finance Ministry occupied a dominant position in the Mexican economic bureaucracy, and had significant influence on economic policies, including international trade. In the late 1940s, the SECOFI began to acquire increasing relevance in the shaping of trade policy (Heredia 1996).

The creation of the Secretaría de Planeamiento y Presupuesto or SPP (Planning and Budget Ministry) in 1976 altered the balance of power among these ministries because the new office was charged with

- planning the future of the country, assigning the distribution of funds necessary to achieve that future, designing the procedures by which the administration would achieve these goals, and measuring the relative success of these policies (Centeno 1999, 89).

The SPP was able to accumulate enough resources to control policymaking within the governmental bureaucracy, thus becoming a powerful political arbiter capable of influencing the path of economic development.

In terms of the influence of economic ideas, those Mexican public officials who favored or were inspired by monetarist views tended to converge in public financial institutions such as the Banco de México, the Ministry of Finance, and the financial entity Nacional Financiera. Those who were influenced by structuralism found themselves working for Commerce and Industrial Development, decentralized state organizations and

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17 Also known as Nafinsa, it was created by the government in 1934 to promote the stock market and channel financial resources to productive activities providing liquidity to the national financial system (Nafinsa 2012).
enterprises with state participation, and for a short while, the Planning and Budget Ministry (Elsa M. Gracida 2007). Yet, the arrival of De la Madrid as head of Planning and Budget in the Lopez Portillo administration changed the ideological orientation of this institution by staffing it with professionals with whom he had worked before and that shared a similar liberal view of Mexico’s economic future, thus aligning it with the dominant ideas prevailing in the Finance Ministry (Centeno 1999; Gracida 2007).

As Salinas assumed the presidency, trade policy became a crucial centerpiece of the government economic strategy and thus, its formulation and implementation acquired special political relevance. Within a basic institutional framework that granted the president’s preeminence in foreign economic policymaking, and consistent with his leadership style, Salinas introduced changes in the organization and composition of the governmental bureaucracy to ensure that his policy preferences could not be challenged and that the Mexican government acted as a unified force (Centeno 1999, Ortiz Mena L. N. 2005).

To that effect, he selected an ideologically cohesive team of experts that shared his vision for Mexico, and created the Oficina de Coordinación de la Presidencia (OCP) (Office of Presidential Coordination) to oversee five specialized committees within the presidential cabinet: economy, agriculture, social development, foreign policy and national security. Centeno (1999) notes that “Salinas was masterful in balancing institutional powers with personal influence in his distribution of the cabinet seats” (1999, 95). Thus, for example, he allocated responsibility for the formulation of economic policy among Commerce and Industrial Development (Jaime Serra Puche), Finance (Pedro Aspe), Planning and Budget (Ernesto Zedillo), and OCP (José Córdoba), making sure that none of them could develop enough bureaucratic power to overshadow his authority similarly to what he had done when

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18 According to Bernardo Sepúlveda, Secretary of Foreign Relations in De la Madrid’s administration, “the delegation (distribution or concentration) of foreign policy tasks and who is involved in it depends on the governing style of the president” (cited in Gámez Vázquez 2006, 172).
he was the head of SPB during De la Madrid’s administration (Centeno 1999).

According to Schiavon and Ortiz Mena L. N. (2001), when Salinas became president in December 1988

...the federal government lacked an effective organ to coordinate foreign policy, particularly in the area of international trade. Even when the SRE had the legal faculties to be in charge of the coordination of the bureaucracy in this area, it was overwhelmed by the diversity of international affairs in which the country was involved (2001, 740).

Moreover, in 1986 De la Madrid had eliminated the Subsecretaría de Asuntos Económicos (Office for Economic Affairs) from the Ministry of Foreign Relations, thus effectively limiting that ministry capacity to influence the design of foreign economic policy (Gámez Vázquez 2006).

It is not clear if this was the main reason that Salinas did not rely primarily on the SRE to carry out his trade policy.\(^\text{19}\) It would seem that the importance of the economic dimension in foreign policy during his term facilitated an increasing influence of the secretaries concerned with the economy vis-à-vis the one dedicated to foreign affairs (Heredia 1997; cited in Gámez Vázquez 2006). Thus, he appointed Córdoba, his close advisor and head of Presidential Coordination, and Serra, head of Commerce and Industrial Development, as his emissaries to initiate negotiations with the United States toward a free trade agreement. Moreover, Salinas chose SECOFI to lead the negotiation of NAFTA, giving it ample authority to do so, while Foreign Relations played a secondary role (Gámez Vázquez 2006; Ortiz Mena L. N. 2005).

One reason behind Salinas’ choice of SECOFI, Jaime Serra’s ministry, to lead the negotiation of NAFTA may have been his perception of the lack of ideological-political affinity of the diplomatic bureaucracy with his strategic vision for Mexico. As the official

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\(^{19}\) According to Gámez Vázquez (2006), Salinas’ decision may have been also influenced by Foreign Relations’ lack of initiative in seeking a prominent role in foreign economic policy and the promotion of international trade. As a presidential candidate Salinas sought the opinion of Bernardo Sepúlveda, head of Foreign Relations in De la Madrid’s administration in this regard, but Sepúlveda did not seize the opportunity to advocate for a greater policymaking role for his ministry (2006, 189).
diplomatic voice of Mexico in international affairs, the Ministry of Foreign Relations had been historically associated with a strong nationalist outlook that tended to view the United States solely or mainly as a threat to the country’s sovereignty (Golob 1999; 2003). Moreover, there was a perception that the diplomatic bureaucracy displayed considerable political independence and capacity that contradicted Salinas’s demand for a tightly unified governmental bureaucracy20 (Gámez Vázquez 2006).

Gámez Vázquez (2006) concludes that Foreign Relations did not play a prominent role in the decision to create NAFTA because it was deprived from being part of the economic cabinet from which this initiative emerged:

…although the secretary of Commerce participated in the committee of foreign policy, the head of Foreign Relations did not do it in the committee of economy. Due to this situation, the Mexican foreign service practically did not intervene in the design of the economic policy or in its establishment, at least not in the initial meetings that were considered decisive for the strategy of the government (2006, 184).

Fernando Solana, head of the Foreign Relations Ministry during the Salinas government, acknowledged this state of affairs:

[t]he economic relationship […] continues being handled by the Secretary of Finance, the Secretary of Commerce. What the Cancillería conducted permanently were the lines of politics and the coordination of the international presence of Mexico (cited in Víctor Arriaga 1994, 575).

What role did the members of the economic cabinet (i.e., Jaime Serra Puche, Pedro Aspe, Ernesto Zedillo, and José Córdoba) play in the decision to seek a FTA with the United States? There seems to be no definite documentary evidence available in this regard.21 According to Serra,22 “the head of Commerce and Industrial Development at that time, he was

20 Grayson (1998) observes that “[b]ecause SRE personnel march to their own ideologically charged institutional drumbeat, major tensions traditionally strain the relationship between the ministry and Mexico’s ambassador to Washington, a presidential designee often lacking career staff members’ enthusiasm for gringo baiting” (1998, 80).
21 Gámez Vázquez (2006) observes that it is difficult to offer a definite analysis of the decision process within the governmental bureaucracy “because there is no evidence at hand of debates or meetings that could illuminate” it (2006, 127).
22 Personal interview by author with Jaime Serra Puche, head of SECOFI in Salinas’ cabinet, on October 25, 2010 in Mexico City.
the governmental actor that most influenced the decision besides president Salinas. Yet, José Córdoba has been widely acknowledged by the Mexican media and political observers as a very close advisor to the president with significant influence over his political decisions.\footnote{A former member of the presidential staff noted that "[Córdoba's] agenda is the president's. He is in contact with constituencies abroad and knows what they want from Mexico. Salinas relies on him to make a coherent, broad economic policy. Salinas is skillful at the tactical level, but Córdoba has the strategic, long-term view" (\textit{Los Angeles Times} 1992).}

For Arriaga (1994), José Córdoba and Serra Puche were key members of the small group responsible for the promotion of the major changes shaping the neoliberal economic policy. Fernando Solana represented the nationalist tradition, while the Mexican ambassador to the United States, Gustavo Petriccioli, supported Salinas’ integration initiative and was his most important spokesmen in U.S. business circles.

Arriaga (1994) also notes that “[a]mong these bureaucratic actors there were numerous clashes but in the end the line of Serra and Córdoba prevailed” (1994, 577; translated from Spanish). Yet, for this author, the bureaucratic actor of greater weight in the decision process was the Office of Presidential Coordination, because it was the link between Salinas and the cabinet. During the Salinas’ sexenio the Mexican approach to foreign policy decision-making characteristically kept the handling of international economic policy and foreign policy institutionally separated. In this manner, the separation of functions tended to encourage inter-bureaucratic rivalries and a lack of adequate coordination among the secretaries responsible for economic matters and Foreign Relations.

Yet, since Salinas’ project of economic modernization was of paramount importance, in case of conflicts among institutions, foreign policy decisions were subordinated to the needs of the group more clearly aligned with that project. Thus, in practice, this arrangement relegated traditional diplomats to a secondary role in the management of Mexican international politics (Arriaga 1994). Solana confirms that
the specific weight that the economic policy and the group that integrated the economic cabinet had is undeniable. There is no doubt that they made the international decisions that influenced what has happened in the country (cited in Arriaga 1994, 578; translated from Spanish).

Córdoba (1994) reveals the important role played by the economic cabinet of an administration that prioritized a unified government to carry out its economic strategy:

It has been argued that homogeneity of views on the part of the economic cabinet is a key element for the successful management of reform. It is surely a very useful attribute, and possibly even a necessary one […] but it is undoubtedly not a sufficient condition for success. In order to proceed with reforms, a president and his economic team must have a shared vision of the future and a clear overall policy design. Otherwise, precious time will be wasted in internal discussions, and political problems can arise from the clash of mutually incompatible economic lines of action. Vision, drive, and commitment are necessary to introduce radical change. Thus, in the initial stages of a reform process, the risks derived from excessive coherence of the economic team in government…are less than the costs associated with a permanent divergence of views […] In such situation, unity is preferable to diversity within the government. In Mexico, the economic team of President Miguel de la Madrid (1982-88) was less philosophically homogeneous than that put together by his successor President Salinas. As a consensus on economic strategy emerged within the government over the course of 1980s, especially regarding the role of the state in the economy and the scope of trade liberalization, both the homogeneity of the economic team and the effectiveness of its policies increased (1994, 282; emphasis added).

In terms of the bureaucratic politics approach, which tends to view the foreign policy outcomes as the result of negotiation among different governmental agencies or ministries, Gámez Vázquez (2006) concludes that in Mexico there was more consensus than bargaining among members of Salinas' cabinet. This would be consistent with Salinas' leadership style which encouraged consensus rather than compromise among dissenting views.

According to Salinas (2002), a cabinet meeting held immediately after he returned from Europe in February 1990, determined the choice of agreement type by rejecting the idea of a Common Market similar to the European model, while “on the other hand, the idea of an agreement that could include Canada gained strength” (2002, 53).

**National Politics**

The previous two sections examined Mexican domestic influences on the foreign economic policy-making connected to the creation of NAFTA from the perspectives of the individual decision-maker and the small circle of bureaucratic actors close to the president.
This section also looks at domestic factors but from a broader national perspective that includes other political and economic actors outside the sphere of the president’s office and the related governmental bureaucracies, such as the business community, labor unions, organized peasantry, Congress, political parties, and epistemic communities.

Among the domestic forces, a powerful section of the private-interest sector had a significant political role lobbying in favor of a FTA with the United States, which started during the De la Madrid’s sexenio. The rest of Mexican society largely reacted to the government’s decision once it had been made after Salinas’ return from Davos.

The Mexican president was well-aware that his decision and the support of a portion of the business sector, however powerful, were necessary but not sufficient to close the deal. He needed to build broad social and political consensus:

We had to begin by convincing Mexicans that it was worthwhile changing the historical relationship we had had with the United States. This required an ample process of explanation, dialogue, and negotiation with different groups and specialized sectors […] We had to promote a change in attitude toward Mexico’s hegemonic neighbor to the north. It was a matter of creating a new political culture in Mexico-U.S. relations. In the specific field of trade negotiation, an enormous task was forging a domestic united front—including government, businessmen, unions and campesino and rural organizations— to present to U.S. negotiators. [Otherwise] we would come to the negotiating table in a weakened position (Salinas 2002, 50).

**Business Organizations**

In drawing lessons from the Mexican experience with economic liberalization, José Córdoba (1994) concludes that:

Accelerated trade liberalization does tend to motivate businessmen to form coalitions against the government in a more radical fashion than under a gradual program. However, this pattern did not emerge in Mexico, because of the clear and firm stance of the government and because of the establishment of a pro-liberalization lobby, composed of exporters who needed unhampered access to imported inputs to raise their level of competitiveness (1994, 244; emphasis added).

The “pro-liberalization lobby” he refers to was a trade-policy business coalition mainly

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24 Adapting a definition provided by Thacker (2000) regarding state-business coalitions, I define trade policy *business* coalitions as alliances of actors joined together by shared interests and ideas to support or oppose certain kinds of policies.
composed of Mexican affiliates of U.S. transnational corporations (USTNCs) and large Mexican enterprises with substantial interests linked to international trade, which had also begun to have direct investments outside Mexico. The latter included Mexican conglomerates with interests in various economic activities and often associated with transnational firms to obtain technology that allowed them to compete internationally (Carlos Alba Vega 1993; Flores-Quiroga 1998). This was a new development, which reflected the fact that by the late 1980s, Mexico’s modern economy had outgrown the autarkic ISI model of industrialization.

USTNCs were responsible for about 50% of all Mexican sales of manufactures abroad (Alba Vega 1993). The three large companies of the automobile industry exported 80% of the auto parts; IBM exported 70% of the machinery to process information; two TNCs were responsible for 97% of cinematographic material; Resistol and Celanese were the largest exporters of resins and plastics; Tubos de Acero was almost the exclusive exporter of seamless tubes; Hewlett Packard and IBM dominated the export of typewriter parts and data processing (Carlos A. Rozo Bernal 1998). USTNCs were “natural allies” of the Mexican government in negotiating NAFTA, and “in fact, participated in diverse manners in the lobbying in favor of free trade” (Alba Vega 1993, 228), because they increasingly tended to export to their mother country and viewed growing U.S. protectionism at that time as a threat to their interests.

Rozo Bernal (1998) credits the new economic policy of the Mexican government with influencing the export orientation of the TNCs, given that until 1982, they were fundamentally focused on the domestic market. The automobile industry, dominated by subsidiaries of U.S. corporations, was the most clear example, since “from being the main contributor to the trade deficit until 1982 now it has become one of the main contributors to

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25 In other words, their economic growth has led them to operate as veritable transnational enterprises, also known as “multilatinas” (Javier Santiso 2008).
the surplus by modifying its participation in total exports from 2.38% in 1981 to 17.23% in 1988” (1998, 183). In this manner, transnational corporations became one of the main promoters of export-led growth. The American Chamber of Commerce of Mexico A.C. (AmCham/Mexico), created in 1917, is the main organization representing the interests of USTNCs in Mexico. Its members account for the vast majority of U.S. private direct investment in Mexico. Together with other U.S. organizations like the Council of the Americas (COA) and the U.S. Chamber of Commerce (USCC), the AmCham/Mexico has been actively involved in lobbying for a FTA with the United States through the activities of a bi-national private-interest group, the Mexico-U.S. Business Committee (MEXUS). This committee became the organizational center of the bi-national pro-NAFTA business lobby, as described below.

The emergence of large Mexican corporations with substantial interests in international trade and investment accelerated in the 1980s, encouraged by the increasing liberalization of the economy and the strategic promotion of exports. According to Hernández Rodríguez (1991), between 1955 and 1980, two fundamental changes affected the structure of the Mexican business sector:

The first refers to the diversification in the size of private establishments that translates in different economic capacity and in interests that are not always coincidental despite of belonging to the same productive branch. The small [enterprise] […] that little by little has ceded its space to the micro-enterprise, is the most numerous in any productive branch, but the medium-size firm augments its influence by its increasing concentration of capital. The second change consists in the economic strengthening of a reduced number of large consortiums that had become leaders in each sector of activity due to their concentration of the larger part of capital and the larger volume and value of production. As it is to be expected, this group of enterprises is very far from the concerns and interests of the others (1991, 452; translated from Spanish).

26 Today, AmCham/Mexico includes more than 1,500 companies that account for almost 70% of direct investment in Mexico from the United States (AmChamMex 2012).
27 Among the most prominent of these firms at that time were: Alfa (steel, petrochemicals, and foods), Visa (beer, foods), Cydsa (plastics, chemical products), Vitro (glass), Imsa (steel, machinery), Protexa (petrochemicals, construction), Cemex (cement), Desc (chemical products, machinery), Hermes (transports, auto parts, machinery), ICA (construction, steel), Condumex (electric machinery) (Flores-Quiroga 1998).
The economic consequences of the 1982 crisis and the governmental policy response tended to hasten the process of industrial concentration initiated early in the decade thus reinforcing a shift in the balance of economic power in favor of large enterprises (Thacker 2000).

Gonzalo Castañeda (2010) also notes that

In the context of discretionary institutions dominated by corporatist relations, the GEP [post-revolutionary economic groups] generated enterprises of high profitability but low productivity. Before the lack of export capacity, poor aggregate savings and low tributary capacity, the macroeconomic crises favored an institutional re-accommodation of greater political and economic opening. In this new environment, the groups were forced to re-direct the expansion of their businesses to the international market (2010, 612).

The importance of large Mexican firms’ interests in foreign trade is underscored by the fact that in 1980 this group originated 77% of total exports of food, drinks and tobacco, 98% of wooden products, 70% of chemical products, 73.7% of non-metallic minerals, 64% of paper and publishing products, and 53.6% of steel products (Flores-Quiroga 1998). In addition, the economic logic of export-led growth encouraged some of these enterprises to seek acquisitions and mergers with foreign corporations in order to be able to compete on a global scale28 (Alejandra Salas-Porras 1992).

The organizational representation of business interests in Mexico has been historically shaped by early state intervention after the Revolution (1910-1917). In 1918, the government created the two largest representative institutions of that sector, the Confederación Nacional de Cámaras de la Industria (Concamin) (National Confederation of Industrial Chambers) and the Confederación Nacional de Cámaras Nacionales de Comercio (Concanaco) (National Confederation of National Chambers of Commerce), which thus acquired semi-official status.

When in 1938 Lázaro Cárdenas reorganized and renamed the official National Revolutionary party (PNR) created in 1929 by President Calles into the Party of the Mexican Revolution (PRM), the predecessor to the PRI, he formally incorporated within the party

28 For example: in 1989, Vitro acquired U.S. companies Anchor Glass and Latchford; and Cemex purchased several cement companies in Texas and California (Salas-Porras 1992).
structure labor, farmers and other popular sectors, which were thus represented in a
corporatist-like manner, but excluded the business sector\(^{29}\) from such participation.

Yet, in 1936, President Cárdenas effectively corporatized the business sectors
organized in Concamin and Concanato via the replacement of the old law of chambers
organized before the revolution, in 1908, with a new Law of Chambers of Commerce and
Industry, which according to Branderburg (1964) “set the stage for the modern evolution of
both chambers” (1964, 88). In this manner, Cárdenas not only corporatized workers and
peasants into the official party, the PRM, but also capitalist sectors through chambers subject
to state control.

Story (1982) plausibly argues that precisely because the business sector was not
within the institutional dominion of the PRI it had the potential for exerting independent
influence on governmental decisions, including those related to foreign economic policy.\(^{30}\)
Instead, the government channeled private-sector political participation through state-
sponsored confederations, which thus became the main institutional mechanisms of business-
state interaction. In this manner, the government also exerted control of capital (i.e., industrial
and commercial enterprises) along with the proletariat (i.e., wage-earners and peasants) via
the PRI.

Another important factor that has shaped the pattern of business-state relationships in
Mexico is the relatively weaker role that the legislative branch of government plays vis-à-vis
the executive in the political system. This has encouraged representatives of the private-
sector interests to focus their lobbying efforts on the president and his/her cabinet rather than
on members of Congress.

By the time Salinas de Gortari became president of Mexico, several major national

\(^{29}\) Persons within the business community could however become party members as individuals.

\(^{30}\) Story also identifies the intellectual community as another sector capable of having independent
influence because it is not part either of the corporatist structure of the official party.
business organizations claimed, at times overlapping with each other, to represent a diversity of private-sector interests. State-sponsored organizations such as the Concamin, the Concanaco, and the National Chamber of Transformation Industries (Canacintra), coexisted with other private-interest entities that had been initiated by entrepreneurs independently of the state, like the Confederación Patronal de la República Mexicana (Coparmex) (Mexican Employers Federation), the Asociación de Banqueros Mexicanos (ABM) (Mexican Bankers Association), the Asociación Mexicana de Instituciones de Seguros (AMIS) (Mexican Insurance Association), the Consejo Mexicano de Hombres de Negocios (CMHN) (Mexican Businessmen Council), and the Consejo Coordinador Empresarial (CCE) (Business Coordinating Council).

The semiofficial Concamin and Concanaco are all-encompassing organizations representing the interests of all industrialists and all commerce and service entrepreneurs, respectively. All firms are required by law to be affiliated with a chamber, which in turn has to be a member of one of the two confederations. A representative of SECOFI might attend their executive meetings and participate with voice but no vote.

Formally, Canacintra is part of Concamin, but it tends to function independently. Created in 1941, this organization represents the interests of medium and small-size industrialists, also known as the New Group, that emerged during the WWII. After the war, they demanded protective backing from the state in order to continue growing, and were outspoken supporters of import-substitution industrialization.

Politically, Canacintra has been perhaps the clearest voice from the Mexican business sector that opposed an FTA with the United States. In a document titled “International negotiations,” published in June 1990, the business organization presents its position regarding the relations between the two countries:

… it is by no means convenient to precipitate the signing of a broader free trade agreement [with the U.S.] without before evaluating the effectiveness and advantages
of the sectorial accords for the national industry […] the current conditions are not adequate to advance toward the establishment of a free trade zone to the interior of both nations.

The paper calls attention to the existing asymmetry that characterizes the bilateral economic relationship that places Mexico in a situation of disproportionate economic dependence on the United States. In this regard, it notes that while Mexico receives 63 percent of all foreign investment from the U.S. that amount represents only 2 percent of all the capital that the U.S. channels to different countries of the world. Instead, Canacintra proposed that Mexico diversify its trade partners and the origin of foreign investments it receives in such manner that the country would not become part of an economic bloc but that it negotiate with many nations and economic zones in formation (Marquez 1990).

The Mexican Employers Federation (Coparmex) is a voluntary organization that represents all employers regardless of activity or industry. It was created in 1929 in response to governmental policies inspired by the conservative Monterrey Group, and as such it tended to express more extreme political views and to adopt more aggressive postures against the government of the PRI.

The Mexican Businessmen Council (CMHN) was founded in 1962 by thirty of the most prominent businessmen in the country, who are considered to hold most of the entrepreneurial power in Mexico (Camp 1989). It is a very elitist and secretive organization dominated by entrepreneurs of the largest industrial groups. According to a source cited in Camp (1989), “[t]he council is not an ordinary business organization –it does not pronounce publicly on major issues; it does not even have an office- yet the consensus that emerges from its secret deliberations determines the private sector’s political role” (1989, 168). Moreover, the CMHN has privileged access to state power, particularly the president: “we have constant access to the president, and we probably have meetings and meals with the secretary of the budget and programming at least once a week” (cited in Camp 1989, 169).
The Business Coordinating Council (CCE) was created in 1975 by an agreement between Concanaco, Concamin, Coparmex, ABM, AMIS, the National Agricultural Producers Council (CNA), and the CMHN, all of which participated as members with full voting rights. The purpose of the CCE was to coordinate the activities of the various member organizations. It functions as the political arm of the private sector. It appears as a peak representative of all Mexican business interests, but in practice the CMHN exerts considerable control (Camp 1989).

Canacintra is also affiliated with the CCE but it can only participate with voice, not with vote. The percentage of votes among the various organizations affiliated with the CCE is equally distributed with 14.3% each regardless of the size of their respective membership. Thus, the CMHN, which only has 30 individual members, has the same number of votes than Concamin and Concanaco, each with 125,000 and 500,000 affiliates respectively (Thacker 2000).

There are several other business organizations that represent in particular the interests of those Mexican entrepreneurs with ties to international trade. They are the Consejo Empresarial Mexicano para Asuntos Internacionales or CEMAI (Mexican Business Council for International Affairs), the Asociación Nacional de Importadores y Exportadores de la República Mexicana or ANIERM (National Association of Importers and Exporters), and the Consejo Nacional de Comercio Exterior or Conacex (National Council of Foreign Trade). These organizations, like Canacintra, are affiliated with the CCE, but do not enjoy the right to vote.

CEMAI was created in 1951, to lobby “before the Mexican and foreign governments on issues related to Mexico’s international trade policy” (cited in Thacker 2000, 145). Formally, it has a cross-organizational membership of about 200 persons derived from members of Concamin, Concanaco, Canacintra, Coparmex, AMB, AMIS, and ANIERM. In
practice, “CEMAI draws principally from the ranks of the largest and most internationally integrated firms in Mexico” (Thacker 2000, 146). CEMAI played an active role as promoter of free trade with the United States, the negotiation of the 1987 framework agreement, and the negotiation of a comprehensive trade and investment, which eventually became NAFTA, mainly through its participation in MEXUS as the Mexican counterpart of the U.S. Council (see below).

Salinas tacitly recognized CEMAI’s important role in this regard by selecting the national meeting of this business organization, on March 28, 1990, to publicly announce that the Mexican government was determined to conclude a FTA with the United States. This occurred in the wake of leaks to the press first published by the Wall Street Journal on March 27, 1990, that Mexico had begun negotiations for the NAFTA (Truell 1990).

ANIERM was founded in 1944 and represents approximately 500 companies. It has the objective of promoting the internationalization of Mexican enterprises, products and services. Besides its early lobbying efforts before the Mexican government in favor of joining the General Agreement on Tariffs and Trade from the mid-1970s, and finally in support of De la Madrid’s decision to join in 1985, “ANIERM’s leadership presented a document specifically proposing the negotiation of a bilateral free trade agreement with the United States to PRI candidate Salinas” (Thacker 2000, 159).

The case of Claudio Xavier Gonzalez Laporte, Chairman of the Board of Kimberley Clark of Mexico and one of the most prominent businessmen in Mexico, offers an example of the membership interconnections found among the various business organizations. He has participated in many enterprises’ board of directors, both Mexican and transnational (i.e., Telmex, Televisa, Banamex, Planet Hollywood, J.P. Morgan and Grupo Mexico among others), and has been president of the CCE, the CMHN, the COPARMEX, and the CEMAI (La Jornada 2000). The Mexico-U.S. Business Committee (MEXUS) is a bi-national private
enterprise organization founded in 1948 with the goal of forging bilateral consensus on economic policy issues of common concern. As mentioned previously, MEXUS has been an instrumental conduit for the lobbying efforts of the powerful pro-free trade coalition composed by USTNCs and large Mexican conglomerates. For that reason, it deserves a more detailed scrutiny.

Each side of the bilateral business committee was represented by a respective council. The U.S. Council was sponsored by the Council of the Americas, which provided a legal umbrella, the U.S. Chamber of Commerce and the AmCham/Mexico. The CEMAI acted as its counterpart. Formal positions and decisions of the organization were arrived at by negotiation between the U.S. Council and CEMAI. Each of these councils had a chairman elected by their respective members and the two co-chaired and ran MEXUS (Grayson 2007).

The role played by MEXUS with respect to Mexico-U.S. economic integration bears strong resemblance to the case of the European Round Table of Industrialists (ERT) in the development of the European Union. The ERT was born in 1983 as the Round Table of European Industrialists at a meeting of 17 leaders of major European corporations. The objective of the new grouping was “to revitalize European Industry and make it competitive again, and to speed up the process of unification of the European market.” This transnational business coalition promoted ideas and concepts that have helped to shape the agenda and discourse of European policymaking and played a major role in reviving the

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31 The US Council is a standing committee of the Council of the Americas, and plays an active role in public policy discussions related to North American economic relations. Its declared mission is “to strengthen the North American Community by advancing economic integration and promoting democratic stability, transparency, the rule of law, and cooperation throughout North America” (COA 2005).
32 It was founded by David Rockefeller in 1965 to promote Latin America’s economic growth through free markets and private enterprise.

The Council of the Americas claims that “MEXUS was critical in the conceptualization, promotion, passage, and implementation of the North American Free Trade Agreement” (COA 2005). Jaime Serra Puche, Secretary of Commerce and Industrial Development in Salinas’ government, who also served as Undersecretary of Finance in De la Madrid’s administration from 1986 to 1988, confirms that the “quiet, not flashy” political work carried out by MEXUS had “made commercial integration ‘realistic’ and ‘set the groundwork to launch NAFTA’” (cited in Grayson 2007, 98).

According to Ambassador James R. Jones34 (2007), “[n]ot only did MEXUS play a critical role in the conceptual work that led to NAFTA, its members also wore out significant shoe leather on Capitol Hill, ultimately leading to the successful passage of NAFTA” (2007, vii). In a similar vein, Jaime Zabludovsky35 (2007) notes that “[t]he history of how Mexico proposed NAFTA to the United States in January 1990 is now well known […] What was less known is the role that a small group of business leaders played since the early eighties to pave the way for NAFTA […] The Understanding on Bilateral Subsidies signed in 1985 and the Bilateral Framework Agreement of 1987 were the brainchildren of MEXUS” (2007, xi-xii).

More than three decades after its foundation, MEXUS was still a relatively undeveloped enterprise:

[u]ntil 1982, casualness, flexible agendas, modest attendance, and informal meetings characterized sessions of the Mexico-U.S. committee. Discussion revolved around current issues —whether excise taxes, guest workers, investment requirements, border concerns, energy questions, guerrilla uprisings in Central America, or interpretations of the extremely complicated Automobile Pact (Grayson 2007, 65).

The event that appeared to have triggered the revival of the committee was the bank nationalization decreed by Mexican president Lopez Portillo in August 1982. It created a serious political schism between the business sector and the government: “[t]he nationalization decision is the single most important cause, structurally and psychologically, of the rupture of the relationship between the Mexican private sector and the state” (Camp 1989, 132). President Portillo’s decision also caused alarm and concern among U.S. corporations with interests in Mexico and within the U.S. government (De la Madrid 2004).

Yet, that event alone does not explain why MEXUS became an active agent of political change in the 1980s. To play that role it required two additional factors: a bilateral ideational consensus among Mexican and U.S. members and the political initiative of its leadership to seize the opportunity created by changing conditions. The necessary political agency came from the U.S. co-chairman of the committee at that time, Rodman C. Rockefeller, 37 combined with the professional talent of his two close advisors, Robert E. Herzstein, 38 chairman of the U.S. Council’s Subcommittee on Trade, and Guy F. Erb, 39 executive director of the Council.

Rodman Rockefeller became the new chairman of the U.S. Council, and thus co-

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36 In Mexico, the banks’ interests were closely interconnected with the country’s leading corporations, largely through ownership. In addition, banks owned the most important insurance companies and brokerage houses. Thus, when the state took ownership of the banks, it was perceived as a direct threat to the whole capitalist scaffolding of the country (Grayson 2007).

37 Rodman Rockefeller worked for the International Basic Economy Corporation (IBEC), a private corporation launched in 1946 by his father, Nelson A. Rockefeller, that focused on developing the “basic economies” of developing countries, particularly in Latin America. He became its president in 1968 and chairman from 1972 to 1991. Rodman Rockefeller directed the U.S. Council and as such he also co-chaired MEXUS from 1980 to 1994. He was a nephew of David Rockefeller.

38 Herzstein was an international lawyer, former Undersecretary of Commerce for International Trade under the Carter administration, and chairman of the Trade Subcommittee of MEXUS. In the 1970s, he successfully represented the interests of the Sinaloa tomato producers then led by Manuel Clouthier (see footnote 45), in the so-called “Tomato War” against Florida growers (Grayson 2007).

39 Erb was a former staff member of the U.S. National Security Council and the Overseas Development Council, principal in Erb & Madian, Inc., and Executive Director of the U.S. Council from 1983 to 1989.
chairman of MEXUS in 1980. Interested in renewing and reinvigorating the organization he began looking for the appropriate occasion to jumpstart the bi-national enterprise (Kelleher 2007). Thus, at a plenary session of MEXUS that took place in October 1982 in Ixtapa, Mexico and attracted a larger number of participants than usual, Rodman Rockefeller noted that the prevailing sentiment among Mexican businessmen offered an opportunity to forge consensus for joint action:

The Mexican private sector, in an economic crisis, as well as in a political crisis, had been accustomed to believing that it could live profitably and well within the ruling political structure. Lopez Portillo’s actions have dramatically proved to them that this is not true. They feel set adrift, considerably buffeted and insecure, seriously questioning the present system and their place in it. Psychologically, during the meeting, these conditions led to a warm response on the part of the Mexicans, both to the idea of holding the meeting at that time and to manifest support of the U.S. delegation (cited in Grayson 2007, 66).

Years later, Herzstein recalled that the 1982 meeting offered an opportunity for decisive action since there was “a hiatus between Mexican administrations […] and the designated officials for the next term are seeking business’s advice on economic policy much more than is the case once they and their policies are in place” (cited in Kelleher 2007, 21). Moreover, by the 1980s, Mexico’s government and business were increasingly populated by energetic, very well-educated young leaders, many of whom had attended universities in the U.S. or Europe. They saw economic, political and social possibilities that had not been realized in Mexico. They were ready to change things and notions being advanced by MEXUS coincided with their own views and received their prompt support (cited in Kelleher 2007, 21).

Already in the previous plenary session of MEXUS held in Washington, D.C. in December

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40 Interestingly, by the same time, his uncle David Rockefeller was also actively seeking ways to reactivate the role of the organizations he led. He was chairman of both the Council of the Americas (COA) and its cultural aide, the Center for Inter-American Relations (CIAR), a position he had reassumed in 1981, immediately after retiring from his job as chairman and chief executive of the Chase Manhattan Bank. The COA was a sponsor of MEXUS. In his Memoirs, David Rockefeller notes: “I discovered during three trips to South America in 1982 and 1983 that our organizations, which had been in existence for almost twenty years, were virtually unknown […] The Americas Society and the Council had little visibility and no constituency in Latin America. If it was to be effective, that had to change” (Rockefeller 2003, under “Rejuvenating the Initiative,” in Chapter 28).

41 The number of Mexican participants reached 52 against 55 on the U.S. side (Grayson 2007, 70).
1981, Rodman Rockefeller and his Mexican counterpart, Manuel J. Clouthier, had explored ways to reactivate the work of the bi-national committee. To that effect, Herztein and Erb prepared a paper on trade and investment policy to be presented at the next meeting in Ixtapa which developed the concept of a bilateral framework agreement into a proposal to be included in MEXUS’s agenda for action to promote the liberalization of bilateral trade policy.

In their proposal, Erb and Herztein argued that

> [t]he changed U.S. attitudes toward Mexico […], Mexico’s greater weight in the world economy […] and the magnitude of U.S.-Mexican bilateral trade make it necessary for both nations to examine alternatives to their current lack of a commercial agreement. A stable and well-defined trade policy framework would enhance Mexico’s capacity to diversify its exports and contribute to U.S. expectations that Mexico would continue to be a significant partner for long-term trade and investment. Prospects for renewed growth in trade and investment between the two nations would be enhanced if the two governments made progress toward a mutually acceptable commercial agreement (cited in Kelleher 2007, 21-22).

Yet, although conditions had changed favorably for MEXUS intervention, there was no clear consensus on the idea of joint action for a bilateral framework agreement, particularly among the Mexican participants in the Ixtapa meeting who expressed doubts about the practicality of the proposal prepared by Herztein and Erb. It was in 1984, at the 39th plenary session of MEXUS that things began to change in the direction desired by the U.S. Council leaders. At that time, Mexican Commerce Secretary Héctor Hernández Cervantes attended the meeting accompanied by his two principal undersecretaries and exchanged views with the participants (Grayson 2007).

In addition, Salinas, who was then Secretary for Planning and Budget in De la Madrid’s cabinet and his Undersecretary of Planning, Pedro Aspe, had already met with members of the U.S. Council several times during trips to New York City. According to Erb, they came to New York City to work with MEXUS and “helped us jump start the work

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42 Clouthier was a tomato producer from Sinaloa, president of the Unión Nacional de Productores de Hortalizas from 1971 to 1973, president of COPARMEX from 1978 to 1980, president of the Business Coordinating Council (CCE) from 1981 to 1983, and candidate of the National Action Party (PAN) for President in the 1988 elections.
before the 1985 meeting with President De la Madrid” (cited in Grayson 2007, 85). This led Rodman Rockefeller to express his satisfaction for the progress made:

> After two years of work I think it fair to say that the U.S. Council has achieved a breakthrough with the leadership of the Mexican business community and possibly with the Mexican government. There appears to be uniform respect for the correctness and integrity of our positions in regards to trade and investment. The Mexican business community understands as never before the degree to which we must not only adopt joint positions but actively support joint positions before our respective governments. The opportunity to build on this achievement is now open to us (cited in Grayson 2007, 85).

The meeting of MEXUS members with President De la Madrid took place on February 11, 1985 at the presidential residence. It signaled a turning point in the relation between the Mexican government and the powerful binational business coalition. The President’s message was very well received by the business leaders because it evidenced that the government was receptive to their concerns and recommendations. He said:

> I agree that Mexico must seek, together with its trading partners and especially with the United States of America, a frame of reference that will give us all greater assurances and thus make it possible to plan exporting efforts that are so necessary for the country’s economic recovery […] I believe we should seek a firmer, broader and more certain framework. The convenience of a bilateral treaty between the U.S. and Mexico to cover the basic aspects of our economic relations has been mentioned. The Mexican government is willing to consider an arrangement [of] this nature. It is a matter of verifying its contents, scope, and repercussions and whether it is really a dynamic and equitable framework for both countries (cited in Grayson 2007, 86).

Subsequently to this event, Mexico entered the General Agreement on Tariffs and Trade in 1986. On November 6, 1987, PR Newswire announced the signing of the framework agreement by Mexico’s Secretary of Commerce and Industrial Development, Héctor Hernández Cervantes, and U.S. Trade Representative, Clayton Yeutter, noting the instrumental role played by MEXUS at that time:

> The approval of this agreement caps a six-year process which began in 1981 with proposals by business leaders for a bilateral commercial accord. Meeting in New Orleans this week, the Mexico-U.S. Business Committee (MEXUS), which originally sponsored the idea of a bilateral commercial agreement, expressed appreciation to Presidents de la Madrid and Reagan, who at their meeting of August 1986 instructed their negotiators to complete the bilateral accord in 1987. At the 42nd plenary meeting of MEXUS, Co-chairmen Juan Elek and Rodman C. Rockefeller heralded the accord as providing the basis for a more open trading and investment relationship between the two countries. Rockefeller said that the agreement had resulted from a
very constructive series of business-government consultations in both countries over the past six years (PRNewswire 1987; emphasis added).

Immediately after this accomplishment, MEXUS began to pursue the conclusion of a more ambitious and comprehensive trade agreement between the two countries. On November 21, 1988, more than a year before Salinas’ decision to seek a trade agreement with the United States, PR Newswire made public MEXUS’s support for a free trade agreement between the two countries:

On the eve of the first meeting between Presidents-elect George Bush and Carlos Salinas de Gortari, MEXUS announced its support for the negotiation of a comprehensive bilateral trade and investment accord […] At its 43rd plenary meeting, MEXUS highlighted mutually reinforcing actions by business and government that can create the economic conditions for increased growth and job creation in both countries: 1) Reduce the legal and regulatory obstacles to immediate increases in the flows of private direct investment and technology to Mexico; 2) Restore Mexico’s international creditworthiness to attract the debt and equity capital essential for renewed solutions to the debt problem and increased lending to Mexico by the multilateral development banks; and 3) Make steady progress toward a comprehensive agreement to liberalize, and eventually remove, obstacles to trade and investment between our two countries. The plenary communiqué also noted that the U.S. and Mexican economies are increasingly becoming mutually interdependent. Therefore, the committee’s private sector leaders believe that there is a need for increasing bilateral cooperation as Mexico and the U.S. jointly gear up for global competition (PRNewswire 1988).

Not surprisingly, in his Memoirs, David Rockefeller (2003) largely credited his nephew Rodman Rockefeller and the U.S. Council for the changes in Mexico’s trade policy at that time:

[they] convinced their Mexican business and banking counterparts to abandon their traditional support for high tariffs and other protectionist policies […] The Mexican members then informed President de la Madrid that a reversal of Mexico’s traditional protectionist policy would have their full support. With important elements of the business establishment behind him, de la Madrid, in 1986, took the initial steps. These included unilaterally reducing tariffs, selling-off some state-owned companies, and announcing that Mexico would join the General Agreement on Tariffs and Trade –steps that fundamentally altered Mexico’s relationship with rest of the world and set its course for the future (2003, 436).

In retiring as chairman of the U.S. Council in 1994, Rodman Rockefeller credited MEXUS with paving the road to NAFTA:

Business Committee has led the evolution of business thinking within the U.S. and Mexico toward the liberalization of trade and investment, culminating finally by participating in the passage of NAFTA […] Our members wrote the text which
became the basis for the Commercial Framework Agreements in 1987, which was the basis for the subsequent trade negotiations (cited in Grayson 2007, 115).

In recalling those events, Guy Erb conveys a similar idea about the influential role of MEXUS:

MEXUS developed a consensus among key Mexican business leaders in favor of a comprehensive trade and investment agreement (FTA). Thus, when President Salinas announced his support for an FTA he had a foundation of support that allowed him to confront the protectionism that had been common in the Mexican business community until then. In the U.S., as a result of the Business Committee’s work major corporations and business organizations lined up in support of the NAFTA soon after the Bush-Salinas agreement to open FTA negotiations (cited in Kelleher, 2007, 22).

It is important to note that MEXUS’s leaders, like the powerful members of CMHN, deliberately followed a low-key approach in lobbying for their proposals with U.S. and Mexican authorities. They typically avoided publicity for their recommendations, circulated their ideas through so-called “non-papers” or memoranda that lacked cover sheets or letterhead, and refrained from mentioning expressions like “North American Free Trade Agreement.” The idea was to prevent any damaging allegation that they were interfering with public policy decision-making that could jeopardize their efforts (Grayson 2007). There is no question that the discreet diplomacy utilized by MEXUS’s officials has helped to obscure the extent of this transnational business coalition’s influence on trade policymaking.

The coalition of business corporations from Mexico and the United States organized in MEXUS did not just lobby governments by making use of their economic power and political clout. Like its European counterpart, the ERT, it also engaged in a battle of ideas and arguments to convince and create political consensus. They both framed their cases in favor of economic integration as necessary for the greater good of the nation and the region so as to meet the political concerns of governments. Thus, the ERT argued that their aim was “not for the interests of individual sectors, but for the competitiveness of Europe.”43 In a similar

fashion, MEXUS contended that the goal was to ready the two mutually interdependent economies for international competition.

**Organized Labor**

The Mexican labor movement, chiefly represented by official organizations affiliated with the PRI, did not have any significant participation in the initial policymaking process leading to NAFTA, and did not actively engage in the public debate that followed the official announcement by the government. It did offer however, important political support that the president needed to offset resistance from sectors actively opposed to it because of material and ideological reasons. Organized labor in Mexico was thus principally a passive ally that facilitated the government’s implementation of its economic integration policy.

This assessment of the influence of organized labor on policymaking in connection with NAFTA appears consistent with historical patterns. According to Camp (1989), “The scholarly view and the economic facts themselves suggest at best a minor role for unions” in policymaking. For example, in the noteworthy case of the profit-sharing plan in the 1960s, the pattern that emerges was: “First, the president provided the initiative for the reforms. Second, organized labor played a very passive role. Third, labor lacked unity. Fourth, labor’s role was reactive. Fifth, compared with the private sector’s, labor’s efforts to influence the outcome were unimpressive” (1989, 124).

Mexican labor organizations in the 1980s included more than 11,000 unions with a total of about 4.0 million members, or only one-sixth of a labor force estimated at almost

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44 Grayson (1989) offers a much higher total figure of union members: 9.5 million workers, based on information from the U.S. Department of Labor in 1987. Trejo Delarbre’s (1990) estimation is based on official Mexican data and information from the union organizations. “Researchers that in diverse institutions and with different approaches had asked themselves for the percentage of salaried workers that have labor unions arrive at different data, but in all cases there is coincidence that less than a quarter of Mexican workers have labor organizations. One of the best documented studies, directed by Cesar Zazueta in the Centro Nacional de Información y Estadísticas del Trabajo (National Center of Labor Information and Statistics), that belonged to the Secretaría del Trabajo (Labor Secretariat) […] considers that less than three of every ten Mexicans with occupation or with the possibility of having one, can really form labor unions ” (Trejo Delarbre 1985, 144; translated from Spanish).
24 million people\(^45\) (Trejo Delarbre 1990). These were concentrated in strategic areas of the economy historically controlled by the State or with significant state intervention (i.e., energy, railroads, mining and metallurgy, banking, etc.). Here, almost all workers were affiliated to unions by branch of activity. In other important areas of the Mexican economy dominated by the private enterprise, a combination of modern, highly technical form of production and the historical legacy of union struggle had facilitated the establishment of strong unions with high rates of affiliation, such as in the case of the automobile industry (Trejo Delarbre 1985).

Despite the presence of thousands of union organizations, in the 1980s the Mexican labor movement was dominated by a few large central organizations and national confederations.\(^46\) Yet, it was not monolithic. Far from it, “the different historical and conjunctural motivations, as well as the frequent influence of cacicazgos\(^47\) and rivalries among leaders, had constituted a panorama that is distinguished by disorder and heterogeneity” (Trejo Delarbre 1985, 146). In addition, a myriad of groups, large and small, weak and powerful, included in a variety of organizations at different levels (i.e., unions by enterprise, industry-wide unions, national and regional federations, and large confederations) was a source of inequality and disunion that hindered overall unity among the four million

\(^45\) “In Mexico, in 1982, more than twenty million workers received compensation in a regular manner. A quarter of them worked in the agricultural and fishing sectors; close to 300 thousand in mining; almost 2.5 million in the manufacturing industries; 1.8 million in construction; close to 70 thousand in electricity; more than 2.72 million in commerce, hotels and restaurants; close to one million in transportation, storage services and communications; almost 0.5 million in financial, insurance and real estate services, and more than 6 million in a very wide category denominated communal, social and personal services […] but it is necessary to consider that every year there are 800 thousand Mexicans that demand new jobs” (Trejo Delarbre 1985, 143-44).

\(^46\) “What are the figures for unionization in our country, per labor centrals and labor unions? This is, for those who study the labor movement, one of the most difficult questions to answer. As we indicated before, very disparate calculations and assertions are often made about such data, and here one of the most notable deficiencies in official statistics is found. Against this lack of information, only partial and necessarily insufficient re-counts remain. Any estimate about union affiliation has to be approximate” (Trejo Delarbre 1985, 146; translated from Spanish).

\(^47\) It refers to the powerful influence of caciques or chieftains who rule organizations in an authoritarian manner (Paul Friedrich 1965; Victoria Lerner 1980).
members (Trejo Delarbre 1985).

Union leaders at the helm of those paramount labor organizations were able to project a wider and more unified representation than that warranted by its relatively small and divided membership. Under certain conditions they could exert “their political influence and the capacity of these organizations to represent the interests of several million more Mexicans that without being unionized have needs, problems and concerns similar to those who are organized” (Trejo Delarbre 1985, 145-46).

The large central labor organizations and national confederations emerged and were shaped by the intervention of post-revolutionary governments in Mexico. As noted by Erickson and Middlebrook (1982):

In any nation that develops modern industrial activities, the manner in which the emerging labor movement is incorporated into the national political system will have enduring consequences both for the structure of the system as a whole and for labor’s future economic and political participation within it (page 214).

Cárdenas sought to transform and thus strengthen the PNR created by Calles so that it could serve as a pillar of the state and the chief executive. To that effect, he did two important things. First, he changed the party’s coalitional structure into a solid unified party organization by disbanding all organized internal factions. Second, he converted the party into a mass organization by promoting the organization of workers and peasants into single national confederations, and incorporating them formally into the new PRM, thus institutionalizing a political alliance with broad popular sectors (Collier and Collier 2002).

In this manner, Cárdenas set the foundations for the PRM’s (eventually the PRI’s) paramount political role in a centralized Mexican state, and facilitated organized labor’s access to national political decision-making. Yet, the fact that its participation was instrumented from above rather than conquered from below indelibly shaped organized labor’s political subordination and lack of independence vis-à-vis the political elite dominating the party, which over the long-run has favored the interests of the private sector
An organizational point of confluence for the Mexican labor movement is the Congreso del Trabajo (CT) (Congress of Labor), an umbrella organization created in 1966 under the encouragement of President Gustavo Diaz Ordaz as a means to facilitate a better governmental control of the labor movement by bringing together all the large official labor organizations existing at that time: the Confederación de Trabajadores Mexicanos (CTM) (Confederation of Mexican Workers), the Confederación Revolucionaria de Obreros y Campesinos (CROC) (Revolutionary Confederation of Workers and Peasants), the Confederación Regional Obrera Mexicana (CROM) (Regional Confederation of Mexican Labor), the Confederación General de Trabajadores (CGT) (General Confederation of Workers), and the Federación de Sindicatos de Trabajadores al Servicios del Estado (FSTSE) (Federation of Workers’ Unions at the Service of the State), as well as important unions such as those representing textile, airline, sugar cane, oil, railroad, mining-metallurgical, electrical, and telephone workers (Grayson 1989).

The CT was created with the goal of unifying Mexican workers around uniform political positions. Yet, inside it diverse and sometimes opposing political currents coexist. Thus, in practice, given the loose integration of its component organizations to it, the CT functions more as a coordinating organism of workers interests. In turn, this may serve the government in its attempts to control the labor movement through a peak organization (Grayson 1989; Trejo Delarbre 1985).

The CTM was created in 1936 as a united confederation of labor unions at a labor congress sponsored by Lázaro Cárdenas (Collier and Collier 2002). It was formally

48 “No member has to modify its structure or abandon its bureaucratic interests to enter” and “all policy decisions that commit its members to a specific course of action must be reached by a unanimous vote of its 33 affiliates” (Grayson 1989, 44).

49 Within the CT, the CTM has more than one million and an half members. The rest of the central organizations have between 800 and 900 thousand members; the FSTSE one million; and the national unions and federations (excluding those already accounted for in central organizations) close to 400 thousand (Trejo Delarbre 1985).
integrated into the official party as one of its principal sectors with the goal of serving as an ally in mobilizing popular support for the economic and social reforms propelled by the government.⁵⁰

The CTM is the most important labor organization within the CT and the Mexican labor movement at large in terms of numbers and influence. It is considered the largest entity by far in membership, despite the uncertainty of the estimates that vary between four million and only one and one half million affiliated workers.⁵¹ It includes thirty two state federations, in turn divided into hundreds of local and regional federations, also incorporating about thirty national unions of industry, like the important Sindicato Único de Trabajadores Electricistas de la República Mexicana (SUTERM) (Union of Electrical Workers) and the Sindicato Único de Trabajadores Petroleros (Petroleum Workers Union), which participate with their own votes in the CT (Trejo Delarbre 1985).

By the 1980s, the CTM had evolved into a bureaucratic organization largely subservient to the political needs of the PRI and subject to the authoritarian rule of a leader like Fidel Velázquez, who remained at the helm for an unparalleled period of more than five decades. In this manner, within the corporatist framework the CTM could do what the President wanted without incurring significant opposition from union members.

Yet, it is important to also note that the CTM’s historical pattern of political behavior has not always been one of quiescent support of the government.⁵² As observed by Trejo Delarbre (1985), the CTM “is, today [mid-1980s] a source of consensus but also of protest to

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⁵⁰“Cardenas’ post-revolutionary actions were influenced by the ‘popular front’ strategy of contemporary Europe, which advocated a multiclass alliance to promote progressive socioeconomic and political change” (Erickson and Middlebrook 1982, 215).

⁵¹“We dare to say that, very likely, not even the CTM leaders know how many workers belong to their central […] Fidel Velázquez has affirmed that it represents more than four million and a half workers. Several investigators indicate figures that fluctuate between one and a half million and three million. We […] think that the CTM has approximately one and a half million union members” (Trejo Delarbre 1985, 147-48; translated from Spanish).

⁵²“The widely recognized stability of the Mexican system must be understood in terms of the constant renegotiation of the labor-state alliance” (Collier and Collier 2002, 597).
the official economic policy and to bulwarks of the political system like the PRI” (1985, 147; translated from Spanish). Thus, for example, the CTM was active in proposing an alternative program of economic reforms that the CT approved in 1978, which included nationalizations, strengthening of the state sector of the economy, in order to develop the “social sector” (i.e., enterprises in charge of unions and similar institutions) (Trejo Delarbre, 1985)

The oldest labor central organization in Mexico is the CROM, founded in 1918. It controls a membership of about 250,000 workers (estimates oscillate between 200,000 and 300,000), particularly among small enterprises. A smaller organization, the Confederación Obrera Revolucionaria (COR) (Revolutionary Worker Confederation), includes more than 100,000 workers, was formed in 1975, formed by union activists expelled from the CTM. The CGT, which emerged in the early 1920s with an initial anarcho-syndicalist orientation, and became affiliated with the official party in 1935, has a membership of about 50,000 workers.

The CROC is the second most important labor organization after the CTM, with a membership that oscillates between 400 and 500 thousand workers, mostly from restaurants, automobile industry, shoe industry, and refreshments (industria refresquera). The CROC emerged from the merger of several other organizations (CPN, COCM, CNT, and CUT) and is also affiliated with the PRI. It has been used by the Mexican government to counterbalance the power of the CTM.

Another prominent labor organization in the CT is the FSTSE, the union of state employees and civil servants, which encompasses about one million workers. Yet, this organization also participates in the National Confederation of Popular Organizations (CNOP), constituting what Trejo Delarbre (1985) qualifies as “one of the diverse incongruences that are maintained within the structure of the official political party” (1985, 149; translated from Spanish), since in this manner, it is simultaneously part of both the
party’s “labor sector” (CT) and the “popular sector” (CNOP).

Besides the CT’s conglomerate of official organizations there exist several other smaller labor organizations that are considered independent of the corporatist system. These are: the Unidad Obrera Independiente (UOI) (Independent Labor Unity), the Federación Nacional de Sindicatos independientes (FNSI) (National Federation of Independent Unions), the Sindicato Único Nacional de Trabajadores Universitarios (SUNTU) (United National Union of University Workers), and other small unions that do not belong to any organization affiliated to the CT that carry out intense ideological-political activity such as the Frente Auténtico del Trabajo (FAT) (Authentic Labor Front).

The political support from official organized labor to NAFTA was not immediately forthcoming. There were some initial negative reactions from labor leaders when in March 1990 it was leaked to the press that Mexico was seeking an FTA with the United States. This early opposition tended to reflect traditional political views and concerns within the PRI and the leadership of official labor organizations, and it was a warning to Salinas that labor’s immediate support could not be taken for granted.

Thus, on April 9, 1990, the head of the CTM, Fidel Velázquez, declared that the creation of a common market between Mexico, United States and Canada would generate unemployment. He noted that the adhesion to the General Agreement on Tariffs and Trade had not brought favorable results for Mexican labor due to the flood of foreign goods that had adversely affected the Mexican industry with unemployment. Velázquez further warned that the labor movement was opposed to the common market idea and would participate in the convocation to an ample debate that Salinas had proposed to the Mexican Senate a few days earlier, in order to expose its disadvantages (Garciadiego 1994).

Velázquez’s warning was immediately followed by adverse declarations from other labor organizations on April 11, 1990. One, for example, came from Ignacio Cuauhtémoc
Paleta, leader of the CROM, who on April 11, 1990 qualified Mexico’s entrance in a North American bloc as highly risky, and recommended to carefully analyze the pros and cons of that possibility. Another came from the CNT, which rejected the entrance to the North American bloc, recommending that Salinas first resolved the national panorama and only later tried to conquer international markets (Garciadiego 1994).

Later in April 1990, during the session of the National Consultative Forum on Mexico’s Trade Relations with the World (Spanish: Foro Nacional de Consulta sobre las Relaciones Comerciales de México con el Mundo), organized by the Mexican Senate, Jorge Leipen Garay, CTM’s director of Industries, conveyed a less contentious view than that of the Velázquez’s. He requested that trade relations follow the guidance of the Constitution, that the strategies devised serve the development of the country, and that there be a recognition of workers’ rights.

During the course of the national forum, there were other declarations from CTM representatives that constituted expressions of concern with the potential consequences for Mexican workers rather than a firm opposition to it. Thus, for example, the deputy Ricardo Pacheco Dominguez, representative of the CTM Durango, noted that

…the search for international agreements that attempt to situate Mexico at the forefront had been and will be supported by the cetemists […] but opening trade agreements, more so when are contracted with more developed countries than ours, could have unintended consequences for the Mexican working class […] if our trade relations with Canada and the United States represent high percentages of our total trade we must find with them agreements capable of allowing Mexico and its workers better standards of living… (Garciadiego 1994, 92; translated from Spanish).

The position of official organized labor however, began to fall into place immediately after the Mexican Senate formally closed the national debate on May 21, 1990 and officially declared that the majority of presenters were in agreement that it was necessary to intensify and improve the ties with the United States through the negotiation of a bilateral free-trade agreement.

On June 12, 1990, Porfirio Camarena Castro, economic advisor of the CTM, declared
that the importance of this agreement once it was signed, resided in that it would increase the levels of exports and revenues, and it would improve the technological process, so that the accord would be attractive and beneficial for the country, not only in the commercial terrain but also in the improvement of the balance of payments (Garciadiego 1994, 115).

That same day, several labor leaders manifested their careful support. Roberto Castellanos Tovar, leader of the CROC, declared that the agreements that president Salinas had concluded were positive, and that satisfactory results could be foreseen for the economy of the country. In a more cautionary tone, Mario Suarez, secretary of the CRT, noted that the principle of sovereignty should be respected, recommending that the CT should analyze the pros and cons of the trade agreement. Jorge Sanchez Garcia, leader of the Sindicato Mexicano de Electricistas (SME) (Electricians Mexican Union), declared that “what interests us as workers is that [the FTA with the U.S.] does not signify setbacks but, on the contrary, salary and social justice vindications” (Garciadiego 1994, 115).

By mid-June 1990, Fidel Velázquez had already begun to turn away from his initial opposition to NAFTA, declaring that the FTA between Mexico and the United States would be more beneficial than the entry to the GATT. He clarified that this agreement by no means signified a competition with the economies of Canada or United States, but an effort to gain access to foreign markets for our products and give them a better opportunity for expansion (Garciadiego 1994, 120).

It is important to note that at the time that Salinas launched his integration initiative, Mexico’s organized labor confronted a situation of crisis and political paralysis in the midst of profound changes in the country’s political economy as a result of the government’s program of liberal reforms. This helps to explain labor’s relative lack of initiative and passive reaction to NAFTA, as described by Monaco and Trejo Delarbre (1993):

The great majority of labor leaders had let pass the extraordinary opportunity that the debate formal and informal, about the FTA meant. They had confined themselves to
old reiterations that account more for their own insecurity than for their interest to influence (or to try to influence) one of the most important national debates of recent times. The great majority of union leaders had conformed themselves to demanding that nothing changes in the labor laws or in the content of the collective contracts, or in their relation to the State when […] the country is changing irremediably […] and when besides the many transformations of these times it continues being evident the paralysis of the so-called labor movement (Monaco and Trejo Delarbre 1993, 12; translated from Spanish).

By February 1991, Fidel Velázquez declared CTM’s unconditional support “because the federal government will respect the rights of the workers” (cited in Moncayo and Trejo Delarbre 1993, 20; translated from Spanish). Three months later, Nezahualcoyotl de la Vega, senator and secretary of Economic Affairs of the CTM, offered a more nuanced support that explained the potential benefits for Mexican labor:

it is hoped […] that [with the FTA] there will be a captive market of 360 million inhabitants, that there will not exist unfair competition […] This will bring as a result greater investments, fresh capital to Mexico and, what is fundamental, the creation of greater possibilities of employment (cited in Moncayo and Trejo Delarbre 1993, 19; translated from Spanish).

Finally, the National Committee of the CTM issued its formal position in August 1991, “The CTM before the Free Trade Agreement,” where it manifested its support for the economic policies of the government, including the opening up of the economy. It argued that the FTA would have as central objective to facilitate greater economic development for Mexico, with increased production and greater material wellbeing for the Mexican people. But it also warned about possible adverse effects on union rights, employment and workers’ living standards. However, it did not show an active interest in participating in the discussions at the negotiating table (Moncayo and Trejo Delarbre 1993). The CT announced its support for the FTA in July 1991, noting that the country will come to it with very low wage levels, more than eight million unemployed workers and with situations of injustice that could be diminished with the trade opening (Moncayo and Trejo Delarbre 1993).

The negligible role that organized labor played in the initial policymaking process of NAFTA was followed by its modest participation in the actual negotiation of the agreement.
Francisco Hernández Juárez, general secretary of the Sindicato de Telefonistas de la República Mexicana (STRM) (Telephone Workers’ Union of the Mexican Republic), a leader who promoted a more independent participation of labor within the CT and who sat at the NAFTA’s negotiating table,\(^{53}\) offered a stark assessment of organized labor’s participation:

> The signature of the Treaty has costs. To reverse them is part of the role that unions play in this process. The present scheme makes us think that the influence of the labor movement will be small. The situation is difficult for the unions. To be more precise, for the leaders. We, leaders, are in a transition phase. There are those like us who believe in the changing world conditions and thus in the necessity of changing in order not to remain bogged down. Others think that there is no need for changes in order to maintain privileges, and plan on staying put where they are. Thus, the role of unionism in the coming years will depend in large measure on the role that leaders play. For example, in the negotiation of the FTA. There, the fundamental scheme has been, in the case of Mexico, the participation of at least five hundred businessmen as advisors of the government, in 171 industrial branches and 16 commissions. In the case of the labor sector, there are only six representatives, which are only recipients of information. We don’t have any prepared study regarding the consequences that the Treaty may have. We are subject to what in good faith the government and entrepreneurs pact to not jeopardize our interests (cited in Moncayo and Trejo Delarbre 1993, 25; translated from Spanish).

Labor organizations like the STRM, the Sindicato Mexicano de Electricistas (SME) (Mexican Electricians’ Union), and the Sindicato Nacional de Trabajadores de la Educación (SNTE) (National Education Workers’ Union) formed a group representing a modernizing, independent current within the Mexican labor movement, which supported the FTA with the U.S. and Canada but also sought a more active participation in the outcome. They expressed a concern for understanding potential consequences, and expressed a willingness to engage in the political debate and actual negotiations in order to ensure that the interests of Mexican labor were taken into account (Moncayo and Trejo Delarbre 1993).

A minority within Mexican organized labor unsuccessfully resisted the conclusion of NAFTA. It was composed of a heterogeneous coalition of small unions and NGOs, the Red Mexicana de Acción Ante el Libre Comercio (RMALC) (Mexican Action Network Against

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\(^{53}\) In the Consejo Asesor del TLC (Advising Council of the FTA) that the Mexican government created, the Mexican labor sector participated through representatives from the CTM, the CT, and the Sindicato de Trabajadores de la Industria de la Radiodifusión, Televisión, Similares y Conexos de la República Mexicana (STIRTC) (Castro Martinez 1991).
Free Trade), which was created in April 1991. The FAT was the most active member and promoter of this alliance. This group joined forces with the Canadian Labour Congress (CLC) and the U.S. AFL-CIO, which adopted an active adversarial position against NAFTA, to form a transnational lobbying force.

The support by Mexican official labor organizations contrasted sharply with the posture adopted by its U.S. and Canadian counterparts. The factors that explain this divergence are also relevant to understand why official unions supported Salinas on NAFTA.

In May 1991, Arturo Romo Gutierrez, CTM’s Secretary of Education, offered an explanation of why the position of official Mexican labor organizations diverged from that of the main U.S. labor organizations:

The Mexican labor legislation is renowned as one of the most advanced and better structured in the western world […] it is determined by the General Constitution of the Republic and by the Federal law […] [it is reflected] in institutions with deep roots that thus form a formidable system of social protection […] For this reason and because we are people with history, tradition and identity, we support the purpose of creating an area of free trade of North America, on the basis of independence, not of subordination. The economic integration of the nations of this continent constitutes an inevitable process, with or without free trade agreement. It is better to steer this integration, than to become one of its victims (cited in Moncayo and Trejo Delarbre 1993, 18; translated from Spanish).

Torres (2010) plausibly contends that the explanation for Mexican official union leaders’ refusal to join forces with their U.S. and Canadian counterparts resides both in the corporatist structure of relations between unions and the state and

the perception of the Mexican confederations’ leaders of a zero-sum game, at least in the short-term, a vision strengthened by the type of campaign made by the U.S. unions which underlined the potential loss of jobs in favor of the neighbor to the south (2010, 345n11).

The Mexican official labor organizations’ backing of the government policy toward NAFTA has responded to a complex influence of variables. One of these factors is represented by the corporatist ties of organized labor to the PRI, which ensured its political loyalty to the authority of the chief executive. This structure of relations between the PRI and the unions in Mexico was based on an exchange of economic and political rewards for
political support. Even though the economic crisis of 1982 and the liberal reforms instituted by De la Madrid had begun to undermine the economic basis of this long-standing arrangement, at the time of Salinas government it remained largely in place.\textsuperscript{54}

Perhaps the most important factor in the preservation of that arrangement was the resilient ability of traditional leaders to remain at the helm of their official organizations despite the emergence of periodic union insurrections that challenged them. These leaders were deeply embedded in the political culture of Mexican corporatism. Their personal progress as leaders was closely tied to the maintenance of that system of labor-state relations, and they had no interest in pursuing a politically independent course of action that could be a threat to their privileged positions.

Another variable is the realignment of forces inside the PRI that began in 1982, which official union leaders did not welcome. They, according to De la Madrid (2004), resisted modernizing their ideas and organizations. The program of liberal reforms started in the aftermath of the 1982 financial crisis and continued by Salinas had put these traditional labor leaders on the defensive\textsuperscript{55} thus encouraging them to focus their concerns on domestic governmental policies affecting their constituencies (i.e., an adverse reform of labor laws) rather than on foreign economic policy issues such as trade agreements (Gámez Vázquez 2006).

The leadership style of the president was another important factor. Salinas was determined to impose his project of reforms and opening up of the economy. Once he decided to move ahead with the North American integration project, he actively engaged his government in an all-out political effort to gain allies and supporters. Thus, the political

\textsuperscript{54} This situation did not preclude that “between June and July of 1983 organized labor – the national leaders of which had not seen with pleasure the designation of Miguel de la Madrid- questioned the new government, hardly seven or eight months after it had begun, with the most important wave of simultaneous strikes that had taken place in Mexico” (Trejo Delarbre 1990, 27).

\textsuperscript{55} “Having understood organized labor as a ‘necessary evil,’ the Mexican government –above all between 1982 and 1988- tried to divide it, weaken it, discourage it and, when all that was not possible, marginalize it from the political and economic decisions” (Trejo Delarbre 1990, 26).
influence that the president himself was able to exert on official union leaders became a salient variable.

Salinas (2002), for example, claims that in 1990 “finally managed to convince the leader of the CTM, Fidel Velázquez, that the Agreement was relevant for job creation and sustained wage increases” (2002, 64). Before becoming president, Salinas had already began to cultivate his relationship with Velázquez despite the latter’s misgivings toward him (De la Madrid 2004). After all, the Pacto para la Estabilidad y el Crecimiento Económico (PECE) (Pact for Stability and Economic Growth) established by Salinas, which was a continuation of the Pacto de Solidaridad Económica (PSE) (Economic Solidarity Pact) established by De la Madrid in 1987, required the crucial cooperation of organized labor.

Organized Peasantry

Peasants’ organizations largely played a quiet supporting role in the process leading to the launching of Salinas’ integration project. The relative lack of active opposition on the part of the peasant sector represents something of a puzzle, given that the relative low productivity of the Mexican agriculture made it particularly vulnerable to the competition that they were likely to confront with NAFTA (Gámez Vázquez 2006).

Yet, the potential damaging effect of NAFTA on the rural sector of the Mexican economy was only part of a larger transformative event represented by the process of agricultural liberalization that the Salinas administration began to consider in late 1989 56 (Grindle 1995). Thus, according to Yúnez Naude (2010),

The process of commercial liberalization of the agricultural sector began between 1990 and 1991, when the permits to import agricultural products were eliminated and tariffs were reduced (between 1991 and 1994 the tariffs affecting most of the imported agricultural products were already very low, fluctuating between 0% and 20%). With NAFTA, the process of agricultural liberalization with Canada and the United States that concluded in 2008 was deepened (starting that year and in

56 “Discussions about the need for change had begun quietly in late 1989 in the small and newly created Office of Deregulation in the Secretariat of Commerce and Industrial Development (SECOFI)” (Grindle 1995, 47).
principle, there is free agricultural trade between the three countries)” (2010, 743; emphasis added; translated from Spanish).

The market-oriented reforms launched by the Salinas administration included the *ejidal* reform, the elimination of import permits for food products, the dismantling of CONASUPO together with its enterprises and storage infrastructure, the reduction of agro subsidies, and the abolition of programs of agricultural extension (Yúnez Naude 2010). The new policy, which was part of a broader strategy to liberalize the Mexican economy, transformed economic relationships in the agrarian sector and critically undercut long-standing political relationship between peasants and the state (Grindle 1995).

It is important to note that the liberalization of the international trade of Mexican products occurred in the context of new long-term trends affecting the structure of production of the Mexican agricultural sector. Since the 1960s, after a long period of agricultural growth started in the 1940s, the rate of growth in agriculture begun to slow down mainly because of a decline in the production of corn, and to a lesser degree, in the production of beans and cotton. In addition, there was an economic reorientation toward cattle raising activities and greater production of foodstuff for animal consumption. Finally, there was also an increase in the production of cartamo, soybeans and sorghum for the national market, and of vegetables and fruits for the U.S. market to satisfy an increasing demand (Yúnez Naude 2010).

These changes interacted with the evolution of the commercialization of Mexican agricultural products. Starting in the 1970s, the country started to become a net importer of food (grains, meats and milk) and exporter of fruits and vegetables (including coffee, which since the last third of the nineteenth century has been an important export good). In the

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57 The term *ejidal* refers to the public rural property in pueblos and municipalities. The Constitution of 1917 sanctioned the *ejido* as an accepted form of property besides the private property, both transmitted from the Nation as the original proprietor of lands and waters. The reform of the article 27 of the Mexican Constitution in 1992 ended the distribution of land and defined the individual rights of *ejidatarios* who were thus allowed to buy, sell, rent or use as collateral the land that before could only use, with the previous authorization of the *ejidal* assembly (Yúnez Naude 2010).

58 Acronym for Compañía Nacional de Subsistencias Populares (National Company of Popular Subsistence), a government purchasing agency that supported certain rural crops through pricing.
1970s, the Mexican agriculture started to lose its preeminent role as provider of foreign currency to the national economy. Finally, in the 1980s, the agricultural surplus disappeared and a process of recurrent and growing deficits started in the trade balance of the sector (Yúnez Naude 2010).

Thus, given the uncertainty and instability that this combination of structural and policy changes were bringing to the Mexican peasantry, one would have not only expected from their organizations more clear evidence of either opposition or efforts to influence NAFTA through active participation in the negotiations leading to it so as to ensure it would be fair to peasants’ interests, but also of resistance to the process of rural liberalization that threatened cherished institutions bequeathed by the Mexican Revolution. Yet, as Grindle (1995) notes:

There was strong rural resistance to the new, market-oriented legal and regulatory structures—and to the incorporation of Mexico’s rural areas into the North American Free Trade Agreement (NAFTA)—but it came two years after the legal basis for economic liberalization in the countryside had been introduced (1995, 39; emphasis in the original).

The author offers two main plausible reasons for what she considers as peasants’ delayed reaction against the policy of rural liberalization and NAFTA. One is “the highly centralized and presidentialist system of decision-making that virtually excluded the participation of the affected rural population.” The other is “the clear failure of the original agrarian reform of 1917, as pursued after 1940, to provide for the economic and political well-being of Mexico’s rural poor” (1995, 39-40), which caused a loss of support for the ejido system. Below, I advance some additional conclusions to these but more specifically related to the creation of NAFTA.

Perhaps not surprisingly, Salinas’ (2002) view of the process of peasants’

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59Reference to the Chiapas-based Zapatista rural rebellion that occurred in early 1994 which evidenced peasant opposition to the neoliberal policies of the Mexican government (Grindle 1995).
participation is quite different. According to him, there was consultation with peasant organizations in an effort to build consensus favorable to the idea of NAFTA:

The topic of agriculture also raised strong controversy, but of another tenor. From 1989, we took the initiative to establish a dialogue and umbrella forum, the Permanent Agrarian Congress (CAP), for all the rural organizations […] Throughout the negotiation, CAP participated in in-depth discussions, without coming to a unanimous position on the inclusion of agricultural products in NAFTA. For that reason, the PRI’s main campesino organization, the CNC [Confederación Nacional Campesina], built up reasoned support to construct a consensus […] we were able to identify the rural sector’s most controversial issues in regard to NAFTA, and we found common ground to bring positions closer together. Hugo Andres Araujo, from the CNC, was the most important advocate for establishing a clear-cut schedule for phasing out of import barriers […] As a precondition to include agricultural products in NAFTA, Araujo demanded that the Mexican government should implement a policy in favor of the countryside. He was right […] We responded to this demand with policies for a deep reform program. For its part, the organization of private rural producers, the CNPP [Confederación Nacional de la Pequeña Propiedad], defended the interests of the small landowners (2002, 120).

Grammont and Mackinlay (2006) confirm that the CAP was an initiative of President Salinas motivated by his search of a base of support for the reforms he was seeking to implement.

The novelty of the CAP consisted in that

for the first time a government of the PRI incorporated non-PRI organizations among its formal interlocutors, such as the autonomous organizations and some of the independent current, several of them even associated with opposition parties (2006, 703-04).

The CAP offered Salinas an opportunity to gauge the spectrum of views from various peasant organizations besides the expected backing from the official CNC. In reviewing this experience years later, he acknowledges the different positions expressed by the participants at that time.

Thus, the Central Campesina Independiente (CCI) (Independent Peasant Central) and the Confederación Agrarista Mexicana (CAM) (Mexican Agrarian Confederation) supported NAFTA, while the Unión Nacional de Organizaciones Regionales Campesinas (UNORCA) (National Union of Regional Peasant Organizations) appeared divided and offered conditional support. On the other hand, the Central Independiente de Obreros Agrícolas y Campesinos (CIOAC) (Independent Central of Rural Workers and Peasants) and the Unión
Nacional de Trabajadores Agrícolas (UNTA) (National Rural Workers’ Union) were decidedly opposed to it. Finally, the Unión General de Organizaciones Campesinas y Populares (UGOCP) (General Union of Peasant and Popular Organizations) offered cautious support (Salinas 2002).

The CNC was the most important organization of the Mexican peasantry at that time. It was created in 1938 under the sponsorship of Lázaro Cárdenas, and became part of the official party’s structure. Integrated by campesinos ejidatarios, the CNC counted as its adherents the totality of peasants that benefited from the agrarian reform. Affiliation to its ranks was compulsory, and thus all its members were affiliated with the PRI (Grammont and Mackinlay 2006).

Other campesino organizations began to appear in the 1940s and disputed the CNC’s hegemony over the peasant movement. They were: the Unión General de Obreros y Campesinos de Mexico (UGOCM) (General Workers’ and Peasants’ Union of Mexico), launched in 1949, the CCI, which was created in 1963, and the CAM, established in 1970. Despite their aspirations of independence from the corporatist system, they were eventually coopted by the government and also became affiliates of the PRI. Together with the CNC, these organizations constituted the core base of support for the government within the organized peasantry (Grammont and Mackinlay 2006).

In 1985, a group of regional organizations sought to establish a representation of peasant interests that was “autonomous” from the official party and the state, and formed UNORCA. Its members did not refuse to work with the government and the PRI, and thus did not attempt to become fully “independent.” The CIOAC emerged in 1975 as a split from the CCI, defining itself as an independent organization. Eventually however, the CIOAC opted for a course of action that was closer to the autonomous approach of UNORCA.

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60 The term ejidatarios refers to the peasants that were users of ejidos.
Another important independent organization, the Consejo Nacional Agropecuario (CAN) (National Agricultural Council), created in 1984, became the representative organ of more economically powerful agro-industrial associations.

Overall, there is a relatively high degree of organizational dispersion and atomization among the organized peasantry. According to Rojas and Moyano Estrada (1997), the bloc of official peasant organizations represented approximately 1.5 million members, and the group of independent entities less than one million adherents. Thus, the two main groupings of organized peasants only represented about 10% of the total rural population, which amounted to more than 20 million residents.

The combined action of three main factors helps to explain the lack of effective organized resistance to NAFTA among the Mexican peasantry. The first two are structural factors that explain peasant support for the PRI, which facilitated Salinas’s political drive for the FTA. The third is the agency factor of Salinas’ skill in building political alliances, in this case in the peasant sector.

One of the structural variables is the legacy of the agrarian reform started in 1915-17 by post-revolutionary governments, which was reformulated in 1934 by Lázaro Cárdenas. He went deeper and further in the restructuring of the agrarian productive system than the previous governments. This agrarian reform is justly considered one of the earliest and most important in the world, and had a long-lasting influence on traditional peasant support for the official party.

A major cause of the Mexican Revolution was the wave of massive expropriations of

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61 This massive redistribution of land –a total of 11,580,800 hectares between 1916-1934- at the expense of large holdings for the benefit of dispossessed peasants distinguishes the agrarian history of Mexico of that period from those of other Latin American economies (Marino and Zuleta 2010).

62 Close to 7 million hectares of land had been distributed to approximately 778,000 peasants, but the latifundia structure had largely remained in place (Hamilton 1975).
land suffered by the peasantry\textsuperscript{63} during the \textit{Porfiriato}.\textsuperscript{64} According to Katz \citeyear{Katz2010},

The prosperity of the Mexican economy [during the \textit{Porfiriato}] produced the greatest historical catastrophe for the Mexican peasantry since the massive mortality of the Indians in the sixteenth and seventeenth centuries. The majority of the \textit{pueblos}\textsuperscript{65} that had been able to maintain their land throughout the colonial period lost it toward the end of the nineteenth century and beginnings of the twentieth in the presence of the advance of the \textit{hacendados},\textsuperscript{66} speculators or rich members of their communities \citeyear[470]{Katz2010} (translated from Spanish).

As a result of this process of land dispossession, the great majority of free peasants almost disappeared as an economic group \citeyear{Katz2010}. Concentration in land ownership reached extreme levels. By 1890, fewer than 50 individuals or companies owned 20 percent of all Mexican land, and by the early 1900s, 835 families dominated 95 per cent of all arable land \citeyear{Haber1989}. Under these conditions, the need for land became a rallying cry that led Mexico’s peasant majority to play a fundamental role in the Revolution.\textsuperscript{67} It marked the beginning of their participation in national political life as a distinct socioeconomic actor.

The second structural factor was the way in which the peasant movement was coopted by the official party into a supporting ally by shaping from above the organization of the peasantry into the overarching CNC, and incorporating it within the structure of the party. The CNC managed to retain its majoritarian influence and political control over the peasantry and rural population in general despite the competition from newer peasant organizations that disputed its preeminence in the 1980s.

The CNC enjoyed a resilient advantage in two key areas. One was its close political relationship with the PRI which allowed it to have privileged access to governmental...

\textsuperscript{63} The term \textit{peasantry} refers to small owners, land occupants, members of communal indian \textit{pueblos}, tenants that pay with their labor of cash, sharecroppers, and others \citeyear{Coatsworth2010}.

\textsuperscript{64} Dictatorial regime of Porfirio Diaz, who ruled Mexico directly during 1876-80 and 1884-1910, and indirectly during 1880-84 through one of his close associates, Manuel Gonzalez \citeyear{Hansen1988}.

\textsuperscript{65} \textit{Indian villages based on communal land.}

\textsuperscript{66} Large landowners who controlled either traditional productive units that maintained peonage systems and retention of workers by debts, or modern-type \textit{haciendas} that functioned with permanent or temporary salaried work \citeyear{MarinoZuleta2010}.

\textsuperscript{67} In 1910, people residing in rural areas represented 71.3\% of the total Mexican population \citeyear{GonzalezCasanova2009}. Some have estimated that the demand for structural agrarian reform involved 75 to 80 percent of the active population of the country \citeyear{Hamilton1975}.
programs and funds. The other was its long-lasting prestige among many peasant groups due to the fact that it had been the conduct through which they had obtained their land and other social benefits (Grammont and Mackinlay 2006).

Finally, there is the agency factor represented by President Salinas’ own ability to build alliances and support for his program of reforms. He promoted the launching of the Permanent Agrarian Congress in 1989. The experience of this congress evidenced Salinas’ awareness of the need to forge a supporting coalition of peasant organizations in favor of NAFTA, and his political ability to pursue it.

At the time of convening the CAP, he had already developed close relationships with campesino organizations before he became President, particularly with leaders of the autonomous UNORCA who worked in his presidential campaign and later became leaders of CNC in an attempt to reshape it after a similar autonomous model. Salinas’ ability to establish a rapport with non-official organizations around his project facilitated the success of the CAP in gathering most of the national peasant organizations (Grammont and Mackinlay 2006).

Salinas obtained broad backing from organized peasantry in exchange for granting them priority in the privatization of para-state enterprises on condition that they were managed in an efficient manner. Yet, while he relied on UNORCA’s leaders to configure this coalition, he did not neglect the importance of keeping the CNC’s loyalty by granting it most of the governmental support (Grammont and Mackinlay 2006).

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68 One of the most important examples in this regard is the Programa Nacional de Solidaridad (Pronasol) (National Solidarity Program), created by Salinas in 1989. Pronasol “aimed at developing health, education, nutrition, housing, employment infrastructure, and other productive projects to benefit 17 million Mexicans living in extreme poverty” (Dresser 1991, 1). It became an instrument to coopt opposition and discontent through patronage (Centeno 1999). According to Grammont (1995), the CNC’s “strength does not reside in representing the interests of a broad middle and rich peasants’ sector but in controlling the poor peasantry and rural dwellers through the selective and patrimonialist implementation of Pronasol and Procampo (1995, 159; translated from Spanish). Procampo, the Programa de Ayudats Directos al Campo (Farmers Direct Support Program), was initiated in October 1993 to compensate staple producers who were expected to face declining prices after the initiation of the North American Free Trade Agreement (NAFTA) (IDB 2012).
Eventually however, the support gathered through CAP was not reflected on the role that its participants played during the negotiations of the NAFTA’s agricultural chapter in early 1994. Their influence, as well as that of small and medium rural entrepreneurs, such as the Confederación Nacional de la Pequeña Propiedad (CNPP) (National Confederation of the Small Property) and the Confederación de Productores de Hortalizas (CNPH) (Confederation of Vegetables Producers), was minor. Instead, the CNA, the organization of the agroindustries, dominated the representation of the Mexican rural sector (Grammont and Mackinlay 2006).

**Congress**

In February 1990, one of the first things that Salinas did once he and the members of his cabinet were unified on the idea of an FTA with the United States was to meet with the leader of the Mexican Senate, Emilio M. González. There were two important reasons for Salinas to do that. One was that “[i]n Mexico, as in Canada, the Head of State could promote trade negotiations without needing the permission of the Congress. But in Mexico, according to the Constitution, the Senate had to ratify international treaties. I needed Senator González’s support, as leader of the Senate.” The other was that besides being the leader of the Senate, González was also an important political figure who commanded considerable respect and influence in the PRI and held traditional views that were opposed to those of the President (Salinas 2002, 53).

The event underscores one of the salient characteristics of the Mexican political system at that time, which shaped the role that Congress played in the creation of NAFTA, that is, the combination of presidentialism with the corporatist dominance of an official party, the PRI (Gámez Vázquez 2006). This unique combination of features, allowed Salinas to win the political support of a PRI-dominated Congress, particularly its Senate chamber, by successfully courting the favor of the Senate leader, in order to successfully conclude his
integration project.

The presidentialist feature determined the concentration of enormous political power in the office of the chief executive vis-à-vis the legislative and judicial branches of government. The presence of an “official” party that dominates Congress and whose members are embedded in a long-standing political culture of unity and discipline, prevents the occurrence of political stalemate in the national policymaking process, and normally ensures an expedited approval of all executive initiatives. The corporatist political structure prevailing at that time complemented these characteristics of the Mexican political system. Workers, peasants and other popular sectors are linked to the state through their mass organizations that are affiliated with the party, which in turn is the electoral machine that dominates access to state power.

In practice, however, Salinas’s situation was complicated by the fact that he started his administration from the weakest political position of any other previous Mexican president. He had been elected by the smallest margin in the history of the PRI, and his election was plagued by serious questions of electoral fraud. In addition, he confronted a changed Congress, where opposition parties like the PAN and the PRD had made significant inroads in the chamber of Deputies, and where the PRD had taken four of the sixty seats in the Senate. Moreover, as Salinas was intent on continuing and deepening the liberal reforms started by De la Madrid, his program of structural economic transformation was likely to encounter political opposition from those still influenced by traditional developmentalist political culture within the PRI and from the newly formed PRD.

These conditions forced Salinas, once he had made the decision to seek an FTA with the United States, to embark on an active political campaign to gain the support he needed in the Senate, which was the institutional key for the approval of NAFTA. This explains his keen interest in engaging the leader of the Senate in early February 1990, because “[h]is
position on the issue [economic liberalization, NAFTA] would be crucial during the long
negotiation and, especially, for passing the agreement in the Upper House” (Salinas 2002,
53).

Salinas’ political efforts at convincing González eventually paid off. On April 5,
1990, at a meeting with Senate representatives, the leader of the Senate told Salinas:

There are constitutional points of contact between the affairs of the Senate and those
of the Executive. Of course, the Executive participates in the formulation process of
laws, but the area of international affairs is of specific competence of the Senate. We
feel opportune to express to you the solidarity with the international policy that the
Executive at your charge has followed (Garciadiego 1994, 65; translated from
Spanish).

As Salinas realized that he had Gonzalez’s support and the likely goodwill of most other
Senate members, he followed Gonzalez’s advice, and formally invited the Senate to assume
the role of political broker in opening the road to the negotiation of NAFTA:

it is convenient [...] and within the framework of the faculties that the Constitution
grants it, that the Senate of the Republic –this is a respectful suggestion- convokes an
ample debate over the new commercial relations in the world, their impact on
Mexico and the effective manner, with which we could confront these realities and
make use of them in our favor while strengthening our sovereignty (Garciadiego
1994, 66; translated from Spanish).

In response, on April 16, the Mexican Senate publicly called on citizens, political parties,
representatives of socio-economic sectors, public intellectuals, academic institutions, and
others to participate in the Foro Nacional de Consulta sobre las Relaciones Comerciales de
Mexico con el Mundo through sessions that took place in the city of Mexico and other cities.
The debate sessions formally concluded on May 21, 1990. In a document, the Senate
conveyed the political endorsement that Salinas expected:

The Senate of the Republic, in view of the geographical location of Mexico, the
history of its trade relations, and the complementarity and potential of its economy in
respect to that of the United States of America, recommends negotiating a free trade
agreement with that country. The agreement, unlike a common market, would
preserve the political and economic sovereignty of the country (Salinas 2002, 63).

69 The leader of the Senate “insisted principally on the need to offer informational hearings and
debates in the Senate, so that the political parties and members of the general public could express
their ideas and be kept informed. In a discreet manner, he began the preparations to organize those
sessions” (Salinas 2002, 53-54).
It was a political triumph for Salinas, who could now pursue his project as if it were at the request of the Senate. A structural factor, the institutional makeup of Mexican political decision-making, and an agency variable, the political ability of Salinas, had thus helped to establish the crucial Senate support behind NAFTA, only four months after the president decided to embark the country in such project.

**Political Parties**

In early 1990, three major party organizations competed in Mexico’s national political scene: the Partido de la Revolución Institucional (PRI) (Institutional Revolutionary Party), the Partido de Acción Nacional (PAN) (National Action Party), and the Partido de la Revolución Democrática (PRD) (Party of the Democratic Revolution). The role that each of these three parties played in the creation of NAFTA was very different. Despite the electoral setback of 1988, during the Salinas sexenio the PRI was still the dominant national party in control of the government and Congress. As such, it provided Salinas the disciplined support he needed to carry out his integration project. It was thus a crucial facilitating variable in the political process that led to NAFTA.

Since its creation in 1939, the PAN had been the principal political opposition force to the PRI until the sudden competing rise of the PRD in 1988. The National Action Party emerged at a time of high polarization in the Mexican political landscape when Lázaro Cárdenas’ radical-populist government (1934-1940)\(^7\) confronted strong opposition from a broad spectrum of hostile political forces:

\(^7\) “Though a reformer dedicated to working within the capitalist system […] Cárdenas believed that the state should intervene to equalize the relative weight of labor and capital […] he strengthened organizations which were to defend their [urban and rural workers] interests, he encouraged strikes and committed the state to intervene on behalf of workers in industrial disputes, he greatly increased the distribution of land to campesinos, he favored collective ownership in the countryside and the ‘socialization’ of the means of production in industry, he changed the curriculum of schools to include socialist education, and he employed the rhetoric of class struggle and Marxism” (Collier 1982, 68-69).
The opposition had many expressions. These included capital flight abroad, attempts by the Church to mobilize opposition to government programs and to undermine peasant, labor, and student unions […]; an economic and diplomatic offensive by foreign capital that included an international boycott of the nationalized petroleum industry; the emergence of a rival mass movement, the *sinarquistas*, promoting conservative, religious values and opposing agrarian reform; the appearance of fascist movements with connections to Nazi agents and members of the Spanish Falange […]; the Cedillo military rebellion of 1938; and the formation of a plethora of right-wing opposition parties, many of which ultimately coalesced around the newly formed PAN and the promotion of the opposition presidential candidacy in 1940 of Juan Andreau Almazán (Collier and Collier 2002, 247).

Except for its opposition to Cárdenas’ policies and to the corporatist rule of the PNR (the Party of the Mexican Revolution), the forerunner of the PRI, the PAN lacked a clearly defined political identity. It initially attracted a variety of political and socio-economic adherents such as “professionals, intellectuals, entrepreneurs, and ardent Catholics who reacted to growing anticlericism” (Shirk 2005, 50). According to Loaeza (1999):

Contrary to conventional wisdom, the PAN was not born as the lay appendage (*brazo laico*) of Church political action. The original project, marked by the *anticardenista* reaction, conceived of the party more as a pressure group that would unify and channel the political demands of private enterprise: businessmen of any level, liberal professionals, small property-owners, and in the end all those whose income did not depend on the State (cited in Shirk 2005, 56).

Two main political-ideological tendencies coexisted within the party and competed for predominance. One, inspired by liberal principles advocated by Francisco I. Madero, the first President of the Mexican Revolution, demanded a representative democracy, criticized the authoritarianism of the post-revolutionary elite that ruled Mexico, opposed state intervention in the economy and defended private initiative as the basic driver of economic development (Shirk 2005; Hernández Vicencio 2010). The other, was strongly influenced by traditionally conservative political ideas of the Catholic Church:

a second line of PAN doctrine, separate from the liberal democratic ideologies linked to Gomez Morin, speaks to a set of normative, spiritual, and social welfare concerns derived from Catholic thought. This line of thought, political humanism […] became known as the mystique of the PAN (Shirk 2005, 59).

Yet, Loaeza (2003) points out that despite this influence from the social doctrine of the Catholic Church, the PAN “maintained an ambiguous relationship to the religious doctrinal
component” (2003, 196) as party leaders avoided open acknowledgement of any ties with Catholic doctrine and organizations but depended on both to survive. Eventually, this ambivalence ended in 1998 when the PAN became part of the international organization of Christian democratic parties.

In the decades that followed its creation, the PAN experimented significant transitions as an opposition party. During the 1960s and early 1970s the doctrinal Catholic wing became relatively more powerful within the party emphasizing the role of the PAN as “loyal opposition,” and privileging doctrinaire identity over active political participation to dispute power with the PRI (Loaeza 2003).

By the early 1980s an influx of business managers, owners of small and medium enterprises and large entrepreneurs from the agro-export sector, commerce and services changed the internal balance of power in favor of a new faction, known as neopanismo, imbued with a more secular and pragmatic vision (Shirk 2005). Neopanistas pursued a more active political participation of the PAN as a party of protest against the PRI, particularly in the aftermath of the bank nationalization by President Lopez Portillo in 1982 (Loaeza 2003).

The emergence of this pragmatic current in the PAN, the development of a programmatic coincidence between its economic proposals and those of Salinas’ government, the president’s own political overtures toward it as he tried to gain political allies and neutralize the influence of the PRD,71 are important factors that help to explain why the PAN became an ally of Salinas. Yet, its leadership was divided in its attitude toward NAFTA. Some leaders supported the initiative from the beginning, but others firmly opposed it (Salinas 2002).

The PRD had emerged as a popular left-leaning coalition of forces that seriously

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71 According to Centeno (1997), Salinas did not oppose the rise of the PAN to regional influence but decided instead to forge an alliance with it. The PAN consented to Salinas’ overture in exchange for the promise that it would be allowed to continue growing as a national force, and often refused to condemn frauds committed against the PRD.
challenged the PRI’s dominance in the 1988 elections.\footnote{“the most pressing problem originated from the left. After the elections of 1988, responding to the cardenista opposition became the most important political problem for the regime” (Centeno 1997; page 6).} It displayed intense political activity against Salinas’ liberalization program, and became the main political force against NAFTA.\footnote{Speaking in California in April 1990, Cuauhtémoc Cardenas declared himself against the economic integration of Mexico and the United States. He declared that “the best manner of resolving our problems, in the short and long-run is the political and economic integration with Latin America” (Molina 1990).} However, it was not able to affect the outcome in any meaningful way. The PRD’s failure to gather enough political momentum to derail Salinas’ integration project seemed to reflect “the ideological exhaustion of the left in all Latin America. Almost 80% of the population […] voted for parties that advocated open markets and the sanctity of the private property” (Centeno 1997, 8). In addition, it appeared to show that the electoral support that Cardenas received in 1988 did not necessarily imply a lasting endorsement of his policies, but rather a circumstantial vote against the PRI (Centeno 1999).

The fact that Salinas was able to summon the disciplined support of his party with relative ease despite the fact that an FTA with the United States represented a radical departure from the nationalist political culture of the PRI merits explanation. One important factor in this regard is that since De la Madrid became the PRI’s presidential candidate for the 1982 elections, there had been a power shift that had displaced the developmentalists from the direction of the party, thus weakening their political capacity to oppose Salinas. Another factor is that the most ardent opponents to Salinas’ liberalization program had already left the PRI when the so-called Democratic Current was expelled by De la Madrid in 1987. Thus, the opposition that remained in the PRI was relatively moderate (Gámez Vázquez 2006).

In addition, according to Gámez Vázquez (2006), “[o]ther investigations indicate that the power struggle within the party did not question the implementation of Salinas’ economic model but the distribution of its benefits” (2006, 224). Moreover, Salinas launched a reorganization of the party that resulted in the removal of influential labor leaders, like La
Quina and Carlos Jongitud Barrios, who were opposed to his policies, thus signaling “an open assault on the traditional *político* structure” (Centeno 1999, 64). He also terminated twelve governors during his *sexenio*, and placed supporters in several state capitals (Centeno 1999; Gámez Vázquez 2006).

**Coalitions and Epistemic Communities**

Arguably, the role played by MEXUS in forging a political consensus around the idea of a comprehensive bilateral trade and investment agreement between Mexico and the United States based on free trade principles could also be viewed as that of a transnational epistemic community. That is to say, beyond the basic coalition of material interests behind MEXUS, one can discern a “coalition of knowledge” that shaped the interpretation of those interests and provided a winning argument to gain the acquiescence of policymakers. This view is congruent with Sebenius’ (1992) argument about epistemic communities:

> An epistemic community, viewed through a negotiation-analytic lens, *can be interpreted as a distinctive de facto natural coalition of ‘believers’ whose main interest lies not in the material sphere but, rather, in fostering the adoption of its policy project*. Initially, an epistemic community faces the problem of how to expand from a typically small and de facto natural coalition into a meaningful winning coalition. Its actions can often be understood as changing the perceived zone of possible agreement in well-understood ways that are favorable to its objectives. The major contributions of the epistemic community concept would seem to be that it directs attention toward the conditions under which this distinctive kind of coalition is likely to form and expand, *insists on the importance of perceptions and learning in negotiation, and deepens our knowledge of how various actors come to define their interests*” (1992, 364-65; emphasis added).

Moreover, the definition of “coalition” that I have adopted for this study, that is, an alliance of actors joined together by shared interests *and ideas* to support or oppose certain kinds of policies, has two interconnected dimensions. One is the coincidence of material interests, and the other is the concurrence of ideas. The coalition’s shared

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74 Nickname for Joaquín Hernández Galicia, powerful leader of the oil union (Sindicato de Trabajadores Petroleros de la República Mexicana, STPRM) of the state-owned oil enterprise Petróleos de Mexico (PEMEX) (De la Madrid 2002).

75 Union leader of the national teachers’ union (Sindicato Nacional de Trabajadores de la Educación, SNTE) and governor of San Luis Potosí (De la Madrid 2002).
ideas provide a common interpretation of the material interests, and thus help to
cement the unity among coalition members. From this point of view, coalitions
involve both interest and epistemic communities.

**The International System**

The relevance of the international level of analysis becomes apparent if one considers
that Salinas’ *sexenio* occurred in the midst of profound changes in the international political
economy. These external changes imposed constraints and opened up opportunities for
Mexico’s economic development and shaped its international behavior. Certain attributes of
Mexico as a country like geographical location, relative size, level of economic
development,\(^76\) and type of political system, acquired relevance and mediated the effect of
these changes, but the decisive factor that shaped their impact was how those at the
“commanding heights” of the state, Salinas and his cabinet members, interpreted them and
responded accordingly through policies.

Certain important international developments at that time inspired economic
liberalization in general and thus created a more propitious environment that encouraged
Mexico to seek the FTA with the United States. Since the focus of my analysis in this section
are those international variables that had a more direct influence on Mexico’s attitude toward
NAFTA, I only enumerate them here because they have been extensively analyzed elsewhere,

The debt crisis of 1982 signaled the exhaustion of the “growth through indebtedness”
strategy based on state-led import-substitution industrialization (Castello Branco 1993). It
also pressured debtor countries to undertake programs of economic adjustment and opened

\(^76\) A significant aspect of this attribute is the conversion of Mexico toward a model of export-led
development where manufactures occupy a central role. According to Rozo Bernal (1998), there was
a change in the relative composition of exports between 1982 and 1988, where oil exports decreased
from 77% to 32%, and non-oil exports increased from 23% to 68% of the total. The author notes that
this recomposition resulted from a better performance of the non-oil export sector rather than from a
relative deterioration of oil prices. Thus, total non-oil exports increased from 4.7 billion dollars in
1982 to 14.6 billion in 1988. Moreover, the relative importance of manufactures within non-oil
exports increased from 60% of the total in 1981 to 83% in 1988. At the same time, the private sector
assumed greater responsibility for the non-oil exports from 76% in 1981 to 90% in 1988.
the door for the influence of IMF’s stabilization programs that pressed for economic liberalization (Haggard and Kaufman 1992; Teichman 2001). Latin American policymakers and economists had begun to build a new intellectual consensus around the example of Chile’s radical economic liberalization under Pinochet (Edwards 1995). In 1986, the Council of the Americas, the Fundação Getúlio Vargas and El Colegio de Mexico had jointly sponsored the publication of Toward Renewed Economic Growth in Latin America, a work that became the intellectual antecedent of the so-called Washington Consensus, which exerted considerable influence on Latin American policymakers (J. Williamson 2004; Rockefeller 2003). In addition, China’s economic reforms initiated in the early 1980s (Tisdell 2009) and the fall of the Berlin Wall in 1989 contributed to discredit centrally planned, state-led models of economic development.

Globalization and Transnational Corporations

Transnational enterprises78 (TNEs) have spearheaded the expansion of globalization by engaging in foreign direct investment (FDI), transnational production processes and international trade.79 Many have a global reach, but their most important operations are concentrated in regional markets. These TNEs are a source of demand for regional integration agreements that institutionalize, and thus make credible, commitments made by host governments to carry out liberal economic reforms and ensure a safe environment for their FDIs. As Chase (2005) notes, “[i]n North America, multinationals sought free trade between the United States, Canada, and Mexico to liberalize FDI,80 strengthen intellectual

78 “A transnational enterprise is defined as a firm that organizes production in more than one country. These outputs may represent different stages of production […] or they may be varieties of the same product. Common to all TNEs is the existence of a central decision making unit (HQ) that coordinates production, prices, and investment strategy in the countries in question” (Robson and Wooton 1993, 72).
79 The world’s 500 largest companies are responsible for 70 percent of all trade. About one third of world trade is intra-firm; multinationals trading with unaffiliated firms account for another third (Chase 2004).
80 According to Chase (2004), the reason why TNEs have been strong advocates for regional agreements is to manage liberalization and deregulation in FDI. “The political economy problem that
property rights, and introduce dispute settlement procedures” (2005, 50).

Moreover, the need for FDI provided by TNEs makes developing countries more receptive to regional trade agreements in order to compete with other countries for FDI. This encourages developing countries to participate in free trade agreements with developed countries, as a way of gaining comparative institutional advantage. In this manner, TNEs are an expression of the international influence that globalization exerts on the development of FTAs (Ethier 1998; Bull 2008; Robson and Wootan 1993; Chase 2005; Buthe and Milner 2008). The transnational pro-NAFTA lobby organized by MEXUS in Mexico and the U.S. is a relevant example of TNE’s influence in foreign economic policymaking related to trade agreements.

**International Policy Diffusion: the Spread of Regionalism**

According to Simmons, Dobbin, and Garrett (2006), “International policy diffusion occurs when government policy decisions in a given country are systematically conditioned by prior policy choices made in other countries (sometimes mediated by the behavior of international organizations or even private actors or organizations)” (2006, 787). In this regard, the revival of European integration in the 1980s, particularly the entry of Spain and Portugal to the European Community in 1986, and the agreement to launch the Canada-

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TRIMs [investment contracts between a foreign-owned firm and its host government] present is that foreign investors locked into a particular trade and regulatory regime exhibit a status quo bias because they are vulnerable to being held up. As a result, multinational companies are inclined to demand safeguards before they will consent to having TRIMs relaxed or phased out. First, they want host governments to make ironclad commitments to liberalize trade and investment, lest old policy measures be restored later. Second, they need protection against new entrants while they adjust to a new policy climate. This requires formal treaties to enumerate explicit obligations, establish rules that discriminate between incumbents and new entrants, and provide transitional protection” (2004, 30).

81 The revival was spurred by the launching of the internal market in the 1980s. Support by the member states was affirmed in 1982, and subsequently confirmed. In March 1985, the European Council in Brussels set the end of 1992 as the completion date. A White Paper elaborated by the Commission that detailed the steps to take was approved in June 1985 by the European Council in Milan. The Single European Act (which was signed in February 1986 and came into force on 1 July 1987) was a revision of the Treaty of Rome of 1958 (European Parliament 2012).
United States Free Trade Agreement in 1987, were important examples of international policy diffusion that impacted Mexico’s decision to seek an FTA with the United States.

The main mechanisms through which these examples were diffused to Mexico appear to have been both competition and learning in one case (CUSFTA) and learning in the other (Spain and Portugal). In the case of CUSFTA, there was an element of competition involved because it threatened to divert trade in sectors of interest to Mexico, like automobiles and petrochemicals. There was also an important learning aspect. Salinas’ response to a question made by an NBC reporter during an interview in Washington in June 1990 regarding the reasons that made him change his mind on the issue of integration with the United States, said:

I would say that two factors: the first one, the drastic changes in Europe that signaled me that one has to continue changing at an accelerated pace, and second, after a careful analysis of the benefits that other countries had obtained from similar trade agreements.

And to an immediate follow up question if that was the case of Canada, he replied:

Certainly, I find that the countries with less-developed economies could gain more benefits than those that have more development (Garcidiego 1994, 114; translated from Spanish).

Implicit in that response was the fact that his government had been studying the lessons stemming both from the CUSFTA and from the experiences of Portugal and Spain in joining the European Community, and that Mexico had learned from the conclusions obtained by those studies. My interviews with Pedro Aspe, Salinas’ Finance Minister, and Humberto

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82 In September 1985, Prime Minister Mulroney proposed formally an FTA with the United States. President Reagan accepted in December 1985. CUSFTA entered into force in January 1989 (Baldwin 1997).

83 “In 1987, when United States and Canada sign their FTA, the internationalized Mexican business elite is the one who expresses its preoccupation” (Aldo Flores-Quiroga, Assistant Secretary for International Affairs at the Ministry of Energy, personal interview by author in Mexico City on November 1, 2010; translated from Spanish). “The United States had already created an FTA with Canada. That was the precedent” (Pedro Aspe, Minister of Finance (1988 – 1994) in the cabinet of President Salinas, personal interview by author in Mexico City on October 27, 2010; translated from Spanish).

84 “There are two references. The first is Germany [the fall of the Berlin Wall] and the second without a doubt is Felipe Gonzalez in Spain. It is an enormous reference […] Felipe saying: ‘Spain is part of
Jasso Torres, Director of International Negotiations at the Ministry of Economy, offers evidence of this process.

**End of the Cold War and Consolidation of Economic Blocs**

Mansfield and Milner (2012) observe that

> the fall of the Berlin Wall in 1989 precipitated the CMEA’s [the Council of Mutual Economic Assistance established by the Soviet Union and its allies in 1949] demise and prompted a rush by member-states to form arrangements with other countries, especially those in Western Europe. The trend was accelerated in 1991, when the Soviet Union’s collapse created a sizable number of new countries seeking to conclude PTAs with each other and with European countries (2012, under “The Balance of Power and the End of the Cold War,” in Chapter 3).

This event had an important influence on the European Community’s negative attitude toward Mexico’s interest in forging an agreement with it in early 1990, because for the Western European political leaders the economic integration with their Eastern neighbors had become a pressing priority. Thus, one of the immediate effects of the end of the Cold War was to constrain the range of partner choices for Mexico to establish free trade agreements with, which in turn shaped its decision to invite the United States to conclude one.

In fact, as Europe. She does not end in the Pyrenees, and I am going to do everything possible to enter. ’And he did enter. That was for us a reference because the difference between Spain and Germany was the same as that between Mexico and United States, in relative size” (Pedro Aspe, personal interview by author in Mexico City on October 27, 2010; translated from Spanish).

85 “The European example did not come from the East but from Spain. When we started to document how the developing countries of Europe benefitted from integration there were the examples of Greece and Portugal, but the clearest example was Spain. That example was cited very often […] with empirical evidence because there was almost a decade of statistics of how the standard of living had improved. At the moment of showing examples of who had integrated, East Europe was not an example. It wanted to integrate but there were no examples. Spain was the example cited more often. We cited Canada, but it was more developed […] There was the need to diversify. I remember that several comparative studies had been made of what Taiwan and Korea had done […] and the study concluded that what they had done was no longer permissible after Mexico entered the GATT in 86 […] neither there was a political will from the United States to help like they had done it in Korea after the war. Thus, it was neither viable under GATT nor was the United States going to help […] We were then instructed to quietly investigate what for was that the United States negotiated with Canada […] That was my first job […] If this is happening in Europe, what is the United States doing? It was a matter of reading the agreement with Canada. It was a reference of what Mexico would do. But there was not even remotely the thought of a NAFTA. It was thatMexico copied, that is, it proposed that the United States do what it did with Canada. In the end it was something much more ambitious […] Canada took the opportunity to enrich the treaty very much. When Canada joined it took advantage of its two years of experience with its treaty. This was very valuable for Mexico. Disciplines that in the Canada-U.S. treaty had only three paragraphs, in the new treaty had three pages, because Canada wanted to write very carefully all that was a commitment” (Humberto Jasso Torres, personal interview by author in Mexico City on October 27, 2010; translated from Spanish).
stated earlier, Salinas’ had received very direct suggestions from European leaders in the sense that Mexico needed to consider associating itself with the United States (Salinas, 2002).

Aspe describes the importance that the fall of the Berlin Wall had in the strategic calculations of the Mexican government regarding an FTA with the United States:

An event that accelerated everything was the fall of the Berlin wall. The year 1989 was drastic, when we said Europe. The next years Germany will be going toward East Europe. Asia is very far. Japan is not interested. We said, how are we going to attract international trade and investments? It has to be done with the United States. I was very clear with the President. I told him: Mr. President, we need to do it now and we need to do it with rules […] If you ask me what were the antecedents? The fall of the Berlin wall and all East Europe, and the corresponding paradigm that disappeared. And we were very lonely, and saying well, we have to negotiate. Our neighbors are to the North and to the South. Then the question is: do we do something first with Central America or with United States? We said: we have to do it with the United States (Pedro Aspe, personal interview by author in Mexico City on October 27, 2010; translated from Spanish).

The end of the Cold War had another important consequence with repercussions for Mexico’s regional policies: “it reinforced the long-standing trend toward tripolarity in the global economy. The United States had to share power with the European Union and Japan. And all three needed to cooperate without the glue that Cold War security alliances had theretofore provided” (Destler 2005, 39). In other words, the end of the Cold War accelerated the formation of three powerful economic blocs that had been emerging in the 1970s and 1980s, and the competition among them.

The revival of the European process of integration in the 1980s had largely responded to the need to revitalize economic growth and confront the economic competition from the United States and Japan (Sandholtz and Zysman 1989). The creation of an FTA between Canada and the United States in 1988 had been to a large extent a competing reaction by the U.S. to the economic threat from a stronger united Europe and a fast growing Japan. How Mexico confronted this situation depended on its political leadership’s interpretation of it based on the intellectual framework dominating its thinking, as explained by Salinas (2002):

At the end of that day’s session in Davos […] I went out for a walk with members of the cabinet who were accompanying me. I explained my views on the situation to
them. In a world undergoing change, the formation of economic blocs could lead to a new era of protectionism or trade wars between the different regions. It was in our interest to enter into arrangements that would allow us to diversify our exports. This would allow us to obtain more investments and consequently, to create more jobs at home. To do this unilaterally was becoming difficult: it was necessary to take the initiative to join one of these blocs. Geography gave us the chance to participate in regional integration with the greatest power in the world. In spite of historical objections, it was necessary to do it. This was the right moment (2002, 48-49).

Trade Policy of the United States

The United States has traditionally been the single most important economic partner of Mexico. As such, its trade policies have an enormous influence on the bilateral economic relations between the two countries. The U.S. trade policy during the 70s and 80s acquired a strong protectionist-defensive bent that is best explained by the relative decline of U.S. competitiveness vis-à-vis Europe, Japan and the emergence of Asia’s newly industrialized countries (NICs).

The trade dilemma of the U.S. was well described by the Bilateral Commission on the Future of United States-Mexico Relations: “Rapid increases in import penetration, unsustainable high levels of imports, and adjustment problems in key sectors (like automobiles and agriculture) have made many U.S. politicians, government bureaucrats, and businessmen more receptive to managed trade. This has raised questions about the depth of the U.S. commitment to open markets that sustained the postwar trading system” (cited in Hart 1990, 49).

This new defensive orientation of the U.S. trade policy started with the 1974 Trade Act, which granted the president extensive power to retaliate against perceived violations of what the U.S. unilaterally declared to be unfair trading practices by foreign countries. The 1988 Trade and Competitiveness Act renewed and strengthened provisions already existing under the previous Act. This trade-remedy legislation focused on various issues such as

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87 As of 1990, Mexico was the fourth largest trading partner of the U.S., after Canada, Japan and the European Community, accounting for about 6-7% of U.S. exports and imports. On the other hand, the U.S. was the dominant trade partner, accounting for two-thirds of exports and imports, far outpacing Mexico’s trade with Europe, Japan and Latin America (Hart 1990).
injurious and subsidized imports, dumping, violations of trade agreements and commitments, unfair trading practices, foreign country discrimination, agricultural imports below U.S. prices, and others of similar nature (Hart 1990).

The impact of these U.S. trade-remedy laws on countries like Canada and Mexico, for example, was significant because behind them was the structural power of the U.S. represented by the control of an enormous domestic market (Sinclair 1994). In this sense, the trade policy of the U.S. helped to shape Mexico’s policy of gradual rapprochement with its neighbor to the north that facilitated the eventual agreement to launch NAFTA.

To understand how this was possible, one needs to consider that three main different strands were competing for the orientation of U.S. trade policy: “One represents the traditional multilateral orthodoxy [...] The second is a resurgence of unilateralism and protectionism [...] disdainful and distrustful of the multilateral trading system. The third favours the negotiation of regional or bilateral agreements88 with selected countries notably Canada, Mexico and those of the Pacific Rim…” (Hart1990, 54).

Mexico made use of this third alternative as a way to eliminate the uncertainty and arbitrariness derived from unilateral trade criteria by the U.S. through bilateral agreements that established mutually agreed-upon rules of the game. Thus, Mexican leaders successively signed with the United States the Bilateral Understanding on Subsidies and Countervailing Duties in 1985, the Framework of Principles and Procedures for Consultation Regarding Trade and Investment Relations in 1987, and the Understanding Regarding Trade and Investment Facilitation Talks in 1989 (see pages 58-59 for a description of these arrangements).

These agreements helped to institutionalize bilateral understandings on trade and

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88 The 1979 Trade Act called for a study of trade agreements with countries of the northern portion of the western hemisphere, and the 1984 Trade and Tariffs Act provided for the negotiation of bilateral agreements (Hart 1990).
investments between the two countries that cleared the way for the comprehensive treaty that was NAFTA. Thus, a 1990 report issued by the U.S. International Trade Commission (USITC)\(^89\) noted that “… some long-standing bilateral trade frictions have been reduced or eliminated. As U.S. Trade Representative Carla Hills recently remarked before the House Ways and Means Subcommittee on Trade, ‘At no time in recent memory have our trade relations been as harmonious as they are today’” (USITC 1990, ix).

Behind the willingness of the U.S. to set in motion the bilateral negotiations, there was also a strategic political interest, which overruled concerns of multilateralists and protectionists in the U.S. government. According to USITC (1990),

> …economic incentives are but one part of the reason that the U.S. government should pursue an FTA with Mexico […] geopolitical considerations also make a United States-Mexican FTA an attractive prospect […] the development of a prosperous and politically stable Mexico, aided by an FTA, is in the ‘enlightened self-interest’ of the United States (1990, 1-1).

### Failure of the Latin American Integration Project

Another important international factor that influenced Mexico’s decision to seek an FTA with the U.S. was the failure of the Latin American integration project that began with the Latin American Free Trade Association\(^90\) (LAFTA). It was established by the Treaty of Montevideo in February 1960 and signed by Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay, and subsequently also by Colombia, Ecuador, Venezuela, and Bolivia. LAFTA was launched as a “free trade zone” where the member countries would progressively eliminate tariffs and restrictions in a period of twelve years (TM60 1991).

A key provision of the General Agreement on Tariffs and Trade (GATT) is the Most-Favored-Nation (MFN) treatment (Article 1), which requires that if a country grants any special preference to one of its trading partners, it must extend the same preference to all the

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\(^{89}\) On October 18, 1989, the Committee on Ways and Means, U.S. House of Representatives, requested the USITC to conduct a two-part study to provide 1) a comprehensive review of Mexico’s recent trade and investment reforms, and 2) a summary of experts’ views on prospects for future United States-Mexican trade relations (USITC 1990).

\(^{90}\) In Spanish, Asociación Latinomericana de Libre Comercio (ALALC).
other members of the Agreement. However, Article XXIV of the GATT makes an exception. It allows customs unions (CUs) and free-trade areas (FTAs) to discriminate against non-member countries as long as the tariffs, duties, or restrictions imposed to those countries are not higher or more restrictive than those existing prior to the creation of a CU or an FTA (WTO 2013).

LAFTA this exemption to the MFN principle of the GATT. However, its foundational document required members to observe the MFN principle at the regional level.91 This requirement was an important factor in the Association’s ultimate demise, because member-countries were reluctant to automatically grant product preferences to others that might already have a comparative advantage in that product, and that therefore did not need a preferential treatment. The fact that most member-countries had adopted protectionist import-substitution strategies also contributed to LAFTA’s failure.

LAFTA was eventually replaced by the Latin American Integration Association (LAIA) in 1980. This new organization was integrated by the same countries that were part of LAFTA. Its ultimate goal was the establishment of a Latin American common market. Its foundational document was another Treaty of Montevideo (TM80, 1991). LAIA was a more flexible instrument for trade liberalization and economic integration that allowed the possibility of establishing economic preference areas through partial scope agreements (PSAs) between two or more countries in addition to those of regional scope that involved all members. The rights and obligations of this type of agreement were valid only for those members which subscribed to it. PSAs could be commercial, of economic complementation (ACEs), agricultural, for the promotion of trade or other modalities that did not violate the treaty’s guidelines Asunción Treaty (TM80 1991).

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91 Article 18: Any advantage, favor, franchise, immunity or privilege practiced by one Contracting Party with regard to a product originating from or destined to any other country, shall immediate and unconditionally be extended to the similar product originating from or destined to the territory of the remaining Contracting Parties (TM60 1991; translated from Portuguese).
The legal base of LAIA was not Article 24 of the GATT, but a special Clause of Habilitation, which had been negotiated during the Tokyo Round of the General Agreement on Tariffs and Trade (1973-1979). This clause allowed latitude to LAIA’s members to choose what other members to offer preferential treatment to without having to extend the same treatment to all members.

Thus, the Latin American Integration Association brought a new dynamics to the program of Latin American integration. It facilitated the spread of preferential trade agreements between two or more countries, which in the Southern Cone facilitated the bilateral economic integration project between Brazil and Argentina in the mid-1980s that eventually became Mercosur. Yet, LAIA remained a very lax and ultimately ineffective vehicle for achieving its long-term objective of “gradual and progressive establishment of a Latin American common market” (TM80 1991).

In the case of Mexico, neither LAFTA nor LAIA offered a viable and effective path to economic integration capable of competing with the possibilities of an FTA with the United States. Mexico’s trade with other Latin American nations had not reached a level comparable to those achieved with United States and Europe. By 1987, Mexico’s imports and exports with the rest of Latin America represented only 2.9% and 7.5% of the total, respectively, compared with 64.6% and 64.7% in the case of United States, and 16.2% and 14.6% in the case of Europe. Thus, a much greater demand for economic integration was likely to come from these developed markets than from Latin America.

Schmitter and Haas (1964) offer a somewhat dated but relevant assessment of Mexico’s dilemma that helps to understand why President Salinas decided that was time to join the U.S. in an integration project instead of continuing to privilege integration with the rest of Latin America:

Despite its positive answer to the challenge of economic regionalism, Mexico has been and continues being the most isolated member of LAFTA. In terms of the
existing network of social communications, the long-term integrating interests of Mexico would seem to be more toward the north than toward the south. Separated from the main population centers of South America by poor land communications, prolonged maritime trajectories and a maritime service of low frequency, the volume of the Mexican transactions with the rest of Latin America has been low and highly unstable (1964, 115-116).

Discussion and Synthesis

Up to this point, it would seem apparent that Mexico’s decision to seek a FTA with United States was a complex process influenced by a variety of factors acting at different levels of the country’s political economy. In this section, I discuss the results of the analyses included in previous sections and develop a synthesis to explain Mexico’s NAFTA decision.

The early 1990 decision to join the United States in a trade agreement marked a sharp turn in Mexico’s policies for regional integration. Until then, its efforts had been directed toward economic integration with Latin America, which for the most part had been proved an elusive goal. This change in orientation occurred at a time when Mexico was undergoing a profound transformation from a protectionist, state-led import-substitution model of industrialization toward an open, export led type of economy under the guidance of a new intellectual consensus based on market liberalization and reduced state participation in the economy.

Yet, an integration agreement with the United States was not a forgone conclusion at that time. Argentina, for example, had also embraced so-called neoliberal reforms in but did not immediately or primarily seek economic integration with the United States. Instead, it joined Brazil in a customs union. Thus, while recognizing that a neoliberal economic model was a necessary condition for the NAFTA initiative, it was not a sufficient requirement.

The geographical closeness of the huge U.S. market and the mounting economic interdependence between the United States and Mexico were structural attributes that acquired special relevance once the Mexican government turned toward export led-growth to revitalize economic growth. But, again, these structural factors per se did not dictate a new
regional policy. For decades, Mexico had maintained close economic relations with the United States, and had the same two-thousand-mile common border, but it had refused to consider the possibility of a bilateral accord to institutionalize that economic relationship.

The new export-led strategy encouraged the outward economic growth of large domestic conglomerates and the strategic re-accommodation of TNEs in Mexico. This development shaped their material interest in a bilateral rapprochement with the United States that could support the continued expansion of their businesses. Thus, they joined forces in a bi-national coalition that demanded the establishment of an institutional framework that could bring order and predictability in trade and investment flows and minimize economic frictions between the two countries through bilateral consultation mechanisms. In this sense, there was an important agency role played by the leaders of MEXUS, particularly on the U.S. side, who skillfully lobbied the Mexican (and the U.S.) government by means of both their economic and political clout and the intellectual force of their arguments.

Yet, their lobbying was successful in Mexico because there was a convergence of interests and ideas between the government and the bi-national business coalition. Given the paramount importance of the U.S. market for Mexico, particularly at a time when the Mexico needed trade expansion, the defensive U.S. trade policy had forced the De la Madrid government to focus on solving growing trade frictions between the two countries through negotiations.

This was a new point of political confluence between the government and the bi-national pro-export business coalition represented by MEXUS. It reinforced a more general agreement already under way based on market liberalization policies which favored a greater role for business vis-à-vis the state in the economy. Thus, the economic reforms adopted by the Mexican government facilitated the coalescence of a new business–state coalition after the political breakup caused by the bank nationalization that was essential for the success of
the deeper reforms carried by Salinas.

In addition, the diffusion effect derived from the integration experiences of Spain joining the European Community in 1986 and the agreement to form an FTA between Canada and the United States in 1987 had an important learning effect on the Salinas government. Spain represented a relatively underdeveloped economy vis-à-vis the more advanced one of Germany, and it was led by a moderate Socialist government with which the Salinas administration had significant political affinities. Moreover, the evidence accumulated from the Spanish experience indicated that joining an integration scheme with more developed countries had been very positive for economic growth.

The Mexican government viewed the Canadian economy as comparatively more developed than the Spanish one and thus it was not considered a fair case for comparison with Mexico. Still, it was an example from which Mexico could learn. Canada had in the past argued like Mexico against an integration accord with the U.S., and now, under a politically different administration, had found reasons to embrace such an agreement. In addition, the CUSFTA (and previously the one between Israel and United States) represented a form of “shallow” integration that appeared more attuned with Mexico’s sovereignty sensibilities than the “deep” European integration (Baldwin 1998).

In this manner, one can discern an accumulation of favorable conditions for the establishment of an FTA with the United States. Yet, NAFTA was not structurally predetermined by factors like geography or economic interdependence, although these factors did exert an important influence. Nor was it determined by the fall of the Berlin wall, the international influence of globalization and the formation of economic blocs, though these variables shaped the choices that Mexico faced. The lobbying effort by the transnational business coalition represented by MEXUS also exerted an important influence and provided crucial support, but it did not determine the political outcome either.
The decisive factor in taking the step forward to integrate was the political decision of the Salinas government, particularly the president. The policy response in this regard was a direct product of how the government viewed and interpreted the core national interests of Mexico in light of the new international conditions shaped by globalization and the regionalization of international economic power.

Its vision was influenced by the new liberal consensus that prevailed among the political elite that became dominant in the PRI in the aftermath of the 1982 crisis. Their project was to achieve rapid and sustained economic growth through the opening up of the economy and market-based reforms destined to modernize Mexico’s industry to make it more competitive. The Mexican government’s thinking about regionalism was also molded by political learning from strategic interaction with other countries, their governments and political leaders.

The vision of the Salinas administration about how to change Mexico, its reading of the new international political economy, and what it learned from the experience of other countries led its government to the conclusion that a North-South economic integration was necessary to achieve their goals. Confronted with European indifference, Japan’s aloofness, and a history of Latin American disappointments, a free-trade agreement with the United States appeared as a fitting and readily available choice.

The U.S. was already the main recipient of Mexican exports as well as the main source of Mexican imports. A comprehensive bilateral agreement would allow Mexico to benefit from much needed preferential access to the markets and investment flows of the United States under clear rules of the game. An FTA, as opposed to a customs union or a common market, would allow Mexico a greater degree of political sovereignty and international autonomy.

The characteristic feature of Mexico’s political system, presidentialism and
corporatism, greatly facilitated the implementation of Salinas’s decision to integrate with the United States, a decision that shook a Mexican public opinion still embedded in traditional nationalist political culture. These institutional attributes allowed Salinas to carry the project to its successful completion with relative ease, because they shaped the disciplined support from its political party, the decisive political approval from a Senate dominated by the PRI, and the majoritarian political backing from both organized labor and organized peasantry.

Yet, it is important to also note the active role played by Salinas himself, as a skillful and capable political actor. Mexican political institutions helped by offering a friendly framework to structuring political support for NAFTA, but they could not in and of themselves produce the desired political outcome. Salinas’ participation as political leader was fundamental. His style and political vision, influenced by liberal ideas but also imbued by intelligent pragmatism were key factors in explaining how NAFTA came into being.

Therefore, NAFTA was not inevitable. It resulted from the activity of political actors motivated by certain material interests and guided by definite ideas that produced the trilateral integration agreement. One only needs to imagine the counterfactual possibility of a government led by the PRD of Cuauhtémoc Cardenas in 1988 to realize that the outcome could have been quite different than NAFTA.
Chapter 3
Brazil Embraces Integration with Argentina: Prelude to Mercosur

One can distinguish two separate stages in the process that led the creation of Mercosur. The first one starts in the mid-1980’s as new civilian governments in Brazil and Argentina inaugurate their respective transitions from military rule to democratic regimes. In their attempt to reignite economic growth amid severe economic constraints imposed by the 1982 financial crisis, the leaders of both countries embrace the idea of bilateral economic integration.

They initially conceive their project in 1986 as a gradual, flexible, balanced and symmetrical integration process that proceeding by sectors would establish a free-trade zone in 10 years. Two years later, they add a further goal of forming a common market between the two countries without a pre-determined completion time period. Brazil and Argentina take some important steps to implementing their bilateral agreements, but as both governments end their terms in office during severe political and economic crises that exhaust their political capacity, the integration project comes to a standstill.

The second stage begins in early 1990 with newly elected presidents in both Brazil and Argentina that adopt new economic strategies emphasizing radical economic liberalization to achieve macroeconomic stability and reignite economic growth. They share a similar interest in reviving the process of bilateral economic integration but under a different conception that reflects the priorities and concerns of their liberal agendas.

Thus, they quickly commit to a revamped bilateral project that accelerates the achievement of a free-trade zone by the end of 1994 through generalized, linear and automatic tariff reductions. In addition, the original bilateral project becomes a quadripartite one with the inclusion of Uruguay and Paraguay. The four countries formally launch the new integration scheme, known as the Common Market of the South, or Mercosur, on March 26,
1991 when they sign the constitutive Asunción Treaty.

I examine this process only from the point of view of Brazil. I focus on the foreign policy processes and decisions that led its policymakers under the two different and consecutive administrations of José Sarney (1985-1990) and Fernando Collor de Mello (1990-1992), to persist in the pursuit of a project of regional economic integration in the Southern Cone. I accomplish this objective in two successive chapters dedicated to each of the two stages.

In this chapter, I analyze the factors that led the Sarney government to embark Brazil on a bilateral economic integration project with Argentina in the mid-1980s. I highlight the important conditioning role played by international factors such as the international debt crisis of 1982, the new protectionism practiced by advanced industrialized countries in the wake of the recession that emerged after the oil shocks of the 1970s, and Brazil’s learning experience with Latin American integration schemes like the Latin American Free Trade Association (LAFTA) and the Latin American Integration Association (LAIA).

I stress however, the more decisive role of domestic variables. I assess the relative impact of the institutional structure of foreign economic policymaking, the dominant ideological influence of national-developmentalism, the agency role played by President Sarney and his close advisors at the Ministry of Foreign Relations, and the foreign economic strategy that stressed the defense of Brazil’s international autonomy.

In following the Foreign Policy Analysis approach, I organize this chapter and the next one into separate sections that deal with different levels of analysis: the individual decision-maker, group decision-making or bureaucratic politics, domestic politics, and international system. I also conclude each chapter with a discussion and synthesis section.
Starting with the Revolution of 1930, the centralization of state power in Brazil resulted in a preeminent role for the presidency in national policymaking vis-à-vis the legislative and judiciary powers, and a high degree of political autonomy for the chief executive to act relatively free from the pressure of societal forces. In his study of economic policy-making in Brazil during 1947-1964, Leff (1968) observes that

...in what is perhaps the major theme in modern Brazilian political history, this [political] power has been concentrated in the hands of the President, with the development since the 1930’s of a centralized political apparatus dominating the local and state machines [...] the President has had the carrot-and-stick power to control the lesser politicians [...] Consequently, the relative autonomy of the political elite from the broader society has come to mean freedom of action for the Presidency [...] Congress has been in no position to challenge the President in policy formulation and has been placed in the weak tactical position of reacting to his initiatives, administrative decrees, and faits accomplis (1968, 125).

Not unexpectedly, military rule in Brazil during 1964-1985 increased the centralization of state power and strengthened presidential authority to the detriment of Congress, the Judiciary and civil society (Malamud 2001). During that period, the legal framework established by the Constitution of 1967 and subsequent amendments dictated by the military shaped the Brazilian political system instituting a strong presidentialist system. This regime granted the president full control of the Executive and the ability to govern autonomously by decree practically without any constraint derived from Legislative control (Amorim Neto 2000).

In March 1985, after a long and complex transition from authoritarian rule, there finally occurred the peaceful transfer of power to a civilian government. The new government represented a broad coalition of the opposition that prevailed against the candidate of the military in indirect elections by the vote of an Electoral College formed by members of Congress and six representatives from each state Assembly. Shortly thereafter, a new

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93 Successful civil-military uprising led by Getúlio Vargas against the political power of regional landed oligarchies that replaced their decentralized political system with a centralized one favorable to the middle-class interests of urban sectors (Erickson 1977).
Congress elected in November 1986 was invested with constituent powers in order to draft a new Constitution for the nation.\textsuperscript{94} Installed in February 1987, the Constituent Congress finally produced a new Constitution in October 1988. Thus, between March 1985 and October 1988, the new civilian regime still functioned under the strong presidential system inherited from the military (Amorim Neto 2000).

In the aftermath of the transfer to civilian rule in 1985, the military used its considerable political clout to constrain the democratic development of the new government and to ensure the continued political preeminence of the President’s authority (Hagopian and Maiwaring 1987). It intervened in the deliberations to draft the new Constitution by pressuring the Constituent Congress in favor of a presidentialist system instead of a parliamentary one. The military also supported José Sarney, the new civilian President, who demanded that his mandate be maintained for a full five-year term, thus ensuring that he would have influence over the constitutional making process.\textsuperscript{95} Thus, “…the Constitution of 1988 was written by Congress, but with considerable input from President Sarney, who inherited strong presidential powers” (Alston et al. 2008, 115).

Accordingly, while the 1988 Constitution introduced innovations that were cherished by opponents to military rule, such as decentralization, transparency, participation, social control, and redistribution, it also preserved the concept of strong presidential powers inherited from the military regime, including decree and veto powers, legislative rules, and

\textsuperscript{94} It had been part of the conditions demanded by the military to accept the transfer of power to a civilian government that Congress rather than an independent National Assembly directly elected by popular vote should write the new Constitution rather than (Zaverucha, 1997).

\textsuperscript{95} According to Zaverucha (1997), “Sarney relied heavily on the military. On March 2, 1988 he said ‘there exists, inside Congress, a group of radicals and opportunists that aims to disrupt order […] If they think that will knock me out they are totally mistaken […] If bloodshed is necessary, then it will take place.’ On the eve of the Constituent Congress’s vote on both Sarney’s four-year presidential term and on parliamentarism, the military again backed the president […] The military preferred presidentialism over parliamentarism because they considered Sarney an ally and he would have more power as a president rather than as a prime-minister. The military threatened a coup in the case that Sarney’s mandate was shortened and parliamentarism approved” (1997, 8).
the budgetary process, which permitted the head of the executive branch to carry out most of his policy agenda (Alston et al., 2008). According to Amorim Neto and Tafner (2002),

Critics and defenders of the Brazilian institutional design [...] converge on one point, that is, the great extension of the President’s constitutional prerogatives. As it is known, besides having the power of naming and dismissing state ministers and heads of state agencies of enormous relevance [...] and controlling public expenditures (at the Federal level) with great autonomy, the Brazilian head of government can also veto, partially or totally, laws approved by Congress, and above all, issue decrees with force of law and immediate validity, the so-called provisional measures. These confer him/her enormous strategic advantages in his/her relationship with Congress, even more so as regards to the definition of the legislative agenda of the country and its rhythm of implementation (2002, 6; translated from Portuguese).

In practice, these advantages offer Brazilian presidents considerable political autonomy to pursue their policy agenda despite the presence of other institutional features that may complicate it. The most important of these is a distinctive and enduring combination of presidentialism, electoral proportionality, political fragmentation or numerous political parties, and organization of the Executive based on coalitions, which Abranches (1988) aptly baptized as “coalition presidentialism” (presidencialismo de coalizão). In this regard, Figueiredo and Limongi (2000) contend that:

Constrained by the separation of powers, Brazilian presidents must obtain political support in a congress in which party fragmentation has reached one of the highest levels ever found in the world. In addition, the open list system prevents party leaders from exerting control over candidacies and, consequently, over party members’ voting decisions within the congress. With this institutional framework, it is usually inferred that parties will not be disciplined and that presidents will face systematic resistance to their legislative proposals. This inference is not true. […] since the enactment of the 1988 Constitution Brazilian presidents have had a considerable degree of success in enacting their legislative agenda (2000, 151).

Thus, Brazilian coalitional presidentialism resembles an informal parliamentary system where the president is compelled to play a role similar to that of a prime minister who creates a coalition government in order to reign over a legislature where numerous parties are represented (Lamounier 2003).

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96 “By 1985, there were eleven parties represented in Congress. By 1991, the total was nineteen” (Cardoso 2006, 167).
Traditionally, the Brazilian political system has ensured that the area of foreign policy remained an exclusive preserve of the Executive, and debates about its orientation had been rarely present in the country’s political agenda (Neves 2003). Besides the constitutional prerogative\(^98\) that Brazilian presidents had normally enjoyed in the formulation and implementation of foreign policy under express delegation of authority from the legislative branch (Lima and Santos 2001), two other factors help to explain this characteristic of the Brazilian presidential system.

One is the long-standing presence of a highly professional and specialized bureaucracy dedicated to foreign affairs headquartered at the Ministry of External Relations (MRE), also known as Itamaraty.\(^99\) The other is the relative disinterest of Brazilian legislators on matters of foreign relations and international politics given their scant repercussion on electoral outcomes. The combination of these two factors has greatly contributed to make foreign policy decision-making a process relatively insulated from control or supervision from powers other than the presidential (Neves, 2003).

In addition to these institutional conditions that facilitate the Brazilian president’s political autonomy to determine foreign and domestic policies, there is an important additional agency factor to consider:

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\text{…in systems of this type [presidentialist], the leadership capacity of the President is fundamental, which means that the functioning of the system much depends of the personal attributes of only one person (Kinzo 1997, 13; emphasis added; translated from Portuguese).}
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Overall, the above noted characteristics of the Brazilian presidentialist system offers a clear rationale for examining the variables that influenced Brazil’s policies for regional integration.

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98 The 1988 Constitution in the main preserved this tradition. It prescribes that the President has a reserved authority to celebrate treaties, conventions and international actions, subject to approval by Congress (Art. 84, Sect. VIII), and that it is exclusive competence of the National Congress to definitively resolve about treaties, accords or international actions that carried onerous duties or obligations for the national patrimony (Art. 49, Sect. I) (Brazil Constitution 1988).

99 It refers to the name of the MRE’s former headquarters in the city of Rio de Janeiro, when this was the capital of Brazil.
at the level of analysis of the individual decision-maker.

**Brazil’s Return to Democracy**

The transition from authoritarian rule in Brazil began in 1974 as a modest and gradual process of political liberalization initiated by the military. It culminated eleven years later with the transfer of government to elected civilian candidates of an alliance between the opposition and former supporters of the regime that defeated the military’s candidate of choice in the indirect presidential elections held in January 1985 (Hagopian and Mainwaring 1987).

The result of the election was a significant political upset for the military, which had anticipated a transition to civilian rule through a candidate clearly loyal to the regime. Moreover, it revealed that despite holding considerable power over the state, the military was in the weakest political position since it installed its authoritarian rule in 1964 by means of a military coup d’état that overthrew sitting President Joao Goulart (Skidmore 1988; Stepan 2001).

Brazil’s return to democracy is perhaps best explained as a process driven by a complex and dynamic interplay of “governmental concessions and societal conquest” (Stepan 2001, 126) in a context of economic decline that an increasingly discredited regime was unable to reverse (Skidmore 1988). The moderate political profile of the eclectic alliance that triumphed in the indirect presidential election facilitated the prevalence of a consensus among the military to accept the adverse electoral result. After all, it permitted shifting the political burden of the economic crisis to a non-confrontational adversary that in turn was willing to accede to considerable military supervision and control.

The authoritarian regime’s approach to govern the country had combined widespread repression and intimidation, the issuance of arbitrary “institutional acts” by the military leadership that were deemed the supreme law of the land, and the maintenance of an
appearance of institutional normalcy as “they purged but did not close Congress, they controlled but did not eliminate elections and parties, and they adhered to the existing norms of presidential rotation with fixed terms” (Stepan 2001, 92), albeit all presidents from 1964 to 1985 were army generals. Also, the military had enlisted the support of a well-organized conservative political party loyal to the interests of the regime, the National Renovating Alliance100 (ARENA), which facilitated the political manipulation of Congress (Hagopian and Mainwaring 1987).

Yet, the approach that the military chose to rule Brazil combined with its strategic concern with fostering industrial development had unintended consequences as “it contributed to a dynamic that increasingly constrained authoritarian state autonomy but that would have been costly (even for the internal unity of the state coercive apparatus) to abrogate” (Stepan 2001, 92). Thus, when recently-installed President Ernesto Geisel (1974-1979) began a modest and gradual process of liberalization at a time when the power of the Brazilian state to carry its economic project had begun to decline due to slower growth and increasing debt, it facilitated the emergence of various opposition forces in civil and political societies101 that increasingly gained strength against the regime as they began to develop mutually reinforcing horizontal ties (Stepan 2001).

The 1983-84 massive campaign in favor of direct presidential elections played a distinctly important role in creating favorable political conditions for the ultimate triumph of the broad alliance opposing the authoritarian regime in the indirect presidential elections held

100 ARENA was founded in 1966 as a result of the regime’s Institutional Act number 2, which disbanded existing political parties and supplanted them by a two-party system. The other party allowed to exist was the Brazilian Democratic Movement (MDB), which thus became the official opposition force. ARENA was renamed Social Democratic Party (PDS) after the regime allowed a return to a multi-party system in 1979 (Hagopian and Mainwaring 1987).

101 Some representative examples are: the protests of business groups in 1975 against the expansion of the state as regulator; the wave of strikes by the labor movement in 1978; the spread of ecclesiastical base communities; the campaigns by the Bar Association for the rule of law, and the Press Association against state censorship; the electoral triumph of the opposition in the 1982 elections, where they gained control of ten states, and the massive political campaigns for direct elections in 1983-84 (Stepan 2001; Skidmore 1988).
in January of 1985. It originated in Congressional representative Dante de Oliveira’s proposal for a Constitutional Amendment in April 1983 to change the indirect system established by the military to elect the president via an electoral college into a direct one. It rapidly grew into a vast and broadly diverse pro-democracy movement united around the banner of Diretas Já! (Direct elections now!) that staged the largest political demonstrations in Brazil’s history in defiance of the regime’s restrictions (Skidmore 1988).

The proposed amendment was defeated in April 1984 because it fell 22 votes short of the 320 required (two-thirds of the total membership) to pass. Yet, notably, 55 deputies of the pro-military PDS had voted in favor. Moreover, “the campaign had come closer to victory than anyone would have dared to predict a year, or even six months, earlier” (Skidmore 1988, 244). Most importantly, the movement’s campaign had been successful in galvanizing wide public support for democracy and significantly contributed to discrediting the regime’s claims to legitimacy, thus encouraging the desertion of former allies of the military (Skidmore 1988).

The government of military President Figueiredo expected that it would be able to control the result of the indirect presidential elections by means of the apparent majority of seats that the PDS had in the Electoral College. Yet, the previous vote for the constitutional amendment had uncovered deep fissures in the PDS that eventually facilitated the electoral triumph of the opposition. According to Hagopian and Mainwaring (1987),

The campaign's failure strengthened the hand of Tancredo Neves, who headed the opposition effort to encourage enough defections among PDS electoral representatives to win the presidency in the electoral college. Neves succeeded both in persuading military officers not to stage a coup and in attracting the support of opponents and former proponents of military rule for his candidacy. Sensing they were on a sinking ship, key PDS leaders deserted their party in June 1984, pledging to elect Neves (1987, 5).

The Electoral College finally elected Tancredo Neves and José Sarney, the opposition candidates of the Democratic Alliance, as president vice-president, respectively, by 480 votes (72.4%) against only 180 (27.3%) given to the candidates of the PDS. Moreover, the candidates of the Alliance received 166 PDS votes, thus revealing the substantial political
realignment of forces that occurred (Skidmore 1988). Neves was a leader of the Party of the Brazilian Democratic Movement (PMDB), the most important political force within the Alliance. José Sarney was one of the defectors from the PDS who joined the Liberal Front (FL), also part of the Alliance.¹⁰²

Neves however, could not officially assume the presidency due to a sudden illness. Instead, Sarney assumed as acting President, immediately after being sworn in as Vice President in March 1985. Neves never recuperated and subsequently died on April 21, 1985. That same day, Sarney officially became President of Brazil.

**President-elect Tancredo Neves**

Despite the fact that he was never sworn-in, Neves had a “presidential moment”¹⁰³ when he embarked in a 15-day long trip through various European countries, United States, Mexico, Peru and Argentina in January/February 1985 before falling ill. Danese (1999)¹⁰⁵ describes the Brazilian president-elect as somebody who

> did not attribute high priority to foreign policy, preferring to leave it in the hands of Itamaraty […] His vision of the world however, was strongly marked by the foreign policy of the 1950s […] In his international debut, Tancredo always preferred to limit himself to the norms of the Foreign Ministry [Itamaraty], avoiding controversial topics (1999, 370-71).

Tancredo Neves’ visit to Argentina in early February appears to have been an important diplomatic antecedent to the eventual forging of a project of bilateral economic integration between both countries. But this event has to be understood in the context of the immediately preceding history of the diplomatic relationship between both countries.

¹⁰² Sarney (1986) acknowledges that “[m]y political transition to the coalition of Tancredo Neves had been the subject of much criticism. After all, I was placed on the ticket because I represented factions that would provide the required Electoral College majority” (1986, 1). Azambuja (2012) notes that “Sarney had full conscience that the death of Tancredo had carried him to the presidency, and that he as representative of the former Arena was not the expression of a majority in Brazil of 1985” (1986, 82).

¹⁰³ “The unexpected death of Tancredo makes this trip his unique presidential moment” (Lafer 2010, 197).

¹⁰⁵ Sergio Danese was at that time a young diplomat who provided assistance to president-elect Neves on matters of foreign policy (Lafer 2010).
Argentina and Brazil had begun a process of diplomatic rapprochement in the late 1970s during military rule in both countries, which ended their long-term rivalry and initiated a period of sustained cooperation through the settlement of disputes over hydroelectric power and nuclear technology in 1979-80 (Resende-Santos 2002). It was a political breakthrough in the bilateral relationship that prepared the terrain to further advance in the area of economic cooperation and the initiation of a process of economic integration.

To a large extent, this significant step forward was due to the advent of João Batista Figueiredo\textsuperscript{106} as the new military President of Brazil in 1979, which brought a major change in the country's foreign policy for the region by declaring that Latin America was a priority for Brazil’s diplomacy (Selcher 1984; Saraiva 2010). He acknowledged the possibility of bilateral integration in August 1980 on occasion of a lunch that Brazilian businessmen offered to the Argentine military President Jorge Rafael Videla during his visit to Brazil by declaring that “Brazil and Argentina can offer numerous opportunities for economic integration” (RPEB\textsuperscript{26} 1980, 30; translated from Portuguese). However, neither of the two countries’ governments took the initiative in making a definite proposal in that regard at that time.

The arrival of the first democratically elected government to Argentina in December 1983, after almost eight years of military dictatorship\textsuperscript{107} created favorable conditions for the advancement to a new stage in the bilateral relationship. According to Barbosa (2010),

The initiative came from the Argentine civil government in 1984 when it proposed the opening of trade negotiations with the last military government in Brazil. The gesture did not prosper because the President João Batista Figueiredo did not

\textsuperscript{106} According to Spektor (2002), “The start of the Figueiredo government in 1979 created the conditions for the general reform of the Brazilian policy in relation to Argentina […] It is in that period that the Brazilian diplomacy opened the road to the bilateral cooperation in military, nuclear and commercial matters, mechanisms that prepared the bases for an ambitious cooperative project” (2002, 135).

\textsuperscript{107} The Argentine military had initiated the war against Great Britain in 1982 for the possession of the Malvinas islands. The war proved to be a disastrous adventure that destroyed any remains of political legitimacy that the military regime might have had at that time, thus prompting its demise and a rapid transition to democratic rule (Rock 1987).
authorize the follow-up of the proposal despite the initial contacts made by officials from the two countries (2009, 20).

In Buenos Aires, Neves met with Raúl Alfonsín (1983-1989), the new Argentine President. At the time of the meeting, overall trade between Brazil and Argentina had been declining since 1980 to a level that Ambassador Rubens Ricupero described as “ridiculous” (Tavares 1985). During a joint press conference after the meeting, both presidents coincided on the notion that the economic recession had provoked the creation of obstacles to the free trade among Latin American countries that needed to be removed. Alfonsín expressed the hope that by the end of both presidents’ terms the customs’ obstacles to an economic integration were eliminated.

Neves, in responding to a question over what was the priority of the new democratic governments of the Southern Cone, and what could be done to increase their economic integration, declared that the priority was the fight against inflation, and that his government wanted to intensify trade between Brazil and Argentina to make it return to the record level attained in 1980 (Folha de São Paulo 1985). According to José Tavares de Araujo Jr., during the meeting Neves approached Alfonsín with a proposal to resolve any remaining security issues between the two countries in order to eliminate any possible military threat to the nascent democratic regimes. He suggested the exchange of presidential visits accompanied by high-level military personnel to installations that in each country were allegedly related to the development of nuclear weapons so as to satisfy any security concerns. Alfonsín accepted Neves’ initiative but he also suggested starting with economic issues like the lack of bilateral commerce, perhaps by means of some form of economic integration. Neves agreed immediately.

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According to Gardini (2012), Ambassador Rubens Ricupero, who also attended the meeting as an advisor to President-elect Neves, offered a more restrained account of the meeting, noting that integration was discussed just in broad terms of closer trade relations. He added: “It would be an exaggeration to understand the discussion on integration in that context as an assessment of specific economic or legal schemes” (cited in Gardini 2012, 125).

Neves however, did not have an opportunity to further advance in the definition of a specific policy to expand and deepen the relationship with Argentina because of his untimely death. Instead, that responsibility fell on José Sarney, who very shortly would demonstrate a remarkable commitment to a project of bilateral economic integration with Argentina.

**President José Sarney**

The new President acknowledged the difficult position in which he found himself when first assuming as acting President:

Thus it was that I, without wishing it, without having any time to prepare myself for it, became the holder of the largest foreign debt on the face of the earth, as well as the greatest internal debt. My inheritance included the deepest recession in our history, the highest rate of unemployment, an unprecedented climate of violence, potential political disintegration and the highest rate of inflation ever recorded in our country’s history—250 percent a year, with the prospect of reaching 1,000 percent. I took into my hands the fifth-largest country in the world—8.4 million square kilometers, 130 million inhabitants—the eighth-largest economy in the non-communist world, the largest of the world’s Catholic nations (Sarney 1986, 105-06).

From the start, Sarney’s views on foreign economic policy appeared influenced by a mix of economic developmentalism and international political autonomy (Saraiva 2010), which the adverse international environment contributed to reinforce. He quickly assumed a defensive stand toward advanced industrialized economies and international financial institutions like the International Monetary Fund (IMF). At the same time, like his predecessor, military President Figueiredo, he perceived a common ground between Brazil’s interests and those of other developing nations, particularly in the South American sub-region.

Danese (1999) notes that contrary to Neves, Sarney “impressed a strong personal accent upon his diplomacy” (1999, 371-72; translated from Portuguese). Sarney had already
accumulated some diplomatic experience and knowledge of international politics while being a member of the Brazilian Senate:109

I was one of the few members of parliament that dealt with foreign policy […] I always had a taste for foreign policy. In the parliament, I don’t remember many who had those concerns; I always had them; I gave my opinion on various matters, gave some speeches and I was the orator who welcomed [President] Carlos Andres Perez when he came to Brazil […] (José Sarney, cited in Danese 1999, 375; translated from Portuguese).

Yet, the new President did not have a definite foreign policy project. He seemingly did not have any discussions with Tancredo Neves on the subject, and did not participate in the planning of Neves’ trip overseas (Danese 1999). Nevertheless, Sarney brought with him “an intuitive and militant vision about the importance of Latin America, more specifically about South America” (Danese 1999, 376). In this regard, he offered the following assessment of his own role:

I brought two basic notions to the government: first, that there was a South America, and second, that Brazil should have a non-hegemonic position but exercise its specific weight in the region. Our complicating factor was Argentina. We never had substantial divisions, frontier problems, or wars; there always were superficial rivalries; what there was between Germany and France [war] did not exist between us. In my head, it was the French-German Treaty110 (José Sarney, cited in Danese 1999, 376, translated from Portuguese).

**The Program of Economic Integration and Cooperation (PICE)**

Sarney did not hesitate in signaling to Argentina that he was ready to deepen bilateral cooperation by means of concrete measures. He ordered the import of substantial amounts of wheat and crude oil from Argentina in order to help it to reduce its commercial deficit with Brazil (Hirst 1987). Shortly thereafter, Sarney also agreed to formalize an agreement according to which every time that one of the two nations had a negative balance superior to

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109 Seixas Corrêa (1996) observes that Sarney “[i]ntegrated diverse Brazilian delegations to international conferences and carried out numerous missions abroad as deputy, governor and senator. In that process, he acquired an experience that would serve him both to formulate the foreign policy of his government and to execute it, in the permanent exercise of the so-called ‘presidential diplomacy,’ which he conducted, opening for Brazil access and participation in circles previously closed by virtue of his predecessors’ inhibitions” (1996, 364; translated from Portuguese).

110 Sarney refers here to the Franco-German friendship treaty signed in January 1963 by West Germany’s Chancellor Konrad Adenauer and France’s President Charles de Gaulle (Goldsborough 1976).
US$50 million, the other would immediately try alleviate the situation by increasing its imports (Moniz Bandeira 2004).

These actions facilitated the emergence of a new dynamics in the bilateral relation that led to a first meeting between the presidents of the two countries on November 29, 1985 for the inauguration of an international bridge linking the city of Porto Meira in Brazil to the city of Puerto Iguazú in Argentina. At the end of two days of direct negotiations, Sarney and Alfonsín signed the Declaration of Iguazú and the Joint Declaration on Nuclear Policy. The first document declared both presidents’ agreement regarding:

…complex problems derived from the external debt, from the increase of the protectionist policies in international trade, from the permanent deterioration of the terms of trade, and from the draining of hard currency that the developing countries suffer […] the urgent necessity that Latin America reinforce its power of negotiation with the rest of the world, expanding its autonomy of decision and avoiding that the countries of the region continue vulnerable to the effects of the policies adopted without their participation […] [and] their firm political will to accelerate the process of bilateral integration in harmony with the regional efforts of cooperation and development (RPEB47 1985, 28-30; translated from Portuguese).

The declaration also announced the creation of a High-Level Joint Commission for Bilateral Economic Cooperation and Integration. The Joint Declaration on Nuclear Policy reaffirmed the peaceful purposes of both nations’ programs for the development of nuclear technology and announced the formation of a corresponding joint work group.

The success of this meeting encouraged the continuation of bilateral negotiations, which resulted in another bilateral presidential meeting in Buenos Aires on July 29, 1986. On that occasion, Sarney and Alfonsín signed the Act for the Brazilian-Argentine Integration and twelve related protocols111 which constituted the Program of Economic Integration and Cooperation (PICE). The joint communiqué declared that the Act

111 The Protocols included the following: capital goods, wheat, complementation of alimentary supply, expansion of trade, criteria for the renegotiation of the Agreement of Partial Scope (Acordo de Alcance Parcial) no. 1, binational enterprises, financial affairs, investment fund, energy, biotechnology, economic studies, immediate information and reciprocal assistance in case of nuclear accidents and radiological emergencies, as well as cooperation in the aeronautical sector (RPEB50 1986a, 22, translated from Portuguese).
constituted a starting point for a modern process of integration through a program of gradual application, of sectorial character, that will allow the quantitative and qualitative increase of trade and the growth of both economies (RPEB50 1986a, 22; translated from Portuguese).

The joint statement also included a political purpose for the agreement. It affirmed that the two Presidents “emphatically reiterate the importance that they attribute to the process of bilateral integration as a means to strengthen representative institutions and to give stability to the democratic system” (1986, 22).

The objective of the program was to promote the creation of a common economic space through a selective liberalization of the respective markets and the stimulus to the complementation of specific economic sectors, based on the principles of gradualism, flexibility, equilibrium and symmetry in order to allow the progressive adaptation of the business sectors of each country to the new conditions of competitiveness. The agreement did not set an explicit target date for the overall completion of the common economic space, but it established “desired” partial benchmarks to achieve in different areas, which were detailed in the Protocols (RPEB50 1986b).

Thus, for example, the Protocol number 1, dedicated to capital goods, established that in a period of four years a common list of products for a total amount of US$2.0 billion would enjoy national treatment in each country, that is, they would be subject to zero tariffs and would be excluded from any non-tariff import restriction or barrier. The Protocol detailed partial target amounts to be reached each year from 1987 through 1990 in order to fulfill the US$ 2.0 billion goal (RPEB50 1986b, 96).

The arrangement reflected the respective comparative advantages that each country brought into the economic relationship:

…those two items [wheat and oil] constitute the main of our pattern of imports from Argentina, as much as our pattern of exports to Argentina […] is composed by items of greater value added, that is, do not have practically primary goods, it is a pattern rich in industrial products, etc. […] (Marques 2008, 75, translated from Portuguese).
It was a framework that instituted a new way of negotiating economic agreements that was different from the approaches prevalent in LAFTA and in LAIA and that satisfied Brazil’s economic interests and preferences:

What the PICE of 1986 brought as novelty […] is that the two countries started to negotiate not by product anymore but by sector […] That is, the structure, the dorsal spine of the Process of Integration with Argentina was double: it had on the one hand, the concessions over capital goods, where Brazil was the most powerful, most important economy, with a more diversified industrial park, and on the other hand, created increasing preferential access conditions to the Argentine wheat, as a form of stimulating the interest of the neighbor country in the process of integration that was being assembled […] (Marques 2008, 66-67, translated from Portuguese).

The launching of the PICE occurred in the context of prevalent protectionist import-substitution strategies, and under the influence of the financial crisis that encouraged debtor countries to follow a deliberate policy of constricting imports in order to accumulate trade surpluses with which to service the external debt (Marques, 2008). The PICE reflected this environment in adopting a “managed trade” approach in attempting to maintain an equilibrated balance of trade between the two countries. This approach reflected a deliberate policy of Brazil geared to avoid the accumulation of significant trade balances in its trade with Argentina, “as a form of not legitimating those internal pressures [within Argentina] from public opinion against the process of integration” (Marques 2008, 73, translated from Portuguese).

The PICE had an essentially defensive character in that its emphasis was on safeguarding and strengthening the economic autonomy of both countries rather than on facilitating their integration with the world economy. It was thus consistent with Brazil’s main strategic concerns at that time. Sarney conveyed this interpretation in December 1986 during a meeting with Brazilian and Argentine businessmen:

The challenge of our history, the goal that inspired our life since independence was without a doubt to create a true autonomy for our countries. To reduce external dependence, making of the international relations a conscious option of our sovereignty, and not a restriction marked by the inequality, by the servility. The program of integration Brazil-Argentina is an example of this effort (Sarney 2008, 64; translated from Portuguese).
Also, the PICE was congruent with the demands of the South-South orientation that Sarney began to impress on Brazil’s foreign economic policy as a response to the new international environment that the country confronted at that time. In order to better understand the rationale behind that new direction, it is useful to examine in some detail the speech that Sarney gave on May 13 1987, on occasion of the Day of the Diplomat at the Itamaraty Palace:

Based on these traditional principles [peaceful solutions, good coexistence, and the rule of international law] the Brazilian foreign policy has known how to update its thematic horizons […] In the New Republic, our foreign policy gained in coherence, dynamism, efficacy, transparency and independence. Without attaching itself to blocs born in geographical and political contexts different from ours, Brazil fights so that the ideological antagonisms and the political impasses between East and West as well as the excessive degree of polarization that is still prevalent in the international relations are overcome. In accordance with these changes we redefine our role in the international scenario […] We fight for a more democratized international political order. And also for a revision of the present economic order, flagrantly unjust and harmful to the countries that struggle for their development […] The Brazilian foreign policy is engaged with our policy of growth and with our struggle against unemployment […] the absence of confrontation or the acknowledgement of interdependence must not imply a dependency with respect to the actual centers of political power and the world economic poles […] We must take care of preserving our autonomy as far as essential decisions for our future as a nation is concerned […] [Brazil] already has and intends to preserve sufficient power to avoid the imposition of an alien will, and thus, have power to affirm its autonomy […] This is the vision that we assert in our international behavior, in the treatment of the most different questions with which we are confronted […] We want in reality to progress within peace and cooperation through horizontal ties. That is one of the reasons why in order to find our own paths we grant so much importance to cooperation between developing countries […] there exists another cardinal point besides the East, the West, and the North: the South. And it is in that direction that many of our most important recent initiatives are projected. The sphere of action of developing countries offers free space for the building of a new type of relations devoid of any asymmetries, immune to the imposition whims of dominations or dependencies (Sarney 2008, 68-72; translated from Portuguese; emphasis added)

The speech defines what Sarney viewed as a viable and suitable option to satisfy Brazil’s core national interests within an international scenario still dominated by Cold War rivalries and North-South disputes. The new orientation represented a defensive posture intended to carve an international niche where Brazil could protect and advance its national interests vis-

113 Nova República in Portuguese. Name given to the period of Brazilian history that starts in 1985 with the new civilian government inaugurated during the democratic transition from military rule, until the present.
à-vis the perceived hegemonic threat from more powerful advanced industrialized nations that did not seem to offer Brazil any meaningful alternative form of cooperation. In this manner, the South-South orientation became one of the dominant aspects of Brazilian foreign economic policy.

Alfonsín and Sarney met again in December 1986 to sign additional documents that defined how to pursue the objectives established in the PICE protocols, and five new protocols concerning steel production, surface transport, maritime transport, communications and nuclear cooperation (Hirst 1987; Manzetti 1990). Two years later however, other pressing issues such as a widening Argentinean trade deficit with Brazil, uncontrolled inflation, and increasing political opposition to the economic policies of both governments had paralyzed the integration process.

The Treaty of Integration, Cooperation and Development (TICD)

On November 29, 1988 Sarney and Alfonsín attempted to revive the bilateral integration process by signing a Treaty of Integration, Cooperation and Development (TICD), which established that “…the two countries shall form a common economic area …” (TICD 1988, Article 1; emphasis added), maintaining the same principles of gradualism, flexibility, balance and symmetry adopted by the PICE (Article 2). The TICD envisioned the integration process in two stages. The first one set a maximum period of 10 years to achieve “the removal of all tariff and non-tariff barriers to trade in goods and services” (Article 3). The second stage established that “…a gradual harmonization shall begin of all policies required for the formation of a common market between the two States Parties…” (Article 5; emphasis added).

Thus, the TICD introduced an innovation with respect to the bilateral free-trade-zone envisioned by the PICE by declaring that the ultimate objective was the establishment of a common market. Yet, no formal deadline was set for this goal. Instead, the agreement
established a 10-year period of gradual trade liberalization to complete a free trade zone between the two countries.

It is important to note here that in the negotiations leading to the signing of this treaty, Brazil’s strong opposition to the inclusion of third parties (i.e., Uruguay) prevailed over Argentina’s apparent willingness to accept it.\textsuperscript{114} Brazil’s resistance originated in its position that prioritized a bilateral focus in integration and cooperation initiatives within the framework of LAIA as a more effective means to overcome the diverse interests and situations of Latin American countries.\textsuperscript{116} In the view of Brazilian negotiators, the bilateral approach was necessary in order to avoid a repetition of LAIA’s practices where the complexity of multilateral negotiations among countries with pronounced disparities in the level of economic development had produced impasses and paralyses rather than effective progress. Argentina on the other hand, viewed the potential incorporation of other countries as a means to counterbalance the relative weight of Brazil as the most powerful partner, and thus create more favorable conditions for negotiating with it (Vaz 2002).

Thus, the formal inclusion of Uruguay as a third party to the Treaty of Integration was subject to the 5-year waiting period demanded by Brazil in order to allow for the internal adjustments deemed necessary to adapt that country to the decisions already signed between Brazil and Argentina in 23 protocols formalized since 1985. On November 30, 1988, one day after Brazil and Argentina signed their bilateral Treaty, Julio Maria Sanguinetti, President of Uruguay, signed a separate tripartite agreement with Sarney and Alfonsín, which initiated Uruguay’s association with the TICD. According to Abreu Sodré, the Brazilian Foreign Minister, the idea was to allow the integration of other Latin American countries in the intended common market foreseen between Brazil and Argentina to begin in ten years when

\textsuperscript{114} The final version of the Treaty’s article 10 reflected Brazil’s position: “A request of association on the part of a member-state of the LAIA to this Treaty, or to a specific Accord resulting from it, could be examined by the signatory states five years after this treaty comes into effect…” (TICD 1988).

\textsuperscript{116} Confidential telegram no. 510 issued on November 28, 1988 by Itamaraty providing guidelines for the Brazilian delegation to the next round of negotiations in the LAIA to take place in March 1989.
the Brazilian products will be commercialized in Argentina as if they were national products and the Argentine goods will have the same treatment in Brazil (Menezes 1988).

The final attempt by Sarney and Alfonsín to revive the integration process through the TICD however, did not prosper as mounting economic and political problems overwhelmed the governments of both countries toward the end of their respective terms (Hirst and Lima, 1990). Economic integration in the Southern Cone would have to wait until the arrival of new administrations in Brazil and Argentina with sufficient political will and capacity to successfully revive it. Yet, the integration process initiated in 1986 with the signing of the PICE had resulted in a significant stimulation of bilateral trade, which increased from US$ 1.415 billion in 1986 to US$ 2.052 billion in 1990 (Teruchkin 1992). President Sarney could justifiably claim a prominent role for himself in the development of regional integration in the Southern Cone as he did in his last speech as President to the Brazilian Congress in 1990:

> It fell on me to sow and to harvest the first fruits of a policy of integration with Latin America, participating in the founding of the Group of Eight,\(^{117}\) promoting a loyal and objective presidential diplomacy with our neighbors, launching the basis of the Common Market. I lived and carried this cause \([tomei-me andarilho desta causa]\) with great passion (cited in Danese 1999, 378-79; translated from Portuguese)

**Group Decisionmaking and Bureaucratic Politics**

The previous section noted that within the Brazilian political system the president enjoys a significant degree of political autonomy from societal pressures and congressional control, particularly in the area of foreign policy. Yet, while the President is an individual actor, the Presidency is a collective one integrated by the chief executive and the members of his cabinet as well as by the heads of secretariats and other bureaucratic organs (Palermo 2000).

\(^{117}\) The Group of Eight was created in Rio de Janeiro, Brazil, on December 18, 1986, as a permanent mechanism of consultation and political coordination in Latin America. It resulted from the fusion of two other groups: the Contadora Group, formed in 1983 by Mexico, Venezuela, Panama and Colombia to promote peace in Central America, and the Contadora Support Group, formed in 1985 by Brazil, Argentina, Uruguay and Peru (Vacs 2003).
Therefore, in order to explain how and why the Brazilian government makes political decisions one needs to also examine relevant variables acting at the level of the interaction between the President and his cabinet and the political bargaining that may occur among the governmental bureaucracies. That is the purpose of this section but focused on the area of foreign economic policymaking. The specific goal is to examine the variables at play at this level that influenced Brazilian policies for regional integration starting in the mid-1980s and ending with the creation of Mercosur.

The Historical Role of the Brazilian Foreign Office (Itamaraty)

A distinctive feature of Brazilian foreign policymaking is the central role that traditionally the diplomatic bureaucracy has played by in the formulation of strategies for the configuration of the country’s international relations (Albuquerque 2003). Moreover, the Brazilian Foreign Office had an active participation in the formation of the nation-state as it emerged from the colonial period in the early 1800s (Danese 1999; Cheibub 1985; Becker and Egler 1992).

A factor that seems to have influenced the early emergence and development of a professional diplomatic corps in Brazil is the moving of the Portuguese Court out of Lisbon to Rio de Janeiro in late 1807 as a result of the invasion of the Iberian Peninsula by Napoleon’s armies. This event, unique in the history of the Americas, responded to a strategy that aimed at protecting and preserving the power of the Portuguese monarchy until it could eventually return to Portugal and regain control over its empire. The move was encouraged and aided by Britain, which at the time was a dominant ally and protector of Portugal.

The relocation of the Portuguese Court to Brazil had important consequences for the development of the Brazilian nation-state. It effectively ended the colonial era of Brazil even before gaining its political independence as the newly relocated Portuguese monarchy allowed the opening of Brazilian ports, particularly for the benefit of British merchants, thus
terminating Portugal domination via commercial monopoly (Becker and Egler 1992; Skidmore 2009). It also helped to preserve the territorial integrity of Brazil, which at that time constituted a disarticulated group of provinces, and promoted a sense of national identity around the authority of the monarch (RPEB102 2008).

In addition, the presence of the Portuguese Court helped the early development in Brazil of a bigger and more numerous diplomatic corps vis-à-vis the rest of Latin American countries, which played an important role in seeking recognition of the Portuguese monarchy in Brazil from other European powers of the time even before declaring its independence in 1822 (Cheibub 1985). The diplomatic bureaucracy also had active participation in obtaining international recognition of Brazil’s independence after its declaration in 1822. This effort included the mediation of the United Kingdom in exchange for costly economic concessions, but Brazilian negotiators were successful in both achieving political recognition of independence and the maintenance of the nation’s territorial unity (Cheibub 1985; Furtado 2006). Thus, both during the initial period of the Portuguese Court in Brazil (1808-19821) and the subsequent era of Brazil as an independent nation under a monarchical-imperial regime (1822-1889), the diplomatic corps plays an instrumental role in the national formation of the Brazilian state.

It is however, after the transition from empire to republic that occurred in 1889 that the Brazilian foreign office acquires its legendary reputation as the main architect of the country’s international relations under the charismatic leadership of José Maria da Silva Paranhos, Jr., also known as the Baron of Rio Branco. His most important contribution was the peaceful settlement of limit disputes with all of Brazil’s neighbors,118 thus helping to

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118 First, as Brazilian representative in international arbitrations (i.e., Argentina, 1895; France-French Guiana, 1900), and later as Minister of Foreign Relations (1902-1912) in negotiations of border treaties with neighboring countries (i.e., Bolivia, Treaty of Petrópolis, 1903, which resulted in the addition of the state of Acre, originally Bolivian, to Brazilian territory; Peru, 1904/1909; Great Britain-English Guiana, acceptance of 1904 arbitral award; Venezuela, 1905; Netherlands-Dutch Guiana, 1906; Colombia, 1907; and Uruguay, 1909 ratifying Treaty) (Lafer 2009).
consolidate the current borders of Brazil. The skillful work of Rio Branco was instrumental in resolving one of the most important issues in the formation of the national state, that is, the consolidation of its territory through a final delimitation of frontiers (Cheibub 1985).

Besides this crucial diplomatic legacy, the Baron is also considered the institutional founder of the modern Brazilian foreign ministry: “Rio Branco was the great institution-builder of Itamaraty, which until today uses and benefits from the Baron’s aura as a great Brazilian figure to construct its authority” (Lafer 2009, 46). Thus, the example of Rio Branco, his approach to diplomacy as well as policies and practices attributed to him are symbols of the esprit de corps of the Brazilian Foreign Office that provide diplomats with a distinct sense of historical continuity for their mission (Cheibub 1985).

Since then, the Ministry of Foreign Affairs underwent processes of rationalization and bureaucratization, particularly after the Revolution of 1930, as part of the centralization and modernization of the state apparatus that contributed to consolidate its corporate presence. By the mid-1980s, Itamaraty was home to a long-standing, highly professional and specialized bureaucracy with a powerful organizational culture that enforced the cohesive behavior of its members and helped to maintain the stability and continuity of Brazil’s foreign policy (Castelan 2009).

To a large extent, these institutional characteristics were inspired by a time-honored belief that “Brazil is destined to become a major power […] deserving […] a special place on the international scene in political and strategic terms” (Saraiva 2010, 153). This cohesion was reinforced by paradigmatic foreign policy concepts and orientations, such as independence, autonomy, diversification and universalism (Mello 2000). In addition, Itamaraty developed a distinctive capacity to study and learn from its historical experience, which Celso Lafer (2002) refers to as “institutional memory.”

All these attributes contributed to the distinct political respect that Itamaraty
commanded at the domestic level, and legitimized its role within the Brazilian political system as the agency in charge of the country’s international affairs (Castelan, 2009). Under these conditions, the Foreign Office was able to display considerable political autonomy in the conduct of Brazil’s foreign affairs.

Yet, the attitude of the President plays a crucial role in determining the degree of decision-making autonomy enjoyed by the diplomatic bureaucracy. According to Lima (1994):

> in the Brazilian presidentialism, the parameter the regulates the diplomacy’s degrees of freedom or relative autonomy is the Presidential authorization, be it by omission or by delegation of power –like in the Medici government (in some areas of foreign policy) and Figueiredo- be it by affinity of points of view, like in the cases of Geisel and Sarney (cited in Mello 2000, 63; translated from Portuguese).

**The Structure of Foreign Economic Policymaking**

The interaction between President Sarney and his cabinet as well as related governmental bureaucracies in connection with the decision to initiate and develop a bilateral integration project with Argentina can be best analyzed within the institutional setting dedicated to foreign economic policy that existed in the mid-1980s. This structure had emerged during the 1950s and 1960s to serve the needs of the Brazilian import-substitution model of industrialization according to the dictates of the dominant developmentalist doctrine of that time. Its central function was to erect an effective wall of protection around domestic markets in order to promote national industrial production (Fernandez 2011).

In the 1970’s, Brazilian policymakers added fiscal and credit incentives to Brazilian exports, particularly of manufactured goods, in order to promote trade surplus balances that could mitigate the danger of external strangling due to the deterioration of the terms of trade between Brazil and developed countries (Fernandez 2011). In the 1980’s, the external debt crisis demanded also a deliberate policy to restrict imports mainly to generate trade surpluses and thus liquid resources to confront debt payments (Flecha de Lima 1997; Marques 2008).
These orientations guided the institutional structure overseeing foreign economic policy in Brazil at the time Sarney became President.

Within that structure, the National Council of Foreign Trade (CONCEX\textsuperscript{120}) occupied an overarching position. It was an inter-ministerial coordinating body in charge of formulating Brazil’s overall foreign trade policy (Law 5025 1966). Its responsibilities included: 1) to establish the guidelines of the foreign trade policy, 2) to adopt control measures for the operations of foreign trade when necessary for the national interest, 3) to state its position regarding the convenience of Brazil’s participation in international accords or agreements related to foreign trade, and 4) to formulate the basic guidelines to be followed in the policy for financing exports.

The law established that CONCEX would be presided over by the Minister of Industry and Commerce. The other members were the Minister of External Relations, the Minister of Planning and General Coordination, the Minister of Finance, the Minister of Agriculture, the Minister of Transportation, the Minister of Mines and Energy, the President of the Central Bank of Brazil, the President of the Banco do Brasil S.A., and the Director of the Foreign Trade Desk (CACEX\textsuperscript{122}). The Minister of External Relations would preside in place of the Minister of Industry and Commerce in case of his/her absence or impediment.

The CONCEX had an Executive Commission (EC), which was in charge of issuing the norms and resolutions necessary for the implementation of the foreign trade policy determined by the plenary session of the Council. It was integrated by the Secretary General of External Policy or the Deputy Secretary General for Economic Affairs of the Foreign Affairs Ministry, the Director of Exchange of the Central Bank, the President of the Customs Policy Council (CPA\textsuperscript{123}), the Director of CACEX, a representative from the Ministry of

\textsuperscript{120} Portuguese acronym for Conselho Nacional do Comércio Exterior.
\textsuperscript{122} Portuguese acronym for Carteira de Comércio Exterior.
\textsuperscript{123} Portuguese acronym for Conselho de Política Aduaneira.
Planning and General Coordination, a representative from the Ministry of Finance, and the head of the National Superintendent’s office of the Merchant Marine. It was also presided over by the Minister of Industry and Commerce, or, if necessary, by the Foreign Office’s representative. In addition, the Banco do Brasil S.A and the External Relations Ministry were in charge of executing norms, guidelines and decisions of the CONCEX at the domestic and international levels, respectively.

In practice, two agencies, the Customs Policy Commission (CPA\(^{124}\)) and the CACEX, played distinct dominant roles in the shaping of Brazil’s foreign trade policy. The CPA had been created in 1957 as the Council for Customs Policy to establish the basic guidelines of the Brazilian tariff policy regarding imports with a view to adapt the customs mechanism to the needs of economic development and to protect national production. The Council, presided over by the Finance Minister, was integrated by other state ministries, leaders and public organs as well as by representatives of the business and labor sectors.

In 1979, the Council was terminated and its functions were transferred to its Executive Commission, which was in turn renamed Customs Policy Commission. The possibility of affecting the country’s tariff structure by simple resolutions of an agency like the CPA not only ensured a fast processing of the measures that avoided the slow approval procedures of the legislature but it also contributed to the Council’s autonomy by insulating it from political pressures (Augusto da Silva 2012).

The CACEX was created in 1953 as a foreign trade desk of the Banco do Brasil to replace the former Export-Import Desk that had been launched in 1941 as part of the same bank institution (Banco do Brasil, 2012). CACEX was responsible for issuing export and import licenses, controlling prices, weights, measures, classification, qualities and types declared in export and import operations, financing the production and export of industrial

\(^{124}\) Portuguese acronym for Comissão de Política Aduaneira.
goods, acquiring or financing import goods necessary to supply the internal market, prepare
foreign trade statistics in cooperation with other organs of the Finance Ministry. Its director
was directly appointed by the President of Brazil (Law 2145 1953).

According to Veiga and Iglesias (2002),

CACEX had an almost monopolistic institutional power in foreign trade policy
[amid] the disorderly expansion of the state that generated the juxtaposition of
competences but also made viable the occupation of spaces by certain agencies,
bureaucratic groups, etc." (2002, 57).

The Ministry of Finance (MF) could also exercise considerable influence over foreign
economic policy by virtue of its key role in the formulation and execution of national
economic policies. It had jurisdiction over monetary policy, credit and financial institutions,
public debt, international economic negotiations, oversight and control of foreign trade,
taxation, and other important areas. Thus, for example, the MF exercised a de facto power to
cancel decisions made at plenaries of the CONCEX through simple ministerial decrees
(Castelan 2009). Overall, the MF was viewed as an institution predominantly technical and
impervious to political interferences that enjoyed considerable autonomy in the formulation
of economic policies (Loureiro and Abrucio 1999).

The Ministry of Industry and Commerce (MIC) was another governmental actor with
influence on foreign economic policy. It had been created in July 1960 by consolidating
various departments and institutes dedicated to industrial property, technology, private
insurance and capitalization, coffee, alcohol, mate, pine wood, salt, siderurgy, heavy
machinery, and others. The MIC was reorganized in 1961 by establishing its jurisdiction over
the study and execution of economic and administrative policy related to industry and
commerce. This mainly included responsibility over industrial development and the
expansion of domestic and foreign trade (MDICE 2012). The fact that the MIC presided over
the plenary meetings of the CONCEX and its Executive Commission was an indicator of its
relative importance.
The Ministry of External Relations (MRE) was well positioned to influence the decision-making process related to foreign economic policy and thus to also affect policy outcomes. Institutionally, Itamaraty enjoyed significant autonomy and was considerably insulated from societal pressures. By law, the foreign office was not only entitled to preside over the CONCEX plenary in case of impediment by the Minister of Industry and Commerce, but it was also authorized to do the same in the sessions of the Executive Commission of CONCEX. In addition, the MRE had exclusive jurisdiction over the execution of CONCEX policy decision at the international level.

How has this institutional structure actually functioned to produce policy outcomes? What roles have its different components played in determining foreign economic decisions? The answers to these questions mainly depend, as already noted in the examination of the Mexican case, on the type of issues under consideration, the President’s leadership style, the kinds of ideas and approaches that were prevalent among key decision-makers, and the actual distribution of political power among the actors.

**Ideas and Strategies**

The prevalent ideological paradigm among the Brazilian political elite in the mid-1980s was still the national-developmentalism that emerged and consolidated in the 1950s and 1960s (Saraiva 2010). It was this ideational framework that had accompanied and inspired the strategy of economic development based on a protectionist, state-led, import-substitution industrialization, which had relied on increasing levels of foreign debt. The relative success of this strategy in Brazil vis-à-vis other Latin American economies had resulted in high rates of economic growth and the development of a relatively complete and modern industrial park that positioned the country among the ten major economies of the world (Vizentini 1999).

The severe impact of the 1982 financial crisis had forced Brazilian policymakers to
abandon the reliance on foreign savings but it did not immediately cause a paradigmatic crisis leading to a sudden discarding of national-developmentalism. After all, that ideational framework appeared to have worked well in shaping a successful model of economic development and remained dominant among the Brazilian political elite (Saraiva 2010).

Moreover, the arranged transition to civilian government that brought Sarney to the Presidency in 1985 did not bring any significant change in the country’s economic strategy. Sarney’s initial governmental cabinet had been selected by Tancredo Neves, and was subject to the programmatic commitments of a broad political coalition that opposed the military and demanded democratic reforms, but it was overwhelmingly influenced by the same tenets of national-developmentalism that had guided most of the military regime’s economic policies (Vizentini 2003).

According to Lamounier (2003):

Contrary to what happened in Argentina and Chile, in Brazil the state-centered industrialization model continued to be perceived by many as successful until the early 1990s, causing the Brazilian business and technocratic elites to send Congress contradictory signals as to which route it should take. This is why the Constitutional Congress of 1987-88 paid little attention to deep fiscal crisis underlying Brazil’s chronic super-inflation and wrote much of the economic model inherited from the Vargas era (1930-54) into the new constitution (2003, 282).

This helps to explain why the immediate reaction of the Sarney administration was to simply adjust the import-substitution model to the constraints imposed by the new international environment rather than to break new ground with a program of economic liberalization:

Our long-term vision is guided by the financial limitations concerning the external debt. This reality, in fact, impedes and complicates considerations over any pretended liberalization of imports. We are well-informed about theoretical discussions over the meaning of free trade, but we cannot give up the administration of imports (Flecha de Lima 1997, 143; translated from Portuguese).

It was under the influence of the prevailing developmentalist/autonomist ideational framework and its concomitant economic strategy that the process of economic integration with Argentina was initially undertaken. Indeed, this ideational framework permeated the entire institutional scaffolding supporting the elaboration and implementation of foreign
economic policy (Hirst 1997).

Yet, by 1988 there were signs that the elite-wide consensus around national-developmentalism was beginning to crack under the weight of domestic political and economic crises and external challenges. Thus, Sarney began to publicly call for a greater international economic integration of Brazil in order to advance its process of economic modernization. In one speech on occasion of the Day of the Diplomat on April 20, 1988 at the Palace of Itamaraty, the President noted the need to combine the defense of traditional principles of Brazilian diplomacy (i.e., national independence, self-determination, non-intervention, equality among nations, pacific solution of conflicts) with innovation in the approach to new realities:

Foreign policy presupposes a permanent effort of reflection and critical analysis. The phenomena that we deal with in this field are extremely complex. They resist the categorical certainties and the rigors of ideologies […] They require from each of us constant intellectual improvement and a spirit open to innovation and change (RPEB57 1988, 11; translated from Portuguese).

He emphasized the need to adopt a more open attitude toward a rapidly changing world economy in order not to miss the opportunity to modernize:

We have a compromise assumed with modernity. It is time that we discard anachronistic conceptions and practices. The state is capable of much […] During the last decades, however, the state magnified itself in such manner in Brazil that it ended by inhibiting instead of stimulating. I am firmly committed in reversing that trend. Brazil cannot remain against the tide of History. Today, what is noticeable in the world is the notable growth of new opening-up tendencies. Not as an ideology; but as a necessity to remove the obstacles to progress. Success is on the side of those have learn to incorporate themselves into the great international currents of trade, investments and technological innovation: to those who have known to add instead of to divide; to open-up and integrate themselves instead of remaining isolated; to acquire, in summary, the conditions to compete adequately, of fully participating in the great adventure of development that leads to increasing levels of prosperity and welfare (1988, 12; emphasis added; translated from Portuguese).

Moreover, the president began to openly acknowledge that the strategy of economic development based on protectionist import substitution industrialization no longer served

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125 Amorim (2003) notes that “In the last years of the Sarney government –I remember this because I was in the Ministry of Science and Technology- the economic authorities of the Ministry of Industry and Commerce were already looking into the need of giving more competitiveness to the Brazilian industry, of reducing the levels of protection…” (2003, 2).
Brazilian national interests. Thus, on May 19, 1988, at the time he announced a new program of gradual economic liberalization, he declared:

> With the measures that today we announce we want to achieve the modernization of the Brazilian economy [...] The model of imports substitution played both a fundamental role and a historical role in the Brazilian industrialization. But today it is exhausted and it is compromising our development. The moment to reorient our economy has arrived so that we are capable of taking a big qualitative leap that allows Brazil to occupy a new place in the international division of labor. The world lives a technological revolution. It modifies economic costs. It reorients comparative advantages. It introduces new activities, and with them emerge new forms of hierarchy in the economic relations [among nations]. Therefore, it is not sufficient to industrialize or to export manufactures in order to diminish the degree of international economic dependency (Sarney 1988, 234-35; emphasis added; translated from Portuguese).

The announcement included four decree-laws that defined a new trade policy and a new industrial policy for Brazil. The measures facilitated the inflow of imports by reducing or extinguishing tariffs affecting them, allowed a freer flow of exports by eliminating almost all existing previous control requirements, reorganized the Council of Industrial Development, and determined financial instruments for an industrial policy. Yet, the new liberal trade policy did not lead to a change in the type of integration scheme that Brazil was willing to pursue with Argentina, which remained a long, gradual process of managed trade liberalization.

**Itamaraty and Bilateral Integration with Argentina**

The Brazilian Foreign Office played a leading role vis-à-vis other ministries or bureaucratic agencies in the bilateral process of economic integration with Argentina that eventually led to the creation of Mercosur. This role was noticeable by the prominent responsibilities assigned to the diplomatic bureaucracy throughout the different stages of the project during the Sarney administration. Thus, for example, when in 1985 Presidents Sarney and Alfonsín made the joint Iguaçu Declaration and created the High-Level Mixed Commission for Cooperation and Bilateral Economic Integration to examine and propose programs, projects, and modalities of economic integration, they designated their respective
Ministries of External Relations to preside over it\textsuperscript{126} (RPEB47 1985).

In the same manner, when Presidents Sarney and Alfonsín later signed the Act for Brazilian-Argentine Integration in July 1986 and established a bilateral commission dedicated to the execution of the program, the Foreign Offices of both countries were assigned the important responsibility of coordinating the work carried out by the commission, as well as that performed by diverse work groups created by the Act’s protocols. The Brazilian side was composed of the Ministries of External Relations, Finance, Industry and Commerce, and by the Secretary General of the National Security Council. The commission also included the business sectors of both countries (RPEB50 1986b).

Also, as the two Presidents decided in November 1988 to deepen the process of bilateral integration through the Treaty of Integration, Cooperation and Development (TICD), they charged their respective Foreign Offices with the responsibility of coordinating the work of the Commission for the Execution of the TICD as corresponding National Secretaries. The Commission was to be co-presided by both heads of state and composed by four ministers from each country.

According to Ambassador Rubens Barbosa,\textsuperscript{127} the role of the Ministry of Foreign Affairs was substantial in shaping the outcomes of negotiations related to integration:

\begin{quote}
…In all these areas, the creation of LAFTA, the creation of LAIA, the negotiation of the PICE with Argentina within the program of economic integration and cooperation, and the creation of Mercosur, there was a predominant role of the foreign ministries […] Those who prevailed in those negotiations were always the foreign ministries and especially the one from here, from Brazil (MRE 2011; 42; emphasis added; translated from Portuguese).
\end{quote}

\textsuperscript{126} Also, among other sectorial subcommissions created on that occasion (energy, transportation and communications, science and technology) the Foreign Ministries of both countries were to preside over a Sub-commission of Economic and Trade Affairs charged with the promotion of economic and trade cooperation and the diversification of trade between both nations as well as with third markets (RPEB47 1985, 32).

\textsuperscript{127} Brazilian Permanent Representative to the Latin American Integration Association (LAIA), Under Secretary-General for Regional Integration, Trade and Economic Affairs in the Foreign Affairs Ministry, and Coordinator of the Brazilian Section of Mercosur, the Southern Cone Common Market. As claimed by himself, “I was Ambassador in the LAIA, I initiated structurally here in Itamaraty the department and later the Under-secretariat of integration, I have accompanied and was the first national coordinator of Mercosur” (MRE 2011, 41; translated from Portuguese).

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Hirst (1997) also credits the Foreign Affairs Ministries of Argentina and Brazil with leading the political conception and orientation of the bilateral integration process. In a similar vein, Sarney (1997) credits Paulo Tarso Flecha de Lima, Secretary-General of the Foreign Office during his Presidency, as “one of the principal collaborators in the conception and implementation of the integration policy with Argentina” (1997, 12). Mello (2000) finds that President Sarney and Itamaraty acted in consonance when pursuing the policy of bilateral integration with Argentina as evidenced by the high degree of autonomy and support that the president provided to the diplomatic bureaucracy in this regard.

Seixas Corrêa (1996) confirms that President Sarney had an excellent rapport with the diplomatic bureaucracy from which invariably sought advice: “[i]t was perceptible the pleasure with which the president took care of the diplomatic questions, accompanying and personally orienting the work of Itamaraty” (1996, 364). Also, Sarney instituted a formal diplomatic counseling post within the presidency to directly advise him on international matters, although the job was never clearly defined in the organizational structure. The new office was successively led by ambassadors Rubens Ricupero (1985-1987) and Seixas Corrêa (1987-1990) (Seixas Corrêa 1996; Danese 1999).

Three main factors seem to better explain Itamaraty’s preeminent role with regard to Brazil’s policy of integration with Argentina. One is that the Brazilian diplomatic bureaucracy had historically played a leading role in all the international negotiations where Brazil had participated. In this regard, Lafer (2002) notes that Itamaraty’s “tradition and experience in that area date from the time of the Empire. All the international negotiations about trade since the Second World War were led by Itamaraty” (2002, B6).

Another factor is that the Foreign Office had been at the forefront of the diplomatic rapprochement with Argentina starting in the late 1970s and had maintained control over the bilateral relationship until the end of the Figueiredo administration. The last military
President was better inclined to improve relations with Argentina than his predecessor, President Geisel, during whose term the relationship had reached the lowest point in many years (Barbosa 1996). Moreover, contrary to Geisel’s leadership style, Figueiredo tended to rely more on the Foreign Office’s initiative and thus delegated considerable autonomy to its diplomatic work (Pinheiro 2000).

Also, Itamaraty had handled the initial bilateral conversations immediately after Alfonsín became President of Argentina where the possibility of economic integration appeared to have been first examined at the request of Argentina (Barbosa 1996; 2010). These initial talks did not prosper under Figueiredo, most likely because the Brazilian leader despite his favorable attitude toward Argentina seemed reluctant to undertake any commitments in that direction amid the domestic complications of the ongoing transition process toward a civilian government. In this manner, by the time Sarney became President, Itamaraty was already better positioned to lead and shape the next stage in the bilateral relationship compared to other ministries and governmental agencies.

The third factor that favored Itamaraty’s prominent influence over Brazil’s decision to engage Argentina in a project of economic integration was its leading participation in the creation and development of LAFTA in 1960s and 1970s until its demise in 1980 when it was replaced by LAIA, in which creation the Ministry of Foreign Affairs also played a key role (Barbosa 1996). For Brazilian policymakers, LAFTA and LAIA were mainly instruments

To coordinate domestically the policies for LAFTA, the Brazilian government created the Commission for the Affairs of the Latin American Free Trade Association (CLC) to be presided by the Foreign Office, which could also designate the Executive Secretary. It was integrated by representatives of Itamaraty’s Department of Economics and Trade, the Customs Policy Commission, the National Council of Economics, the National Bank of Economic Development, the Superintendence of Currency and Credit, the Desk of Foreign Trade and the Desk of Foreign Exchange of the Banco do Brasil, the Brazilian Rural Confederation, the National Confederation of the Industry, and the National Confederation of Commerce. The CLC was superseded in 1981 by the National Commission for the Affairs of LAIA (CNAALADI) with the Executive Secretariat of the Ministry of Foreign Affairs (Barbosa, 1996). Also, the Foreign Office was in charge of the Brazilian Permanent Delegation to LAFTA headquartered in Montevideo, Uruguay (Decree 1961), and continued representing Brazil when LAIA replaced LAFTA.
for the attaining of more favorable conditions for the expansion of exports, particularly of manufactured products (Barbosa 1996). The Foreign Office’s activity in these regional organizations had allowed it to accumulate an extensive and valuable experience with respect to intra-regional trade and integration (Marques 2008).

Moreover, as a highly professional bureaucracy Itamaraty had applied itself to extract lessons from that experience identifying what in its view were the weaknesses and strengths of Latin American integration (Lafer 2002). Thus, for example, in the view of Itamaraty’s negotiators LAFTA limited the country’s options for deepening economic integration in order to serve its own national interests and preferences:

[that clause][130] [that forced LAIA members to apply the ‘most-favored-nation’ treatment across the board in the region] then was from the beginning an important inhibiting element of the negotiation process within LAIA […] The negotiations had turned themselves thus merely formal; they complied with the objectives, but did not materially advance in the sectors where there really was domestic production, where the competition could improve the quality of the products, etc… (Marques 2008, 65-66, translated from Portuguese).

But in their assessment of LAFTA they also acknowledged the positive role it had played:

…it certainly created the bases for what exists today, be it the Andean Group, be it the Mercosur. That is, LAFTA helped to create a cobweb of interests within the region that did not exist before (Marques 2008, 64; translated from Portuguese).

This kind of systematic analysis and evaluation had enabled the Ministry of Foreign Affairs to develop a coherent approach to advance Brazil’s economic interests in the region. By the mid-1980s, Itamaraty had a well-informed appraisal of the potential benefits derived from a close economic partnership with Argentina not only because of its leading role in the noted diplomatic rapprochement but also because of its experience in trade negotiations within LAIA.

Brazilian foreign policymakers had favored the creation of LAIA in 1980 to replace LAFTA because in their view it would introduce the kind of flexibility that allowed them to

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[130] Article 18: Any advantage, favor, franchise, immunity or privilege practiced by one Contracting Party with regard to a product originating from or destined to any other country, shall immediate and unconditionally be extended to the similar product originating from or destined to the territory of the remaining Contracting Parties (TM60 1991).
envision a regional strategy that was in consonance with Brazil’s interests. In particular, it allowed Brazil to engage Argentina in a bilateral integration project:

…the great change between LAFTA and LAIA was that the most-favored-nation clause of regional scope was eliminated. That means that Brazil was able to negotiate with Argentina, or with Venezuela […] or with any other country on strictly bilateral bases […] there was an important qualitative and quantitative leap in terms of an increase in the granting of concessions and in term of an increase in tariff preferences because negotiations had started to reflect strict sensu the negotiating and competitive capacity of each of the economies… (Marques 2008, 66; translated from Portuguese).

Furthermore, LAIA’s foundational document provided more leeway for Brazil to pursue integration schemes outside the limits imposed by Article 24 of the General Agreement on Tariffs and Trade. The new Clause of Habilitation agreed at the Tokyo Round of GATT negotiations (1973-1979) allowed developing-country members of an integration agreement to grant preferential tariffs to one another without being obligated to make them extensive to all participants:

Because of that, the TM-80 does not have a deadline for the conformation of free-trade zones, or a common market, or anything, because the legal base […] does not oblige countries to comply with the objectives and the parameters of the Article 24 of the GATT… (Marques 2008, 80; translated from Portuguese).

This helps to explain why Brazil favored the drafting of trade and integration agreements within the legal framework of the Association:

[the fact of having been formalized within LAIA stems from the need […] of counting with the legal protection of the Montevideo Treaty so that those integration schemes did not have to be extended to third countries by force of Article 1 of the GATT (Marques 2008, 79; translated from Portuguese).

Itamaraty maintained its leading role in shaping the bilateral process of integration during the Sarney administration. Thus, for example, the “managed trade” approach used in the design of the 1986 PICE and the 1988 Treaty to ensure an equilibrated balance of trade between the two countries had been developed by the Foreign Office to deal with Brazil’s trading partners in LAIA. It reflected a concern by Brazilian negotiators that trade imbalances, which were usually in Brazil’s favor, might induce other LAIA members to seek reductions in the imports of its manufactures:
…[with] allegations by certain countries that the deficits they exhibit in the trade with Brazil stem from our non-tariff barriers with the consequent threat of reorienting their trade to our detriment…[there was]…the need to have a positive and realist negotiating position, adequate to each case…[making necessary]…to consider that the withdrawal of our non-tariff restrictions to products from countries with chronic payment difficulties, with scarce diversification of exportable products, and with whom we have ample and constant surplus, do contribute to defend our flow of exports to these countries and our interests… (confidential telegram no. 241 to the Brazilian delegation to LAIA, September 19, 1986; translated from Portuguese).

Therefore, Itamaraty advocated making concessions to trading partners to facilitate a more balanced trade as long as it facilitated the maintenance of export markets for Brazilian manufactures:

…in any trade accord, the lesser the number of products negotiated in it, the stronger will be the exchange imbalance tendencies, and the more intense the pressures will be felt to seek equilibrium through the withdrawal of concessions (what tends to reinforce in the medium- and long-terms, the failure of the agreement as useful and desirable instrument to expand and diversify intra-regional trade) […] in those conditions, the Brazilian government is willing to include in all trade agreements […] mechanisms judged adequate to promote, to the benefit mainly of the deficit country, a dynamic re-composition of the exchange equilibrium through the widening of the number and reach of concessions/products… (confidential telegram no. 381 from Itamaraty to Brazilian delegation to LAIA, November 4, 1987, 2; translated from Portuguese).

This deliberate policy of trade concessions had been implemented with Argentina in 1985 when President Sarney ordered the purchase of oil and wheat from that country to ensure that it would remain a secure market for the flow of Brazilian exports and a willing partner for integration. Olavo Setúbal, then Minister of Foreign Relations in the Sarney administration, explained the rationale behind those initiatives in his testimony before the Foreign Relations Committee of the Brazilian Senate on September 4, 1985:

Brazil and Argentina face today similar problems of domestic and external nature. We [Setúbal in a meeting with Argentine President Alfonsín and Foreign Minister Dante Caputo] dedicated special attention to the imbalances currently observed in the balance of trade, which are resulting in the accumulation of increasing surpluses in favor of Brazil. That disparity has structural causes that must be studied carefully because its maintenance at excessive levels creates problems in sensitive areas in both countries. The interest in the preservation of an adequate exchange with Argentina led me upon my return to Brazil, to propose the President of the Republic the convocation of an inter-ministerial meeting to study possible governmental measures to ameliorate the imbalances currently observed. The meeting took place under the direction of the President resulting in the decision to channel portions of our imports of wheat and oil toward that country. In this manner, it was evidenced our disposition to maintain a more balanced trade relationship with Argentina. The discordant
situation that was being observed constituted a true challenge to the attainment of one of the basic concerns of our foreign policy, which is the cooperation between developing nations. If two countries that have so many affinities – to which it adds the physical proximity - were not to be capable of establishing a common line of effective action, it will be very difficult for the South-South cooperation to become a reality between Brazil and other developing partners (RPEB46 1985, 72; translated from Portuguese).

Another indication of Itamaraty’s leading role in shaping the bilateral project with Argentina is found in the Brazilian policy of initially restricting the integration process with Argentina to a purely bilateral undertaking. The Foreign Office expressed this position in unequivocal terms during the negotiations leading to the 1988 Treaty of Integration, Cooperation and Development (TICD):

The simultaneous opening of negotiation processes with third countries […] would contribute to hinder and not to accelerate, the realization of the best common interests of Brazil and Argentina under the cover of the Treaty […] The presence of Uruguay from the very start of the implementation of the Treaty will represent an extraordinary political complication to the achievement of the common major objectives of Brazil and Argentina […] Therefore, the possible candidates to join the Treaty, including Uruguay, must wait that Brazil and Argentina are able to transform into concrete reality the commitments that solemnly assume by its text before including others. Otherwise, the Treaty will not be more than another expression of empty rhetoric, of doubtful implementation, like other solemn documents that in the past dealt with Latin American integration […] For all the reasons above considered, it is indispensable a period of five years and the procedures suggested by the Brazilian writing of article ten, in its two paragraphs (Secret telegram no. 1814 from Itamaraty to the Brazilian embassy in Buenos Aires, November 28, 1988; translated from Portuguese).

Itamaraty’s preference for a restrictive policy in connection with the program of integration with Argentina had already been expressed previously on occasion of a proposal from the European Economic Community (EEC) to cooperate with such project, in particular within the field of telecommunications, including Uruguay. It is important to briefly examine the reaction of the Ministry of Foreign Affairs to the EEC initiative because it not only reveals the defensive concerns of Brazilian policymakers for preserving the Southern Cone of the Americas as a zone reserved for the strategic interests of Brazil, but also because it shows

131 Confidential telegram no. 371 addressed to the head of the Brazilian mission in the EECC (Braseuropa) and other various dependencies of Itamaraty, October 24, 1988. Cited quotes were translated from Portuguese.
how they viewed the European integration process vis-à-vis the one being developed in the South America.

The memo from Itamaraty’s headquarters began by firmly stating that

…the Brazilian position, approved at the highest level, is that the Program of Integration Brazil-Argentina is an exclusively bilateral initiative, and that this restrictive characteristic is directly related to its possibilities of success […] the participation of Uruguay in the Southern Cone process of integration responds to circumstances, inclusive geographical and historical, unique and exclusive of Uruguay […] Uruguay’s participation occurs as a rule through bilateral understandings either with Brazil or with Argentina, and exceptionally through specific trilateral initiatives over specific themes […] therefore the position of Brazil regarding the relations between the Southern Cone process of integration with other countries or groups of countries is essentially restrictive (1988, 1-2).

Additionally, it noted that the EEC initiative, initially made in 1986, had been successfully opposed by Brazil at the time in defense of its own economic interests:

The Brazilian motivation was to avoid that through this quadripartite initiative the EEC was able to transfer its technological designs of systems and equipment of telecommunications as norms for the Latin-American market that would make unviable the future commercial possibilities of Brazilian equipment and systems in the regional market (1988, 2).

In this regard, the memo highlights that Brazil already had the technology that could serve as the norm for Latin America:

[Brazil is] the only source of systems and equipment with its own scientific and technological development in Latin America: the system TROPICO developed by system TELEBRAS, and already in pilot implementation in the Brasília-Rio-São Paulo axis. That system could be adopted a technological standard by the rest of the Latin American countries by reason of the decisive size of the Brazilian market (1988, 2).

In contrasting the European integration project with the one being developed by Brazil and Argentina, Itamaraty sharply emphasizes the differences in circumstances and political motivations affecting both schemes:

The present realities and the historical evolution of the European and the Southern Cone processes of integration are so different, inclusive regarding the respective political motivation of each one, that it is difficult to conceive any concrete possibility of useful transfer of experiences between the two processes. In effect, the EECC results from the post-war economic reconstruction with total support from the United States in a cold-war context; whereas the integration of the Southern Cone inserts itself in the overall integration of Latin America, and it is directly related to the region’s own conditions of economic survival and with its political stability and social development in a context of competition for international markets with the
United States and with the own EEC. In this sense it is symptomatic that the Program of Integration Brazil-Argentina is being contested by the United States in the GATT (1988, 3).

Itamaraty concludes that “[u]nder those conditions, the initiative of quadrilateral cooperation on integration suggested by the EEC does not interest Brazil […] that is, Brazil does not agree with any proposal that means to give content to multilateral initiatives about the process of integration of the Southern Cone” (1988, 3).

Other Bureaucratic Actors

The work of the Foreign Office in connection with the bilateral integration project with Argentina was configured with various other governmental agencies like the Finance Ministry, the CPA, the CACEX and the external sector of the Central Bank (Camargo 2000). According to Hirst (1997),

…that articulation was not always harmonious. In the beginning it was not easy to obtain the collaboration from the operators of the Foreign Trade Desk of the Banco do Brasil (CACEX) that was oriented toward protecting the local industry and ensuring a favorable trade balance. Another bureaucratic stronghold that tried initially to block a rapprochement with Argentina was the Agriculture Ministry, committed with a young –and highly subsidized- production of wheat in the South of the country. In contraposition, other sectors defended the integration with Argentina as a manner of loosening Brazilian protectionism, which would open the road for a general reform of the foreign trade policy. That was, for example the position of the Customs Policy Commission (CPA) and the Finance Ministry (1997, 517).

These different attitudes toward the bilateral integration project appears to have depended on two main factors: the political/ideological orientation of their policies, which in turn was shaped by the prevalent thinking among those responsible for the direction of the agency in question, and their role within the institutional structure dedicated to foreign economic policymaking. The adverse reaction of CACEX was certainly conditioned by its original function as administrator of the system of protection for the national industry, which had eventually evolved into a bureaucratic management of import controls to achieve trade surpluses. But it was also shaped by the ideas that prevailed among its team of highly qualified technical experts who were trained within the developmentalist approach to foreign
In contrast, the Customs Policy Commission had become a supporter of economic integration with Argentina despite sharing with CACEX a similar protectionist function, which was to shape Brazil’s structure of import tariffs to facilitate the development of the national industry. The decisive factor in this case appears to have been the different political/ideological orientation of the CPA’s leadership in the mid-1980s, which favored gradual economic liberalization (Velasco e Cruz 2004). It was the CPA which had been at the forefront of the trade policy reform initiated by President Sarney in 1988 with support from the Minister of Finance (Castelan 2009).

Ultimately, the initial opposition of the CACEX and the Ministry of Agriculture was overpowered by the stronger coalition of governmental actors (Foreign Affairs Ministry, Finance Ministry, and Customs Policy Commission) favorable to the integration project with Argentina that also enjoyed the decisive political support of the President. Yet, there were indications that those who were united in their support for integration with Argentina were also divided into two main currents: one that favored a gradual economic liberalization and another that was more inclined to maintain the defensive stand of traditional economic developmentalism.

These contending views were reflected within the diplomatic bureaucracy. Thus, for example, Paulo Tarso Flecha de Lima (1997), Itamaraty’s Secretary General, argued that “the continuity of the dynamism of our process of development demands a coherent and gradual policy of liberation of imports” (1997, 173). In contrast, Paulo Nogueira Batista, Chief of the Brazilian Mission to the General Agreement on Tariffs and Trade in Geneva, had contended in 1987 that “we are not ready to ground our work on the candid theoretical thesis of free

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132 The CACEX and the CPA had also developed an inter-bureaucratic dispute for spheres of influence because the former ruled through administrative controls that often preempted or distorted the effects of the tariffs controls designed by the latter (Castelan 2009; Fernandes 2010).
trade according to which one should choose unilaterally for liberalization” (cited in Castelan 2009, 95).

This phenomenon seemed to evidence that the nature of the bilateral integration project with Argentina was able to accommodate conflicting views on trade policy. Liberal-minded policymakers saw in it an instrument to begin the process of reforming and opening up of an old bureaucratic system of protection that no longer served the needs of an economy with a substantial level of industrialization and that impeded its modernization. Developmentalists viewed it instead as a vehicle for enhancing the country’s capacity to project its international autonomy.

**National Politics**

The levels of analysis examined in the previous two sections go a long way toward explaining the main factors that led Brazil to seek economic integration with Argentina and eventually to create Mercosur due to the considerable insulation and autonomy enjoyed by the Brazilian President and the relatively small circle of bureaucratic actors involved in foreign economic policymaking. Yet, a satisfactory explanation of the domestic political dynamics that shaped Brazil’s policy for regional integration in the Southern Cone of the Americas requires to expand the analytical scope to other relevant actors within the Brazilian polity, including business organizations, labor unions, Congress, and political parties.

**Business Sector**

The project of economic integration in the Southern Cone emerged from the political initiative of Brazilian and Argentine policymakers\(^\text{135}\) rather than from a market-driven

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\(^{135}\) Soraya Saavedra Rosar, Executive Manager of the International Negotiations Unit of the Brazilian National Confederation of Industries (CNI), confirms that the initiative came from state policymakers: “The beginning of the Mercosur was the Treaty between Brazil and Argentina during the Sarney government. It started without any participation from the business sector. There were no consultations, not any type of consultations. It was a political decision of the governments of the time to try to bring the two countries together.” (Personal interview by author in Brasília on July 27, 2010; translated from Portuguese).
demand of the business elites,\textsuperscript{136} which initially showed disinterest and even resisted the idea. Once under way, the integration project essentially advanced as a “top-down” process led by presidential diplomacy and managed by state bureaucracies. Overall, business participation in political decision-making was kept at a minimum and was subordinated to the political agenda of governmental actors (Hirst and Lima 1990; Manzetti 1993; Camargo 2000; Cason 2000; Schneider 2001; Malamud 2005; Gardini 2006; Marques 2008).

The governments of Brazil and Argentina acknowledged the need to incorporate business and other societal actors to the integration process in joint declarations and signed agreements that also established the institutional setting for their participation. The bilateral Iguazú Declaration issued in November 1985 established that integration “must be deepened by the Governments with the indispensable participation of all the sectors of their national communities (RPEB47 1985, 30; translated from Portuguese). Moreover, the Declaration included a decision to create a High Level Mixed Commission for Bilateral Economic Cooperation and Integration that should be composed by governmental and business representatives from both countries “to examine and propose programs, projects and modalities of economic integration” (1985, 30).

The act that created the 1986 Program of Economic Integration and Cooperation (PICE) confirmed that “the execution of the Program will have the active participation of the business community.” In addition, it provided for the participation of business entrepreneurs from Brazil and Argentina in the Commission for the Execution of the Program (RPEB50 1986b, 95). It restricted however, that participation to the execution phase of the integration

\textsuperscript{136} According to Hirst and Lima (1990), there were some market-driven experiences of industrial cooperation between Brazilian and Argentinian entrepreneurs in the years that preceded the bilateral integration program. These experiences were limited by the macroeconomic realities in both countries and did not develop into business-led demands for integration but contributed to its subsequent conception: “[t]he attempts of industrial complementation realized in the period preceding the launching of the Program of Integration allowed to delineate a map of potentialities that were subsequently exploited by its [governamental] authors” (1990, 82; translated from Spanish).
process, thus leaving up to the governmental negotiators the task of shaping the actual agreement.

The private sector did participate in the drafting of sectorial protocols for the integration program. Thus, for example, a June 1986 confidential memo from Itamaraty reproduces a draft of the protocol for the food and drinks industry that was jointly prepared by the Brazilian Association of Food Industries (ABIA) and the Argentine Coordinating entity of the Food Products Industry (COPAL) for the consideration of the governments of Brazil and Argentina. The text reflected the consensus reached by both industry organizations in meetings that had taken place in Buenos Aires, Argentina.

In contrast with the PICE and the Iguazú Declaration, the 1988 Treaty of Integration, Cooperation and Development (TICD) did not make any provision for the formal participation of the business community in the Commission for the Execution of the Treaty (TICD, 1988). This appears to confirm a trend in which the participation of the business community was confined to consultations with governmental bureaucrats (Gardini 2006).

Despite its initial reticence to the integration project, the Brazilian business sector objected to being marginalized from the decision-making process leading the integration project. This is evidenced in a memo from the Brazilian embassy in Buenos Aires to Itamaraty giving account of a two-day meeting between Brazilian and Argentine businessmen on December 6, 1985, which noted that

Luis Eulalio Vidigal, President of the FIESP […] criticized the governmental bureaucracy that until today had not permitted greater participation of the private sector in the bilateral negotiations. According to Vidigal, businessmen are only consulted about specific points, but they are not allowed a more active participation in an overall vision of the ‘packages’ in discussion. That partial and incomplete participation would be one of the reasons for the obstacles observed when opposed sectorial interests appear (confidential telegram no. 2124, December 6, 1985; translated from Portuguese).

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137 See confidential memorandum no. 1684, November 25, 1986; translated from Portuguese.
Brazilian entrepreneurs routinely complained to policymakers about the inadequate representation of their interests in international trade negotiations. A memo from Itamaraty provides an example. It notes that business representatives expressed their concern “over the presumed disadvantages that an ‘indiscriminate opening’ (sic) of the Brazilian market to imports under LAIA-based agreements, particularly to those coming from Argentina, can represent for the national industry” (1985, 2; emphasis in the original). Additionally, the report notes that “the representatives of the private sector expressed their dissatisfaction with the modalities presently available to express their interests either during the process of elaboration of the Brazilian bargaining position or at the proper negotiations in Montevideo [LAIA headquarters]” (1985, 2). The memo also notes that it was “clear the intention of business representatives of seeking additional mechanisms to achieve greater influence over the Brazilian trade policy for Latin America” (1985, 3).

Explaining the Weak role of Business

Several factors account for the lack of active participation of business in the process that led Brazil to pursue economic integration with Argentina. They are: the level of bilateral economic interdependence, the prevalence of import substitution policies, the structure of the national policy-making process, and the relative weakness of the Brazilian business sector as a collective actor.

The level of bilateral economic interdependence prevalent by the mid-1980s was

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141 It describes a meeting in São Paulo between representatives of the Foreign Office (i.e., the head of the Subsecretaria-Geral de Assuntos Econômicos e Comerciais –SGAC, and the Chief of the Divisão Econômica da América Latina –DECLA), the Executive Secretary of the Customs Policy Commission, and representatives of Brazilian business organizations of various industrial sectors from around the country to analyze topics related to their participation in trade negotiations with Argentina and in LAIA (confidential telegram no. 0fC2001-00029, February 10, 1989; translated from Portuguese).

143 Some of the existing mechanisms at that time were representation in the Comissão Nacional para Assuntos da Associação Latino-Americana de Integração (CNAALADI) and participation in the Tariffs Negotiation Work Group of the Commission through the National Confederations of Agriculture, Commerce and Industry as well as the inclusion of representatives from these entities in the Brazilian delegations authorized for negotiations in LAIA (1985, 2).
insufficient to unleash a sustained market-driven process of bilateral economic integration, notwithstanding the above-noted limited spontaneous experiences of industrial cooperation that took place in the years that preceded the program of bilateral integration (Hirst and Lima 1990).

Such a process could have motivated business entrepreneurs in both countries to take the initiative in demanding from their respective governments the supply of appropriate integration agreements to minimize transaction costs and mitigate political risks that could jeopardize their potential gains from deeper economic interaction (Mattli 1999). The disconnect between the two neighbor economies is noted by Selcher (1985),

The two economies, first and third in size in Latin America, have shown no great propensity to trade with each other in spite of proximity. There has been no tendency for mutual trade to climb upward as a percentage of total trade of either partner144 [...] Even in its Third World trade drive, now badly blunted, up to 1981 Brazil found greater success elsewhere; since 1982 it has been concentrating the bulk of its promotion efforts on Western and East Asian markets, particularly on the U.S. The outstanding characteristic of Argentina's trade pattern, since 1980, has been the upsurge in sales to the USSR, which was aided by the partial U.S. grain embargo on Moscow (1985, 39).

The prevalence of import substitution policies in both countries was a second factor closely related to the previous one, which tended to discourage economic actors, particularly multinational corporations (MNC) and large domestic economic groups from seeking bilateral economic integration. According to Chudnovsky and Lopez 2002),

During ISI, the basic motivation of multinational companies [...] was the desire to exploit the protected domestic market [...] Their subsidiaries had little production complementation and/or linkage with their peers elsewhere in the company, and the little they exported went mainly to Latin American markets [...] These subsidiaries performed better in terms of productivity, technology assets, etc., than locally owned firms, but because they were operating in an environment that offered relatively few incentives for technical progress and efficiency-seeking, the technologies and productivity levels they worked with tended to fall further and further behind international best practice. In certain respects, in short, the subsidiaries of

144 “…from 1981 to 1985, Argentina’s exports to and imports from Brazil averaged 5.9 percent and 13.8 percent of its trade. The comparable figures for Brazil were 3 percent and 2.8 percent respectively” (Manzetti 1990, 113). Moreover, “Argentina's total exports to Brazil fell from 765 million dollars in 1980 to 496 million dollars in 1985, while Brazil's exports to Argentina fell from 1.1 billion dollars to 611 million during the same period” (Manzetti 1990, 113).
multinationals showed a tendency to accentuate the main problems of the substitution model (2002, 153).

Under those conditions, the tendency of MNCs to focus on the preservation of domestic markets led them to resist integration in Latin America (Chudnovsky 1993; Barbosa 2011).

A similar logic was at work in the case of large domestic economic groups:

By the 1980s, the economic groups (GE) of local capital had reached significant positions in the economies of Argentina and Brazil based on strategies that generally privileged the domestic markets and that included a significant degree of diversification as well as forward and backward vertical integration. These strategies had flourished in a context where not only the competition with imported production was closed but where also there was a set of instruments through which the respective states helped the expansion of such groups […] During the stage of import substitution industrialization (ISI), in a context of inward-oriented economic policies, the Argentine and Brazilian firms concentrated their operations in their respective domestic markets (Chudnovsky and Lopez 2002, 115-16).

Another important factor was the structure and dynamics of the national policy-making process in Brazil, which since the 1930s was characterized by the centralization of power in the office of the Presidency and its relative insulation from societal influences. Moreover, the political culture associated with this institutional arrangement emphasized the normative conception that the government was the only legitimate interpreter of national interests and thus facilitated the exclusion of private groups from any relevant participation in the political decision-making process (Leff 1968).

An additional related variable was the relative inadequacy of the Brazilian business sector as a collective actor (Olson 1965):

An analysis of the business sector’s performance […] reinforces the conclusions of the main studies concerning the trajectory of business through the various phases of the Brazilian industrialization: its weakness as a collective actor despite the relative strength of some of its sectors, the importance of its organizational resources, the economic caliber of many enterprises and the weight of the personal connections of segments of these elites with the state authorities (Diniz and Bresser-Pereira 2007, 14).

Schneider (2001) contends that the “overall strength of associations (or the intensity of collective action in them) and their capacity to represent business” (2001, 168) is one of the two major factors influencing the participation of the private sector in trade and integration
negotiations. The other is government’s openness to business involvement in decision-making. In the case of Brazil, Schneider mainly explains the lack of strong business participation in trade negotiations by the organizational deficiency of its associations:

...peak sectorial associations, especially CNI [National Confederation of Industry] and FIESP [Industry Federation of the State of São Paulo], appear very strong at first glance and have large professional staffs, but they do not represent members well or resolve conflicts among them, largely because they are still regulated by corporatist legislation dating from the 1940s (which makes membership compulsory and over-represents marginal sectors) (2001, 170).

In other words, the corporatist legacy in Brazil appears to have been a major impediment for the development of powerful, economy-wide representative business associations that could have made possible a stronger collective action and thus greater political capacity to influence the policy-making process. Yet, while this factor may have played a role in facilitating the marginalization of the private sector, it is important to note that the same factor under different circumstances did not preclude Brazilian business, particularly its industrial sector, from having an active participation in the political life of the country (Mancuso 2007; Mancuso and Oliveira 2006).

From Corporatist Control to Autonomous Assertion

The structure of corporatist representation in Brazil originated in the 1930s when Vargas created the Estado Novo and the country began to transition from an agro-export economy toward an import-substitution model of industrialization. Like in the case of other late-comers to industrialization the state in Brazil assumed a leading developmental role to promote and direct the process of economic modernization. A highly centralized and

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146 For example, “The National Confederation of Industry (CNI) played an important leading role in the business organization and mobilization that occurred in the 1990s, in both the movement for the reduction of the Brazil cost and the creation of the CEB [Coalizão Empresarial Brasileira -Brazilian Business Coalition] (Mancuso and Oliveira 2006, 149; emphasis in original). The CEB was a multi-sectorial business entity formed to participate in ongoing processes of international negotiations such as in the case of the Free Trade of the Americas.

147 This account of corporatist business-state relations is mainly based on Diniz and Vericat (1995), unless otherwise noted.
interventionist state configured its role at the top of the “commanding heights” through a corporatist institutional framework of interest intermediation.

In this manner, representative organizations of business and labor lost their autonomy and were subordinated to state control. The emerging corporatist structure was marked by its sectorial character due to the low degree of centralization and concentration and territorial dispersion of the local representative class organizations as the institutional design did not include the formation of peak multi-sectorial entities.

In practice, contrary to the case of labor, business was allowed to have direct representation of its interests in the governmental bureaucracy through admission in various councils and commissions where it played a consulting role in connection with areas of economic policy. Thus was established a privileged negotiation venue where business could present its demands to the state. This practice that flourished during the 1940s and 1950s was continued and expanded during the military regime (1964-1985), which increased the number of consulting commissions.

At the same time, the organized representation of business interests in these forums was discouraged thus leading to the establishment of informal, personal links between governmental bureaucrats and business entrepreneurs: “businessmen participated in decision-making instances not as representatives of a class but as prestigious leaders or as heads of enterprises with strong economic weight” (1995, 81). These informal relationships evolved into the configuration of networks that Cardoso (1975) aptly labeled “bureaucratic rings,” and which coexisted with the representation of interests through sectorial national associations.

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148 Direct state control over the corporatist system was evidenced by the requirement that associations or unions obtain authorization before their creation, or the power to intervene in the internal elections for leadership positions, and the capacity to interfere in the entities’ everyday operations (Mancuso 2007).

150 In this regard, Leopoldi (2000) notes that the military regime withdraws from the FIESP, the FIRJAN (Federation of Industries of Rio de Janeiro) and the CNI their role as representative organizations of the industry and establishes a direct relation with firms and entrepreneurs bypassing the official corporatist system without eliminating it (2000, 300).
The Council of Economic Development (CDI), the National Monetary Council (CMN) and the CACEX, for example, utilized these two forms of business participation.

In this manner, state-led industrialization in Brazil was shaped by an institutional framework that incorporated the representation of interests in a hierarchical, non-competitive structure without the mediation of political parties, where business-state relations developed mainly on the basis of a system of sectorial bargaining and bipartite cooperation between business leaders and governmental bureaucrats. This institutional arrangement favored a fragmented representation of interests in the business sector and discouraged the formation of economy-wide peak organizations.

Subsequent changes in the structure of interest representation of the Brazilian industry starting in the 1950s contributed to the autonomous assertion of business from state control but also furthered fragmentation. Those changes led to the formation of a hybrid system of representation where corporatist entities coexisted with a newly developed arrangement of parallel private associations (Leopoldi 2000).

The new private entities included business firms concentrated in the corridor Rio de Janeiro- São Paulo that belong to advanced sectors of the Brazilian industry, such as the Associação Brasileira da Infraestrutura e Indústria de Base (ABDIB) (Brazilian Association of Infrastructure and Basic Industries), the Associação Brasileira da Indústria de Máquinas e Equipamentos (Abimaq) (Brazilian Association of Machinery and Equipments),

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151 The three peak sectoral corporatist organizations are the Confederação Nacional da Indústria (CNI) (National Confederation of Industry), the Confederação Nacional do Comércio de Bens, Serviços e Turismo (CNC) (National Confederation of Commerce) and the Confederação Nacional da Agricultura e Pecuária (CNA) (National Confederation of Agriculture). They all group federations from all states. The CNI was born in 1933 as the Confederação Industrial do Brasil (CIB) and became part of the corporatist system in 1943 under its current name. The CNC was founded in 1945. The CNA was established in 1951 as the Confederação Rural Brasileira (CRB) and became the CNA in 1965 (Schmitter 1971; Leopoldi 2000).

152 Includes those industries that initiate the productive process transforming raw materials into semi-elaborated products that other industries utilize for their final transformation (i.e., siderurgy, which transforms iron into steel, which in turn will be used by other industries in the manufacturing of consumer goods or equipment) (Sanchez 2013).
the Associação Nacional de Fabricantes de Veículos Automotores (Anfavea) (National Association of Motor Vehicle Manufacturers) and the Associação Brasileira da Indústria Elétrica e Eletrônica (ABINEE) (Brazilian Electrical and Electronics Industry Association) (Leopoldi 2000).

A similar process occurred in other sectors of the Brazilian economy during the 1980s. In the financial sector emerged the Associação Brasileira de Bancos Comerciais e Múltiplos (ABBC) (Brazilian Association of Commercial and Multiservice Banks) and the Confederação Nacional das Instituições Financeiras (CNF) (National Confederation of Financial Institutions). In the agricultural sector, the Organização das Cooperativas Brasileiras (OCB) (Organization of Brazilian Cooperatives) and the Associação Brasileira de Agribusiness (ABAB) (Agribusiness Brazilian Association) joined older existing ones like the Sociedade Rural Brasileira (SRB) (Brazilian Rural Society) and the Sociedade Nacional da Agricultura (SNA) (Agriculture National Society) (Gros 2003).

The 1988 Constitution introduced reforms to the corporatist scheme of interest representation by essentially ending the intervention of the state in the associational system and legally acknowledging the existence of a dual system of representation:

On one side, there is the legal semi-corporatist system constituted by a more flexible associational structure and with capacity of self-management that insists in maintaining links with the state regarding the capture of resources (via association dues) and the monopoly of representation by sector and by region (associational uniqueness). On the other, the existence of private representation organizations is admitted constitutionally [i.e., the parallel entities of the industry] (Leopoldi 2000, 302; translated from Portuguese).

Also, the significant size reached by the Brazilian state-owned business sector by the mid-1980s helps to explain the relative weakness of the private sector vis-à-vis the government inasmuch as the growth of the former kept in check the further development of the latter.153

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153 Interestingly, it was in protest against the growing statization of the economy that the private sector mobilized for the first time against the military government since its instauration in 1964. It occurred towards the end of 1974 during the term of General Ernesto Geisel (1974 – 1979) amid the economic crisis generated by the first oil shock. Brazilian entrepreneurs demanded the withdrawal of the state...
The country had one of the largest public sectors outside the former Communist bloc. In 1985, Brazil’s public sector accounted for just under half of the net assets of its 8,000 largest firms, for about a quarter of their sales, and for a fifth of their total employment. As late as 1990, before the administration of Fernando Henrique Cardoso began to privatize state-owned assets, 38 of Brazil’s 100 largest firms were still government owned (Brainard and Martinez-Diaz 2009, 5).

Another variable affecting the capacity of the business sector to act as a unified collective actor is the relative lack of consensus around a common program of political and economic demands. The division of the business community into various economic segments (i.e., large domestic groups, multinationals, medium and small enterprises) with diverging interests and political/ideological orientations is the direct immediate cause of the lack of consensus (Leopoldi 2000).

The emergence of new entities in the 1980s like the Instituto Liberal, the Instituto de Estudos para o Desenvolvimento Industrial (IEDI) and the Pensamento Nacional das Bases Empresariais (PNBE), which attempt to interpret the interests of the business sector and provide political orientation according to differing ideological orientations, express the diversity of tendencies that have developed within the business community (Bianchi 2001).

Itamaraty’s strategists and negotiators were mindful of the fragmentation of business interest representation and acknowledged the difficulties that it entailed for the participation of the private sector in economic policymaking. A confidential memo \(^{154}\) from the Brazilian representative in LAIA addressed to Itamaraty noted this situation:

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\text{…it would be pertinent to analyze the impact on the agreements derived from the diversification of the economic agents in many sectors by the emergence of new enterprises and by movements of verticalization and/or horizontalization of production from which resulted fragmentation of sectorial representation at the national level […] certain class entities find themselves today in the delicate circumstance of acting simultaneously as representatives of export and import interests with all the difficulties derived from it.}
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\(^{154}\) Confidential telegram no. 2007 from BRASALADI to EXTERIORES, June 8, 1988; translated from Portuguese. It reported on a meeting held with representatives of business associations to exchange ideas about the functionality of sectorial trade agreements within LAIA.
A subsequent confidential memo from Itamaraty’s headquarters repeated this assessment verbatim while also noting “the increasing divergence of interests among the enterprises and business associations involved in the pre-negotiation of the agreements.”

**Labor Unions**

Organized labor had no meaningful participation in the political decision-making process that led Brazil to adopt a policy of bilateral economic integration with Argentina (Vigevani 1996; Camargo 2000; Mariano 2011). Two main interrelated factors appear to best explain labor’s lack of any relevant role in the integration project during the Sarney administration. They are: the traditional elitist structure of Brazilian foreign policymaking and labor’s relative weakness as a collective actor.

I already discussed in previous sections of this chapter the restrictive character of the institutional configuration that shielded Brazilian policymakers from societal actors. Thus, here I only examine the constraints that prevented labor from asserting greater influence over state policymaking. I argue that the lack of a unique and independent peak labor organization has been a major contributing factor to such weakness, which the persistence of the corporatist legacy and the political fragmentation of the working class have fostered.

**Estado Novo and Suppression of Labor’s Independence**

The authoritarian regime that emerged from the Revolution of 1930 under the leadership of President Getúlio Vargas (1930-1945), also known as the Estado Novo (1937-45) attempted to reform and modernize Brazil via a top-down political conception permeated with elitism and paternalism (Erickson 1977). Its basic policy toward social actors like business and labor was to control their development and political participation “from above” so as to ensure social harmony and the subordination of their particular interests to the state-

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155 Confidential telegram no. 0fC2001-00029 from EXTERIORES to BRASALADI, February 10, 1989; translated from Portuguese. It established governmental policy for the negotiation of trade agreements within LAIA.
defined national interest. The regime thus promoted their political subordination to the state and preempted their independent organization as collective actors.

The Estado Novo conditioned workers’ right to organize and access to material and welfare to their submitting to state control. To this end it suppressed existing independent unions and replaced them with “highly constrained, state-penetrated labor organizations” (Collier and Collier 2002). In this manner, the nascent Brazilian working class was incorporated into the national polity under the aegis of a corporatist state. During this period, Vargas opted for not organizing an “official” political party to channel support for his regime and avoided mobilizing the working class and other popular sectors to advance his political agenda. The Estado Novo did not formally incorporate the labor sector in the state structure. Instead, it established indirect administrative control over it through an elaborate institutional framework that ensured its subordination to the authority of the state.

Three major pillars sustained this corporatist architecture. One was a hierarchical arrangement of labor unions, federations and confederations that existed legally only by express authorization of the state acting through the Ministry of Labor. Corporatist laws aimed to prevent the development of a united labor movement by only providing for the formation of separate confederations representing workers of different economic sectors and excluding the possibility of establishing a legally-recognized unique peak labor organization.

The role of the official labor unions was to serve the needs of affiliated workers but they were constrained by legally-established obligations to conciliate in labor conflicts and to cooperate with the government in the promotion of social solidarity under the principle that the defense of any private interests was to be subordinated to the demands of the national interest as interpreted by the state. Control over the labor movement was reinforced by the government’s right to intervene labor organizations and to monitor their activities by

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160 The description of the Brazilian corporatist system is based on Erickson (1977).
demanding submission of transactions records. The threat of intervention, through which the state could take possession of the union’s headquarters, seize its funds and replace its leaders, was used as deterrent against non-compliance with labor policies or union activism against the state’s political objectives.

Another key component of the corporatist framework was a grid of labor-courts that served to mediate in worker-employer disputes mostly according to legal corporatist principles that tended to subordinate private interests to the general public interest as represented by the state. The main goal of this mediation system was to ensure political stability and the safeguarding of the socio-economic order through the peaceful resolution of class conflicts.

The third constituent piece was a social security system aimed at providing welfare benefits (i.e., health care, retirement) to workers that could ameliorate the effects of widening income gaps and unequal distribution of wealth in order to encourage social harmony. This system was to be sustained economically by equal contributions from workers, employers and the federal government. Yet, in practice, it tended to rest mostly on workers’ own contributions.

Democracy, Labor Activism, and Resilient Corporatist Laws

A non-violent civic-military coup deposed Vargas in 1945 and inaugurated a period of electoral democracy in Brazil (1946-1964). The new era brought considerable political freedom for the labor movement that facilitated its mobilization and politicization, but it did not end state control over workers’ organizations. The Constitution of 1946 sanctioned democratic institutions but it also preserved the corporatist system of state-labor relations (Erickson and Middlebrook 1982).

The new dynamics that emerged within the Brazilian polity, which was marked by an alliance between activist labor leaders and populist politicians, prompted the mobilization of
the working class against the corporatist constraints imposed on the labor movement. Yet, this movement confined itself to reforming rather than destroying the legal framework that ruled over state-labor relations (Erickson and Middlebrook 1982).

Three main parties dominated the political scene during this period. Two of them, the Social Democratic Party (PSD) and the Brazilian Labor Party (PTB), were conceived by Vargas toward the end of the Estado Novo in anticipation of the political opening that followed his demise in 1945 (Erickson and Middlebrook 1982). The PSD reflected the interests of the civil-military alliance that had supported the Revolution of 1930 and had benefitted under Vargas’ presidency. The PTB was organized by former Ministry of Labor officials to channel the interests of organized labor under the populist banner of Varguism. The third important political party, the National Democratic Union (UDN) mainly represented the liberal anti-Vargas sector of the Brazilian economic elites. A fourth party, the Communist Party of Brazil (PCB) became an important political force within the working class that tended to establish a tactical alliance with the populist PTB (Collier and Collier 2002).

Organized labor achieved significant gains that translated into labor leaders’ considerable influence on national politics during the 1946-1964 period. Still, “Vargas’ labor law […] remained almost untouched through 1964” (Erickson 1977, 30). The main explanation for this phenomenon mainly resides in the political ideas that guided the two parties with the most influence within the working class, the PTB and the PCB.

From different political perspectives, neither of these two organizations promoted an organization of the labor movement that was independent from the official unions controlled by the state. The PTB had been inspired by Vargas and created from the corporatist trade union structure, and was thus ill-prepared to change the corporatist framework of state-labor relations (Gomes and Prado 2011). The PCB had in the main accepted the existing corporatist
structure and merely worked to reform aspects of it as part of its policy of alliance with national populism. Thus it did not seek the development of an autonomous union movement (Erickson 1977; Mendes and Lowy 1976). In addition, the UDN, notwithstanding its professed liberalism and its substantial presence in Congress, did not make any serious attempt to change the corporatist labor laws (Erickson 1977).

Military Rule and Autonomous Reassertion in the 1970s

The military coup that overthrew Goulart in 1964 brought an end to the labor activism that predominated during the period of electoral democracy (1946-1964). It established a strict authoritarian control over unions via repression, intimidation, and new legislation that “refined and supplemented the techniques of the Estado Novo in order to make the corporative system work better as an instrument of social control” (Erickson 1977, 157).

Yet, a vigorous resurgence of workers’ struggles in the late 1970s started a process of autonomous reassertion by the Brazilian labor movement that created favorable conditions for the erosion of the corporatist structure of union control by the state. This new labor movement survived the authoritarian regime and continued during the administration of President Sarney.

Redemocratization and Fragmentation of Organized Labor

The 1988 Constitution reflected labor’s advances by recognizing freedom of association and forbidding state interference in union affairs (Gomes and Prado 2011). However, the failure to reach a unifying consensus among the various internal currents of the labor movement prevented the emergence of a powerful single economy-wide peak labor organization.

Instead, two new top labor unions emerged in the 1980s, the Central Única dos Trabalhadores or CUT (Workers’ Unique Central) and the Confederação Geral dos Trabalhadores or CGT (Workers’ General Confederation). A third major labor organization,
the Força Sindical or FS (Labor Union Force), emerged in 1991 from a split of the CGT (Castro and Wachendorfer 1998; Mariano 2011). Thus, despite the more autonomous organization of labor and the weakening of state control, the fragmentation of representation among competing organizations constrained labor’s further development as a collective actor.

The common point of origin of the CUT and the CGT was the First National Conference of the Working Class (I Conclat\textsuperscript{162}) jointly convoked by 183 union leaders from 13 states in August 1981 with the objective of discussing the fate of the labor movement. The Conference took place in Praia Grande, a coastal municipality of the state of São Paulo, with the presence of more than 6,500 union delegates representing not only a wide spectrum of associations, sindicatos, federations and confederations,\textsuperscript{163} but also all the different factions that were active within the labor union sector. The event was a major organizational feat in light of the existing authoritarian rule and the constant surveillance by state security agencies (L. Rodrigues 1991; Castro and Wachendorfer 1998; ABC 2012).

The I Conclat made a call for unitary action of urban and rural workers against the recessive economic policy of the military regime. Among other demands,\textsuperscript{164} it pressed for the immediate replacement of the old corporatist labor legislation by a new National Code of Labor devised with the participation of the labor sector that included recognition of union autonomy and the right to create an independent peak labor organization. The conference established a pro-CUT (Central Única dos Trabalhadores) commission in charge of organizing the foundation of a new central labor organization for the following year (ABC 2012).

\textsuperscript{162} Portuguese acronym for Conferência Nacional da Classe Trabalhadora.
\textsuperscript{163} According to L. Rodrigues (1991) there were present 480 urban sindicatos, 384 rural sindicatos, and 32 associations of public employees, 176 pre-union associations, 33 urban federations, 17 rural federations, and four confederations.
\textsuperscript{164} These included: employment stability, reduction of working hours to 40 per week, the right to strike and to unionize for public employees, end of the exception laws, amnesty, freedom of political organization, convening of a National Constituent Assembly, agrarian reform, and others.
The Conclat was a landmark attempt to unify the Brazilian labor movement. Yet, the wide diversity of interests and political orientations of the delegates conspired against the formation of a unique peak labor organization. The different currents tended to coalesce into two main blocs that contended around three main issues: the immediate creation of a single national top labor organization, the freedom of labor association as proposed by the International Labor Organization (ILO) Convention 87,\textsuperscript{165} and the call to a national strike as an ultimatum to the government in case the demands presented by the I Conclat were not accepted.

One of these two groups, the Bloco da Reforma (Reform Bloc), also known as Labor Unity (US\textsuperscript{166}), constituted a broad coalition of very diverse labor forces that included members or followers of the Brazilian Communist Party (PCB), the Communist Party of Brazil (PC do B), the Revolutionary Movement 8th October (MR-8), the Brazilian Democratic Movement Party (PMDB), moderate and traditional labor leaders like Joaquim dos Santos Andrade,\textsuperscript{167} also known as Joaquinzão, and liberal labor unionists with links to the AFL-CIO like Antônio Rogério Magri, leader of the Electricians’ Union of São Paulo (L. Rodrigues 1991).

Labor Unity opposed the immediate launching of the CUT arguing that the conditions were not ripe for it. It also opposed the ILO’s Convention 87 because it allowed the formation of more than one trade union of the same professional category in the same district, thus violating one of the basic tenets of the corporatist system. In this regard, the Reform Bloc was in favor of the unions’ autonomy from state control but defended the principle of a single union (unicidade) in labor representation, and was thus against absolute freedom to

\textsuperscript{165} Convention no. 87 is also known as the Freedom of Association and Protection of the Right to Organise Convention, which was adopted in 1948 (ILO87 2012).
\textsuperscript{166} Portuguese acronym for Unidade Sindical.
\textsuperscript{167} Joaquim dos Santos Andrade was a long-standing leader of the Steel Workers’ Union of São Paulo who was widely perceived as a pelego, a term used to identify those union leaders considered too close to the state, quiescent and bureaucratic (Carvalho 1997, 73).

Finally, the adherents of *Unidade Sindical* resisted using the threat of a national strike as a means of pressuring the government to accept workers’ demands. They emphasized the need for labor’s tactical moderation in order to ensure the achievement of the country’s transition toward a democratic regime, which they considered to be the dominant political objective. In their view, the strike ultimatum risked a confrontation with the military that could jeopardize that main goal (L. Rodrigues 1991).

The other labor bloc, also known as “authentic” or “combative,” assumed the opposite posture with regards to the three contending issues. It urged the immediate launching of a national peak labor organization, pressed for the call to a national strike if workers’ demands were not met, and defended the idea of workers’ freedom of association. This group included two main currents. One of them comprised a new generation of independent labor leaders forged in the labor struggles of the 1970s that had little or no experience in political participation. Luiz Inácio Lula da Silva, leader of the Metal Workers’ Union of São Bernardo do Campo and Diadema, and one of the original founders of the Workers’ Party (PT) in 1980, was one of these labor leaders that began to be known as “authentic,” in contraposition to the more traditional ones.

The other strand of unionism within this bloc was represented by so-called “union oppositions” (*oposições sindicais*) or labor activists, mostly members of the Catholic left or of small Marxist, Leninist or Trotskyist groups, that prioritized the formation of factory committees (*comissões de fábricas*) as autonomous workers’ organizations outside the structural control of the unions’ leadership. In contrast, the members of the “authentic” current gave preeminence to the union delegate as representative of the factory committees which should be structurally subordinated to the leadership of the *sindicatos* (L. Rodrigues, 1991).
The conflict of views between the two major blocs resurfaced inside the pro-CUT commission once the conference was over. The commission became particularly divided on whether to call a new congress within a year to launch the CUT as decided by the I Conclat. The radical sector was in favor but the moderate faction, which had a majority within the commission, was not, arguing that it would be difficult to adequately prepare a new labor congress only one year after the I Conclat. In the end, a divided commission could not agree on calling a new congress in 1982 to create the CUT (L. Rodrigues 1991).

Disenchanted with the lack of consensus, the more radical bloc, led by Lula da Silva, decided to call the First National Congress of the Working Class in August 1983 without the participation of the labor union representatives of Unidade Sindical and formally launched the CUT. In turn, the moderate sector decided to convene a congress of its own in November of the same year from which it emerged a Coordenação Nacional da Classe Trabalhadora (National Coordination of the Working Class), also known as Conclat. In 1986, via another congress, this organization became the Central Geral dos Trabalhadores (CGT) (Workers’ General Central) with Joaquim dos Santos Andrade (Joaquinzão) as its first president (L. Rodrigues 1991).

As to be expected, the CUT and the CGT diverged in their conceptions about the organization of the labor movement and in their attitudes toward the Sarney’s government. The CUT, politically associated with the PT, defended the notion of a “free trade unionism” based on the ILO’s Convention 87, and proposed a “unionism of contestation” (sindicalismo de contestação) characterized by a more critical and confrontational attitude than its counterpart.

The CGT on the other hand, supported the principle of trade union unicity and the

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169 Currently, the CUT is present in all economic sectors. It is considered the major peak labor union in Brazil and Latin America, and the 5th largest of the world. It accounts for almost 7.5 million associated workers, more than 22 million base workers, and 3,438 affiliated entities (CUT 2012).
validity of the CLT\textsuperscript{171} inherited from the Vargas labor regime. In addition, being politically closer to the governing coalition of the PMDB, it tended to support the regime of the New Republic\textsuperscript{172} (L. Rodrigues 1991; Barbiero and Chaloult 2001).

The division of organized labor into two competing peak trade unions in general weakened the capacity of the Brazilian working class to play an influential role in state policymaking. Yet, in the case of the process of economic integration with Argentina initiated in 1986 with the Program of Economic Integration and Cooperation (PICE) there was an additional factor that contributed to labor’s relative political marginalization.

Neither the CGT nor the CUT appeared adequately prepared to demand an active role in the integration project initiated by the government which seemed distant from the most immediate national problems that occupied their attention. Thus, despite the important differences that separated them, the two organizations coincided in not opposing the process of gradual economic integration between the two countries. Instead, they adopted a reactive attitude of critical support inasmuch as the project could promote economic development. They objected to the strict commercial character of the initiative while noting the need to incorporate the social question (Vigevani 1996).

**Congress**

The Brazilian legislature played a rather passive role vis-à-vis the Presidency in the political process that decided Brazil’s policy of bilateral economic integration with Argentina. The observed primacy of the Executive in this case reflects a historical pattern of relations between both branches of government where the Legislative has been relegated to a reactive function in the formulation of national policies (Kinzo, 1997). Several interrelated

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\textsuperscript{171} CLT is a Portuguese acronym for *Consolidação das Leis do Trabalho* (Consolidation of Labor Laws). It refers to the corporatist labor laws compiled by Vargas in 1943 (Erickson 1977).

\textsuperscript{172} The CUT for example, claimed that it had successfully obstructed the implementation of a social pact proposed by the Sarney administration that had been supported by the CGT, arguing that it would unfairly unload the burden of the crisis on the workers’ shoulders (CUT 1988).
features of the Brazilian political system and the existence of a broad elite consensus on economic strategy and foreign economic policy help to explain this interaction dynamics between Congress and the Presidency.

On the one hand, Brazil has a presidentialist system of government that is based on the separation and independence of the Executive, Legislative and Judiciary powers. In this scheme, the President tends to have a prominent position by being both head of state and head of government, and as such he/she usually has the initiative in determining the political direction of the country.

On the other hand, the final definition of public policies depends on the interaction between the Executive and the Legislative, which is based on the principle of checks and balances. Yet, as noted by Kinzo (1997), “the conditions for the mutual cooperation are not pre-defined and must be carefully constructed” (1997, 14). One intervening factor in this regard is the composition of Congress by political party and whether the party or the party-coalition of the President has a majority in both legislative chambers. But even if this is the case, there is no guarantee that legislators will necessarily support the President since the president and the members of Congress respond to different electoral bases: it is the totality of the Brazilian electorate that elects the president by the majority system, while the representation of parties in Congress is constituted on the basis of elections in every state of the Federation (by the system of proportional representation in the case of the Chamber of Deputies, and by the majority system in the case of the Senate). In this manner, in the name of the independence of the Legislative power, any member of the governmental coalition feels free to position himself/herself against the Executive if so pleases him/her (Kinzo 1997, 15).

Additionally, the Brazilian presidentialist system interacts with a highly fragmented multi-party system and a system of proportional representation that favors the establishment of coalition governments (Abranches 1988). However, the forging of a supporting majority for the President is complicated by the fact that it usually requires the enrollment of several different parties that may not always coincide in their backing of governmental policies (Kinzo 1997).
Finally, perhaps in response to the fragmentation of power that would make governing difficult, Brazilian presidentialism has developed the use of provisional decrees, a constitutional instrument that grants the Executive power enormous freedom of action by means of interfering in the functioning of the Legislative power (Kinzo 1997). In this manner, although the existence of various instances where numerous veto players173 (Tsebelis 1995) can complicate the policy-making process, the frequent use of provisional decrees by the president tends to constrain Congress to play a relatively passive role as a political actor (Kinzo 1997).

Hagopian and Power (2012) describe the means through which the Brazilian president is able to control the legislative process:

The Constitution gives the executive branch the exclusive right to initiate legislation fixing or modifying the size of the armed forces, creating public posts and reorganizing the Cabinet, and setting pay levels for public employees. Most crucially, only the president can initiate appropriations measures [...] The Brazilian president also can enact provisional measures, which take effect immediately upon issue [...] In addition to those areas in which the president has exclusive authority, he may also significantly alter the legislative agenda by requesting that Congress act on proposed legislation ‘urgently’ [...] Finally, the president enjoys veto power, which is a powerful instrument of executive authority [...] only rarely has Congress overridden a presidential veto (2012, 504-05).

In the particular area of definition and implementation of foreign policy this pattern of Executive-Legislature relations is more clearly tilted towards the supremacy of the Presidency. The majority view of the literature claims that the National Congress plays a limited and subordinated role in the elaboration of Brazilian foreign policy (Forjaz 2011).

Souza (2009) contends that “The role of Congress in the formation of foreign policy has been limited to little more than to validate (referendar) the international acts celebrated by the Executive Power” (page 130). For Lima and Santos (2001), Brazilian foreign policy, particularly that dedicated to foreign trade, has transitioned from being the object of a

173 Tsebelis (1995) defines veto player as “an individual or collective actor whose agreement is required for a policy decision” (1995, 293).
delegation of decision power from the Legislative to the Executive in the 1940s and 1950s to being the product of an abdication of that power in the 1990s:

The interpretation of Brazil’s post-war foreign trade policy history that we propose characterizes it as a case of slow, gradual and unexpected transition from a system of delegation to congressional abdication. That is to say, if at the beginning of the process it is perceived that Congress plays a relevant role for the success of the policy, gradually that function becomes mere ratifying power. The emphasis on the unexpected aspect of that passage means to say that the abdication does not emerge as an act of will or from a contract between Legislative and presidency, but changes in the political and economic scenario at different moments in time end up generating a situation in that the former founds itself entirely removed of the decision-making process in the area of foreign trade policy (2001, 132; translated from Portuguese).

The authors contend that the delegation of decision-making authority developed at a time when there was a basic consensus between Congress and the President around the import-substitution model of industrialization (ISI) consolidated in the 1940s and 1950s that required a protectionist foreign trade policy. During the period of military rule (1964-1985) Congress’ decision-making capacity was greatly reduced. Yet, as the authoritarian regime essentially continued the protectionist industrialization initiated in the 1940s, the assumption of delegation in favor of the Executive was carried over despite the practical elimination of the Legislative’s autonomy due the lack of significant disagreements over the appropriate foreign economic policy (Lima and Santos 2001).

Contrary to expectations, the transfer of power to a civilian government in 1985 did not bring a significant change in the pattern of Executive-Legislative relations that shaped the policymaking process compared to the one prevalent during the authoritarian regime:

The role of the National Congress was merely that of a ratifying power, that is, the Legislative Power continued to be devoid of guaranties for an efficient delegation in

174 According to Lima and Santos (2001), “In the strategy of economic growth according to the model of import substitution, the trade policy fundamentally served the objectives of the industrial policy. That is to say, the control of imports through adjustments in the exchange rate and the tariffs had the objective of protecting and stimulating Brazilian economic growth. It is important to remember that this model of growth was sanctioned by the National Congress when approving in 1957 the import tariffs law by which it delegated to the Executive the authority to implement the industrial policy through the establishment of selective import controls” (2001, 133; translated from Portuguese).
the area of foreign trade policy (Lima and Santos 2001, 140; translated from Portuguese).

The 1988 Constitution sanctioned the role of Congress as an *ex-post* ratifying power (Article 49) and endorsed the use of the so-called “presidential decrees,” a legacy of the authoritarian regime, as “provisional measures” (Article 62), which granted significant initiative to the Executive vis-à-vis the Legislative power. In this manner, the new Constitution did not provide for Congress the capacity to participate *ex-ante* in the definition of the country’s international policies (Lima and Santos 2001).

The participation of the Brazilian Congress in the policymaking process dedicated to the integration project of the Southern Cone largely reflected the noted asymmetric institutional relationship between the Executive and the Legislative. The 1988 Treaty of Integration, Cooperation and Development (TICD), for example, included a reference to the role of Congress in its Article 8 that evidences its subordinated role vis-à-vis the Presidency:

| The drafts of specific accords negotiated by the governments of the state-members [pursuant to the Treaty], before they are sent to their respective legislatures, will be appraised by a Joint Parliamentary Commission of Integration, an advisory body that will be composed by twelve members of congress from each country designated by the corresponding legislatures with two-year mandates (TICD 1988; translated from Portuguese; emphasis added). |

The delegation of authority from Congress to the Executive in the case of the foreign policy for regional integration, however, was not simply a case of relinquishment of power. It was based on a broad-based consensus among the political elite regarding the desirability of economic cooperation with other South American countries (Neves 2003). This basic agreement was perhaps best evidenced by the express mandate enshrined in the Article 4 of the 1988 Constitution that “Brazil will seek the economic, political, social and cultural integration of the peoples of Latin America with a view to form a Latin American community of nations” (Constitution 1988; translated from Portuguese). As noted by Neves (2003),

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175 “Article 62. In important and urgent cases, the President of the Republic may adopt provisional measures with the force of law and shall submit them to the National Congress immediately…” (Constitution 1988; translated from Portuguese).
The inclusion of a guiding principle of foreign policy so specific, such as the participation of Brazil in projects of regional integration, is an unprecedented occurrence in the constitutional history of the country. Moreover, the inclusion of the integrationist principle in the Federal Constitution demonstrates the peculiar form in which the National Congress delegated powers to the Executive with respect to foreign policy of regional cooperation (2003, 119; translated from Portuguese).

Further evidence of the existence of a basic convergence of preferences between the Executive and Congress is the seeming absence of any significant opposition on the part of members of Congress to the Mercosur integration project176 (Neves 2003).

Thus, the role of Congress in the formulation of the foreign policy for regional cooperation in the Southern Cone has not only been affected by the institutional setup of the Brazilian polity but also by the convergence of the legislative body’s policy preferences and those of the Presidency that in turn expressed an elite-wide political consensus. In this sense, the delegation of authority by Congress with can be seen as a rational political arrangement rather than as an abdication of institutional power.

**Political Parties**

Political parties did not play an active role in the decision-making process that defined Brazil’s policy for economic integration between mid-1980s and early 1990s. Hirst (1996) claims that in this regard the participation of political parties was “marginal.” Oliveira (2003) describes their intervention as “weak and almost null,” noting that they “only acted in cases of disputes around questions of sectorial interests that were adversely affected by the integration” (2003, 89). At the same time, Brazilian political parties appeared united in their support for the integration initiative:

…the receptivity of the project [of regional integration, both in its bilateral phase with Argentina and in its quadrilateral form –Mercosur] among the political parties was exemplarily coincidental, with all of them emphasizing […] the intrinsic virtues of

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176 “It is important to note that the pronouncements from members of Congress are never opposed to Mercosur, but merely question technical aspects of the integration. This fact can be confirmed through an investigation in the Information System of the National Congress (SICON). In more than one thousand documents that constitute the legislative process and that are related to the subject of integration no project was found that was opposed to regional integration” (Neves 2003, 123-24; translated from Portuguese).
regional integration, or better, of Latin American integration according to the old idealist rhetoric already cultivated by most of the political leaders (Almeida 1992, 193; translated from Portuguese).

Their political backing was reflected in the lack of significant opposition in Congress to the integration project, and evidenced the broad consensus that united the Brazilian political elite behind it. As already noted, that political agreement was most clearly expressed in the decision of the Constituent Congress to incorporate a specific directive to pursue regional integration in the Article 4 of the 1988 Constitution. Thus, as observed in the case of Congress, one can also attribute political parties’ passive role in part to the fact that they shared a common strategic goal with respect to regional cooperation which lessened their need to intervene to change course.

Yet, other factors contributed as well to the weak participation of political parties. One is the relatively low relevance that foreign policy issues in general have had for Brazilian political parties, both in their thinking as well as in their activities (Almeida 1992). In the 1980s, some important international issues that affected Brazil (i.e., external debt, trade tensions with the United States, the integration project with Argentina) necessarily began to demand the increasing attention of the political parties, but “foreign policy remains as a relatively esoteric area for the most part of the agents involved in the dispute for power” (Almeida 1992, 198). Moreover, inasmuch as regional integration appears as a component aspect of foreign economic policy it is perceived by Brazilian political parties as belonging to the sphere of competence of the Executive rather than a subject of primary importance for their political activities (Vigevani et al. 2001).

Another factor is the historical conditions that affected the development of political parties in Brazil (Kinzo 1993):

The frequent ruptures of the constitutional order and the prevalence of long periods of authoritarianism resulted in a strong discontinuity in the development of political parties. The predominance of a strong and centralized state apparatus, making difficult the constitution of a true national political arena where the parties could
flourish, prevented in the past the institutionalization of party organizations (1993, 95; translated from Portuguese).

Thus, the party system that emerged in the aftermath of the transition toward a democratic regime in the mid-1980s was characterized by mutability, fragility and fragmentation (Kinzo 1993).

A third factor is the institutional structure of the Brazilian political system which hampered the development of stable, strong parties in Brazil:

Presidentialism, the system of proportional representation and the party-related legislation have negatively affected the consolidation of a party system. The lack of mechanisms that ensure the co-responsibility of the legislative to the programs of the government, the practice of a system of proportional representation that turns the electoral competition in a dispute between individual candidates rather than between parties, the permissiveness of the party-related legislation in what pertains to the creation and functioning of the parties, are factors that make difficult the creation of more defined party identities, fragment the system and place it in a permanent transient state (Kinzo 1993, 95-96; translated from Portuguese).

All these factors combined weakened the capacity of Brazilian political parties to claim a more robust role in the definition of foreign policy and precluded their more active intervention in the shaping of the integration project that culminated in Mercosur.

In the case of Sarney, although he was a leader of the Party of the Liberal Front (PFL), there is no available evidence revealing what influence, if any, this party had on the President’s decision to pursue bilateral integration with Argentina. According to Almeida’s (1992) examination of the political profile of the PFL in connection with Brazilian foreign policy, it does not seem likely that this political party played any particularly influential role in promoting the idea of regional integration:

[i]he launching of the “Manifesto” of January 1985 mentions the importance of “preserving our identity and our culture, maintaining under national control the process of development and seeking the progressive reduction of our external

177 The PFL’s electoral alliance with the PMDB benefitted it enormously. In a remarkable turn of events for the lesser (albeit important) partner of the electoral front Democratic Alliance, the illness of Tancredo Neves and his subsequent death allowed Sarney, and with him the PFL, to effectively be at the helm of the so-called “New Republic” regime thus resulting in a significant loss of political power for the PMDB. Moreover, through Sarney’s ministerial reform in 1986, the PFL was able to fill the ministries of Mines and Energy, Education, Foreign Relations, Communications, Transports and Civil Cabinet (Gabinete Civil) (Kinzo 1993).
dependency, especially in the technological field.” But clarifies that Brazil should be maintain “our windows open to the world, where interdependence tends to increase and isolationism tends to disappear.” The party’s program, elaborated subsequently, does not define specific foreign policy directives, but among its principles it establishes for example ‘to propose a foreign policy founded on the principle of sovereign equality of the states and on the respect to the self-determination of the peoples and non-interference in the internal affairs of other countries, oriented in favor of the world peace, of disarmament, of a more just division of political and economic world power and of a greater access of the developing countries to the fruits of material progress, and turned toward the establishment of relations with all the nations that wish to cooperate with Brazil on the basis of mutual respect’ (1992, 189; translated from Portuguese).

There seems to be no evidence either to substantiate the case that the Party of the Brazilian Democratic Movement (PMDB), the other member of the governing coalition during the Sarney administration, led the way in promoting a project of regional integration or encouraging Sarney to do so. Instead, its role was most likely a reactive one through the support it provided to the government as a dominant political force in Congress.

At the time of the 1985 indirect presidential election, the PMDB had the second largest party delegation in the Congress with 200 seats in the Chamber of Deputies (42% of the total seats), and 21 in the Senate, or 30% of the total.178 In the subsequent legislative election of 1986, the PMDB increased its seats in the Chamber of Deputies to 260 (53% of the total), and those in the Senate to 44 (61%). In contrast, the PFL obtained 118 seats (24%) in the Chamber and 16 (22%) in the Senate (Kinzo 1993).

The PMDB suffered from several weaknesses that lessened its capacity to influence political events. On the one hand, it did not feel that it was a real co-participant in the Sarney government, inasmuch as the President was perceived as a political figure alien to the beliefs and history of the party and a former supporter of the authoritarian regime that only shortly before the elections joined the political opposition (Kinzo 1993).

178 These figures resulted from the 1982 legislative elections when the country was still under authoritarian rule. At that time, the Social Democratic Party (PDS), which mainly represented the interests of the military, had 235 deputies (49%) and 46 senators (67%). The PFL was created in 1985 as a result of a split from the PDS. Thus, in 1985 it did not hold any legislative seats (Kinzo, 1993).
In addition, the PMDB suffered of an “identity crisis” caused by the lack of a clear definition of its political profile that originated in the history of its formation. Born from the “compulsory bi-partisanship” forced by the military government in 1965 as the Brazilian Democratic Movement (MDB) it attracted a diverse array of political forces that were mainly united in their opposition to the authoritarian regime. Thus, the PMDB resembled more a loose coalition than a political party (Kinzo 1993).

Finally, the presidentialist system’s own nature contributed to the political ambiguity of the PDMB because “it establishes a long distance between the Executive and the party that must lend it support, nor demanding that the latter partakes the effective responsibility of governing” (Kinzo 1993, 26).

The International System

Three major interrelated international factors acting at the systemic level of analysis played a critical role in shaping Brazil’s option for regional integration in the Southern Cone in the mid-1980s. The effect of these external variables as they worked their influence through the domestic political economy of the country was to encourage the development of Brazil’s commitment to a South-South regional integration strategy. They were: the outbreak of the 1982 debt crisis, the emergence of a protectionist wave among the developed economies of Europe and the United States, and the legacy of Brazil’s participation in Latin American integration schemes like LAFTA and LAIA.

The International Debt Crisis of 1982

An international financial crisis started on August 12, 1982, when Mexico publicly announced that it was unable to service its foreign debt. The crisis rapidly spread to a total of twenty seven countries, of which sixteen were in Latin America, including Mexico, Brazil, Venezuela, and Argentina (FDIC 1997).

A sharp increase in crude oil prices that started in 1973 and lasted almost a decade
rapidly increased the availability of funds in the so-called Eurodollar market through the accumulation of dollar-denominated bank deposits of oil-exporting countries. This rapid buildup of international liquidity combined with reckless credit practices and regulatory indulgence facilitated a quick expansion of lending by international banks to developing countries.  

While the oil shocks of the 1970s had made available enormous amounts of loanable funds for international banks, they had also induced inflation and stagnation in developed countries. These in turn had an adverse effect on the exports of developing economies, thus aggravating their balance of payment problems and fueling more international borrowing. When the U.S. Federal Reserve decided to sharply increase interest rates in order to bring inflation under control, it brought on a global recession and helped to trigger the overall crisis.

The combination of rising levels of debt, increased costs of borrowing, and decreased markets for their exports had severely hampered developing countries’ abilities to continue servicing their debts. Mexico’s moratorium declaration signaled the beginning of an international financial crunch as banks began to refuse new loans and tried to recuperate or restructure outstanding ones (FDIC 1997).

The crisis signaled the end of Brazil’s strategy of “growth through indebtedness,” which it had pursued since the 1960s. The benefits for Brazil had been impressive. The country achieved record economic growth during 15 years, particularly during the period known as the “Brazilian miracle” in the years 1968-1973 (Castello Branco 1993):

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International borrowing by Latin American countries had been rising steadily in the 1970s. Total outstanding debt grew from a low of approximately $29 billion at the end of 1970 to a high of approximately $159 billion by the end of 1978, equivalent to an annually compounded growth rate of nearly 24 percent. Almost 80 percent of this debt was sovereign, that is, it comprised claims owed by national governments, government agencies, or private firms with public guarantees. The range of annual growth rates varied from country to country, but in absolute terms, Mexico’s and Brazil’s debts combined totaled almost $89 billion, or 56% of the total outstanding debt as of December 31, 1978. From the start of 1979 to the end of 1982, total Latin American debt more than doubled from $159 billion to $327 billion (FDIC 1997).
The external debt was then seen as an adjustment mechanism that would equilibrate consumption and investment at levels compatible with the possibilities of long-term growth, at the same time that undesirable distributive conflicts would be postponed. The process of growth itself would generate the necessary resources for future payment […] The problems that emerged in the 1980s started when the countries had to stop growing to begin paying their debts (1993, 5; translated from Portuguese).

The crisis forced policymakers to re-design Brazil’s foreign economic policy in order to stress exports and restrict imports in order to generate enough trade surpluses and thus liquid resources to confront debt payments (Flecha de Lima 1997; Marques 2008). Sarney’s speech at a plenary session of the United Nations in New York on September 23, 1985, describes the new dilemma confronting Brazilian policymakers at that time due to the constraints imposed by the external debt and protectionism in advanced developed economies:

Overwhelmed by the weight of the enormous external debt the countries of the region [Latin America] experience a situation of grave difficulties […] Trapped by a vicious combination of economic factors –high international interest rates, fall of primary products prices and selectivity of markets in developed countries- we confront a crisis only comparable to the one that affected the market economies in the beginning of the 1930s. The load of the external debt imposes an economic policy oriented toward the achievement of trade surpluses destined to the payment of interest. The international organizations propose inadequate adjustment policies. That road leads to a recession, to unemployment and a renunciation of the capacity to grow […] To increase our difficulties, the markets of the developed countries shut themselves off to our exports. The protectionist barriers multiply and we are unjustly accused of unfair trade practices. In this manner it is confused the protectionism that aims to fence obsolete sectors of developed countries with the legitimate right of developing countries to create propitious and transitory conditions for the establishment of nascent industries that absorb modern technologies indispensable for sustaining our growth, thus exercising our sovereignty and independence […] We want only and exclusively to defend our most sacred interests […] The crisis of the external debt in the meantime is forcing our economy to a process of isolation and autarky translating into minimal possibilities of importation and in weak and unsatisfactory links with the international financial market (Sarney 2008, 15-16; translated from Portuguese).

At the same time, the relative strength achieved by Brazil’s economy derived from the level and quality of its industrial development made it relatively better prepared to withstand the consequences of the crisis in the immediately subsequent years:

Brazil, like other debtors, is affected by international factors beyond its control, but our economy has certain characteristics of its own that render it less vulnerable. The impressive expansion of the country’s industrial base during the past few years not only allows us to diversify our exports but also to reduce our dependence on imports. The ratio of imports to gross national product is, in the case of Brazil, only six percent (three percent if oil is excluded), perhaps the lowest in the world. This explains why Brazil was able in the last three years to grow, to expand its reserves, to
produce annual trade surpluses of about $12 billion, and to pay the interest on its debt without receiving any new money and without an agreement with the International Monetary Fund (Sarney 1986, 110).

In this manner, the debt crisis forced a reassessment of Brazil strategic choices and the search for alternative sources of trade surpluses:

Brazil must achieve trade surpluses in order to adjust its balance of payments. The credits derived from trade balances are re-exported in the form of debt service. Should protectionism close the industrialized markets from which we must obtain our trade balances, where shall we seek alternate sources to keep up the payments? (Sarney 1986, 110-11).

New Protectionism Among Developed Economies

As noted previously, the oil shocks of the 1970s prompted inflation and stagnation in developed countries that translated in a decline in economic activity and increase in unemployment during the ensuing 1980-1982 recession. These severe economic conditions not only reduced the economic capacity of developed markets to absorb the exports from developing countries but also helped to fuel a new wave of protectionist policies despite commitments to the liberal principles of the General Agreement on Tariffs and Trade (UNCTAD 1986).

Moreover, the economic recovery that followed the recession did not result in a reversal of quantitative restrictions and other protectionist measures originally undertaken under the pressure of declining economic activity. Thus, while there was some relaxation or termination of protectionist measures since 1982, “these have been more than offset by new restrictions elsewhere” (UNCTAD 1986, 80). The UNCTAD report also notes that in consequence, developing countries confronted trade restrictions imposed on them by industrial countries:

[s]everal voluntary restraint arrangements have been concluded or renewed, anti-dumping and countervailing measures have been taken or initiated […], and quantitative restrictions have been imposed on products and sectors in which developing countries have a competitive advantage (1986, 80).

In studying the spread of non-tariff protection in developed countries between 1966 and 1986, Sam Laird and Alexander Yeats (1988) confirm that “while a major effort was made in multilateral trade
negotiations to reduce tariffs protectionism in the form of nontariff barriers greatly expanded, and may have even offset or exceeded the effects of liberalized import duties” (1988, 26). The authors note that between 1966 and 1986 the percentage of developed countries imports affected by non-tariff barriers (NTBs) increased from 25 per cent to 48 percent, mostly involving textiles, clothing, foodstuffs and ferrous metals. Their study shows that during the mentioned 20-year period the highest increase in the percentage of trade affected by NTBs occurred in the European Community, but it also points to a problematic upsurge in the United States and Japan of new forms of NTBs in agriculture.

For highly-indebted developing countries like Brazil, the new protectionist policies of advanced industrialized countries posed a serious challenge to their efforts to expand exports in order to meet their increasing debt-service obligations. At the same time, the pressing need to produce trade surpluses forced them to restrict imports, thus reinforcing the perception of developed countries that developing economies like Brazil were committed to protectionist policies and practices. In this manner, a conflictive trade relationship between advanced industrialized economies and countries like Brazil ensued that was characterized by mutual recriminations of protectionism. The dominant perception among the Brazilian political elite was that industrialized nations were unwilling to cooperate in solving the difficult economic predicament in which Brazil found itself.

Thus, in searching for an answer to Sarney’s question, it became increasingly clear for Brazilian policymakers that the country’s suddenly changed position in the international political economy seriously limited its options for establishing any solid economic partnership with advanced industrialized countries. On the other hand, the increasing benefits derived from trade with Latin American partners within the LAIA integration framework encouraged policymakers to pursue closer ties with Latin America (Danese 1999).

**LAIA and Brazil’s Industrial Hegemony in South America**

Trade with Latin American countries offered Brazil a means of generating substantial
positive trade balances with which to confront the problem of the external debt (Setúbal 1986). The facts seemed to validate those expectations. According to Laviola (2004),

[It is noteworthy] in the last years, the continued and increasing bilateral [trade] surpluses that our country [Brazil] has obtained with almost all the Latin American countries. The last surveys made by the CACEX indicate that Brazil’s global [positive] balance with the LAIA in 1985 reached an amount close to US$600 million, adding this amount to another US$700 million obtained in 1984 (2004, 61; translated from Portuguese).

Moreover, regional trade within the domain of LAIA, particularly with South American economies, was a significant driver of Brazil’s industrialization and modernization. A confidential telegram from Itamaraty to various Brazilian diplomatic missions abroad explained Brazil’s position with respect to the incoming 1986 LAIA’s Round of Regional Negotiations, and it illustrates how this international factor impacted policymakers’ preferences:

For political and economic reasons, Brazil, which is the country with the most diversified industrial structure and the most advanced technological level in the region, has a strategic interest in assuming the leadership of the reactivation process of regional trade, of the expansion of economic cooperation […] To succeed in this role, Brazil must always present its behavior as emanating from a philosophy and attitude of solidarity and sovereign cooperation, and never from a hegemonic or paternalist posture. Trade in the region [South America and Mexico], especially the one dedicated to manufactures, is regulated to a large extent by the Montevideo Treaty that created the […] LAIA in 1980 […] The LAIA framework permits its members to grant more advantageous tariff treatment to the goods included in the agreements that they celebrate with each other than those conferred to the same goods when they originate from non-member countries […] Latin America’s generalized difficulty in servicing the foreign debt has led to an effort in reducing imports and expanding exports that results in the proliferation of administrative restrictions to the intra-regional trade (quotes, licenses, regulations) […] For Brazil, the countries of LAIA, despite the current deep crisis, have been an area par excellence for the placement of sophisticated manufactures and services exports that are the dynamic elements of our trade, which in turn is a strategic factor of our development […] for Brazil, the most fertile potential for international political cooperation resides in its surroundings. It is with our neighbors that we can remove suspicions in order to configure a joint action in the international arena to modify the rules in our favor, and not with the traditional beneficiaries of those rules or with those that distance themselves from us through geography, habits and ideas […]

It was under the influence of this vision that the government of President Sarney began to embrace the idea of a bilateral economic bloc between Brazil and Argentina as the

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180 Confidential telegram no.13904, November 6, 1985; emphasis added; translated from Portuguese.
centerpiece of a strategy for a broader South American regional integration that could serve Brazil’s needs to dynamize its economic growth. For Brazilian policymakers, the rationale for the project seemed quite powerful and self-evident:

…our pattern of exports to Argentina consists basically of industrial products, of products with higher value added, a condition that is common of our pattern of relations with Latin America as a whole. To the contrary of our sales to the European Union and Japan that register a higher concentration in agricultural goods or sub-processed, as orange juice, soya cereal, finally includes numerous products of the food chain and with less value added [...] Thus, it is one more reason why Brazil turned, starting in a certain moment, in that period to seek the deepening of relations with neighboring countries like Argentina and Latin American in general. That program of integration led to [...] an increase quite accentuated of our imports and exports… (Marques 2008, 76-77; translated from Portuguese).

**Discussion and Synthesis**

International factors played a crucial role in compelling a re-orientation of Brazil’s foreign economic policy that led decision-makers to seek a bilateral integration project with Argentina in the mid-1980s. Changing external conditions however did not dictate the government’s policy response. The choice largely emerged from the dynamic interaction of domestic variables.

The financial crisis of 1982 was a catalytic factor at the systemic level that by making unviable the continuation of the “growth through indebtedness” strategy it started the ball rolling in Latin America toward the search for new strategic approaches to economic growth. In the case of Brazil, the immediate effect was to force a sharp restriction of imports and the promotion of exports in an effort to generate sufficient financial capacity to fulfill its debt obligations thus initially deepening the protectionist orientation of its foreign economic policy.

Additionally, the spread of protectionism in the United States and Europe in the wake of successive oil crises restricted Brazil’s access to the markets of advanced industrialized economies and thus further aggravated the effect of the debt crisis. Both events compelled Brazilian policymakers to re-assess available options to defend core national interests. In
doing so, their perception of the challenges, their evaluation of the relative strengths and weaknesses of Brazil’s international position, and the policy response they elaborated were all shaped by the system of developmentalist ideas that at that time predominated among the political elite.

Three attributes of the Brazilian economy acquired particular relevance for the strategic calculations of policymakers. One was its relatively high level of industrial development vis-à-vis most other Latin American countries. Another was the country’s advantageous geographical location in the heart of South America. The third was Brazil’s membership in the LAIA. All these characteristics combined offered Brazil the opportunity to bolster its comparative industrial advantage in the regional market of the LAIA by means of preferential trade agreements.

Two additional factors intervened to facilitate the decision of the Brazilian government to further develop the Latin American focus of its foreign economic policy into a bilateral economic bloc with Argentina. The first was the diplomatic rapprochement between the two countries that took place in the late 1970s which made possible the end of a long-term rivalry, thus establishing the basis for sustained bilateral cooperation. The second was the relative economic weakening of Argentina vis-à-vis Brazil mainly as a result of the different economic strategies followed by their respective military regimes in the 1970s. In Argentina the ruling military followed a deliberate policy of de-industrialization whereas in Brazil the authoritarian government continued promoting industrial development (Moniz Bandeira (2004).

Therefore, when Brazilian policymakers began entertaining the idea of economic integration with Argentina they were fairly confident that Brazil had the upper hand in terms of economic strength and level of industrialization. In their view, Argentina had a comparative advantage as an agricultural producer whereas Brazil enjoyed comparative
advantage as an industrial powerhouse. This perception convinced the Brazilian government that such an economic alliance protected by the legal framework of the LAIA would enable Brazil’s continued industrial development and modernization and ensure the preservation of its international autonomy.

The new policy of regional integration played to the relative strengths of the Brazilian economy and thus allowed Brazilian policymakers more flexibility in dealing with the pressing demands for change generated by systemic events over which they had little control. In this manner, they were able to postpone the adoption of drastic liberal economic reforms, which in Brazil was slower and more gradual than in other Latin American countries (i.e., Mexico, Argentina).

The need to consolidate the political transition to a democratic regime was an additional incentive for the governments of Brazil and Argentina to converge in a project of economic integration that could facilitate economic development and thus provide the necessary material basis for political stability. Yet, the relative importance of this domestic political factor has to be assessed against the larger context of the threat to the national interests of both countries derived from systemic events.

The fundamental factor that drove the governments of Brazil and Argentina to seek a closer form of bilateral cooperation was the defense of their nation’s right to economic development with autonomy. In this regard, the overriding assumption of both governments was that economic integration would grant them greater bargaining power to negotiate better conditions for economic growth.

In the case of Brazil, both the definition of South America as a privileged area of influence for Brazil’s foreign economic policy and the concomitant search for economic integration with Argentina mainly constituted defensive proposals inspired by national-developmental ideas to protect the country’s national interests against a threatening
international environment. Thus, the approach that prevailed in the design of the 1986 PICE and the 1988 TICD privileged political and economic autonomy over integration with the world economy.

President Sarney played a critical role in leading the adoption of the policy for bilateral integration with Argentina with the close collaboration and influence of Itamaraty. In this regard, the institutional structure of the foreign policymaking process in Brazil was instrumental in ensuring the relative autonomy and insulation of the foreign policymaking process from societal influences. At the same time, this domestic institutional factor helped to ensure that the prevailing political and economic ideas of leading actors were able to shape the outcome of the decision-making process in a decisive manner.

Another important domestic factor that facilitated the inception of the government’s policy of economic integration with Argentina was the coalescence of a supportive political coalition among governmental bureaucracies with influence on foreign economic policymaking in addition to the Foreign Office (i.e., Finance Ministry, Customs Policy Commission) and political parties with majoritarian representation in Congress (i.e., PMDB and PFL). The decision of the Constituent Congress to incorporate Latin American integration in the new Constitution of 1988 as a governing principle of Brazil’s international relations clearly reflected a broad national consensus.

The role of societal actors in the political process that led the Sarney administration to pursue the integration project with Argentina was minimal and rather passive. Two interrelated factors were mainly responsible for this outcome. One is the elitist institutional setting of the foreign economic policymaking process, which tended to insulate state policymakers from the influence societal actors. The other is the relative weaknesses of business and labor as collective actors. Both factors are historically linked in Brazil to the manner in which the state since the Revolution of 1930 assumed a leading role to promote
and direct the process of economic development by means of a highly centralized structure and a corporatist institutional framework of interest intermediation that inhibited the independent development of both business and labor.

The lack of enough of interdependence between the economies of Brazil and Argentina to motivate a market-driven process of integration was a factor that contribute to discourage the business elite from lobbying the government in favor of international economic integration with Argentina. Thus, Brazilian business was in the beginning skeptical of the initiative, and only became interested when the initial experience proved to be beneficial for its interests. Still, the business elite resented the fact that the government allowed it to participate in specific sectorial forums but not in the elaboration of the main policy guidelines.

Besides the noted structural factors that conditioned the marginal participation of organized labor in the integration project (i.e., elitist governmental decision-making and weakness as a collective actor), another agency-related variable also contributed to the same outcome. Neither of the two major labor organizations at that time, the CGT and the CUT, were politically prepared to attempt a more active role in the integration initiative of the government, which seemed distant from the most immediate and acute problems that occupied their attention. Thus, despite the important differences that separated them, the two organizations coincided in not opposing the process of gradual economic integration between the two countries. Instead, they adopted a reactive attitude of critical support inasmuch as the project could promote economic development. They mainly objected to the strict commercial character of the initiative while noting the need to incorporate the social question.

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This chapter has examined the first stage of the process that led to the formation of Mercosur by focusing on the foreign policy processes and decisions that led Brazilian policymakers
during the administration of President José Sarney (1985-1990) to pursue a project of bilateral economic integration with Argentina. The next chapter studies the second stage of the process from which Mercosur finally emerged as a quadripartite project that also included Uruguay and Paraguay. The analysis also concentrates its attention on Brazil’s foreign policymaking to explain why and how the new government of President Fernando Collor de Mello (1990-1992) decided to continue the pursuit of a project of economic integration in the Southern Cone albeit under a different conception that reflected his liberal agenda to modernize Brazil.
Chapter 4
Brazil Pursues Mercosur as a Vehicle for Competitive Integration

In this chapter, I explain the decision-making process that led the government of President Collor to seek the creation of Mercosur as the centerpiece of a new strategy to integrate Brazil into the world economy. This account requires the solution of two interrelated puzzles.

The first one is why the new Brazilian president decided that continuing the bilateral project of economic integration with Argentina was the main path to inserting Brazil internationally instead of directly seeking a trade agreement with the United States and/or Europe. Given the importance that Collor’s international strategy attached to integration with the so-called “First World” of advanced developed economies, one would have expected the latter choice.

The second puzzle is why the Collor administration opted for the creation of a common market, which presupposed the formation of a customs union, as a preferred type of scheme instead of striving for a free-trade agreement. Considering the importance that international autonomy has within the political culture of Brazil, one would have expected the choice of a type of agreement that would allow for greater autonomy to engage trade partners without the constraints of a common external tariff and the coordination of economic policies demanded by a common market. Moreover, under the liberal rationale underlying Collor’s strategy for Brazil’s modernization, a free-trade agreement would seem to offer more freedom to manage the external tariff structure of the country according to its needs.

In solving these two puzzles, I consider the influence of international factors such as the appeal of the regional market of the Latin American Integration Association (LAIA) for Brazil’s industrial development and modernization, the economic benefits derived from the integration experience with Argentina since 1986, the emergence of international economic
blocs, and the launching of the “Enterprise for the Americas Initiative” by the United States in June 1990. As in the previous chapter however, I emphasize the pivotal effect of domestic variables, including the existence of an elite-wide political consensus in favor of Latin American integration, the institutional predominance of the Presidency in foreign policymaking, the agency role played by the president, and the mediating influence of neoliberal ideas that pervaded his political thinking and that of his close advisors.

**The Individual Decisionmaker**

**President Fernando Collor de Mello**

On March 15, 1990, Fernando Collor de Mello, a little-known young governor from the small state of Alagoas and a candidate for the National Reconstruction Party, became the 32nd President of Brazil after defeating Luiz Inácio Lula da Silva, a trade-union leader candidate for the Workers’ Party, in a runoff held in December 1989, one month after the results of the first round in the presidential election. His arrival as the “first Brazilian president elected by a popular vote since Jânio Quadros in 1960” (Cardoso 2006, 170), appeared to consolidate Brazil’s transition to a democratic regime following the presidency of José Sarney, the first civilian President of Brazil after twenty one years of authoritarian military rule.

The particular circumstances of Collor’s electoral triumph had created contradictory tendencies. On the one hand, his political authority as President enjoyed a markedly higher level of legitimacy than the indirectly-elected Sarney because the new President had been elected by direct popular vote. In the runoff against Lula da Silva, Collor had prevailed by taking 49.94% of the popular vote, against 44.23% obtained by his opponent. This meant that he started his term in office with a significant political advantage vis-à-vis the political establishment in Brasília:

His personal image, the electoral legitimacy of the election in two rounds and the constitutional norms inherent to the Presidency of the Republic gave Collor a
handicap very favorable for the task [stabilize the currency and promote liberalizing reforms]. In effect, Collor’s personal prestige and the legitimacy of the direct election accentuated the considerable normative power of the Presidency of the Republic in the political system instituted by the Constitution of 1988 (Sallum Jr. 2011, 262, translated from Portuguese).

On the other hand, the way in which Collor rose to political prominence weakened his capacity to forge a working cooperation with the legislature. The president-elect was a little-known outsider supported by a weak political organization of his own, and he did not have a stable alliance with any other political parties with influence in congress:

During the campaign, Collor did not organize his mass supporters into a political party. The party he formed in 1989, the Partido de Reconstrução Nacional (PRN), served merely as an electoral vehicle and involved little political weight, organizational strength, or commitment to a defined program. Assembling a disparate group of politicians from varying backgrounds, who jumped on the Collor bandwagon as it gained momentum, the PRN lacked internal focus or cohesion. In late 1989, it held only about 4% of the seats in the Chamber of Deputies (Weyland 1993, 8).

**Political and Economic Crises**

Collor assumed the presidential office in the wake of a serious political crisis originated in the failure of the Sarney government to deal effectively with Brazil’s most pressing economic problems: continued stagnation, draining of external sources of financing, increasing external debt difficult to re-negotiate, and rampant hyperinflation. This resulted in increasing popular discontent, expressed through strikes and food riots and highly negative polls in main cities toward the end of Sarney’s term, evidencing the breakup of the broad-based political consensus that sustained the democratic transition initiated in 1985 (E. Williamson 1992).

On the external front, Collor found that Brazil remained marginalized from external capital flows, while its relations with major centers of international economic power were strained due to the debt moratorium that Sarney had declared in 1987 and the perception that the country stubbornly maintained a protectionist trade policy (Sallum Jr. 2011). Additionally, the initiation of Collor’s presidential term coincided with the dramatic fall of
the Berlin Wall that marked the end of the Cold War, the intensification of the spread of globalization, the rapid formation of economic blocs, and the emergence of protectionist economic policies in developed countries (Vigevani and Cepaluni 2009).

These international developments introduced new challenges to Brazil’s national interests as its political elite pondered the country’s place in the world economy and searched for means to revive economic development. Moreover, these challenges demanded an immediate adequate strategic response from Brazil’s chief executive. In the case of Collor, it was an opportunity to assert his political autonomy. In this connection, Schneider (1991) aptly noted, “[a]ny crises would be daunting to a new president; together they could easily be overwhelming. Yet, paradoxically, they could also give an energetic, innovative, new government greater leeway” (1991, 321).

**Leadership Style**

Collor succeeded in the electoral contest by riding a huge wave of popular discontent against established politicians as a young and energetic Brasília outsider that was not afraid of challenging the status quo.\footnote{According to Flynn (1993), “[t]he 1989 vote for Collor, then, was not a feckless aberration, but a rational vote for change, and a new beginning. This, again, rationally, was linked to disillusion and mistrust of the current politicians and the political system. In April 1989, a public opinion poll found that a massive 81 per cent of respondents had no trust in politicians, and 70 per cent, none in political parties or the Federal Government. Yet, at the same time, 87 per cent said that they wanted to vote in the presidential election of 1989” (1993, 360-61).} Very quickly, the new president demonstrated his willingness to impose his political authority in policymaking, which appeared driven by an imperious sense of urgency that demanded immediate results. Several scholars had made reference to his personal style of leadership.

According to Santana (2006), “[t]he Collor government […] was marked by a personalist and immediatist style provoking the marginalization of certain members of the state bureaucracy” (2006, 8). Batista (1993) critically describes the president as “impulsive and voluntarist, anxious for immediate results” (1993, 108). Weyland (1993) claims that
“[l]acking a firm political base,[Collor] tried to maintain autonomy and centralize power when in office” (1993, 3), and that “he embarked upon a relentless campaign designed, on the one hand, to ensure his personal leadership and, on the other, to undermine more established political forces and power centers which might hamper that goal. In this way, he guaranteed wide latitude for himself and his close aides…” (1993, 12-13). Danese (1999) observes that Collor brought a personal impulse to the diplomacy of his government lending himself with great emphasis of gestures to the task of advancing, with the presidential authority, some important themes for the actualization of the diplomatic agenda of Brazil (1999, 390).

President Collor himself, during a press conference in May 1990 acknowledged his assertive leadership style as follows:

… in this government there only exists one political will, which is the will of the President. The regime is presidentialist, and to a certain extent because of a question of temperament and manner of behaving, I am used to acting in that manner … (Collor 1990d, 73; emphasis added; translated from Portuguese).

In this manner, a particular combination of factors encouraged Collor’s active role in policy-making, including foreign economic policy. The noted strengths and weaknesses of his rapid successful political rise encouraged him to act forcefully in the pursuit of his policy agenda by using his privileged institutional position as President in order to prevail against a Congress where he had few political allies. The severity and urgency of the economic problems faced by Brazil and the high expectations derived from his electoral success also demanded that he act swiftly in order to address the crisis. Finally, his own leadership style propelled Collor to actively take the initiative to determine policy outcomes.

**A New Strategy for Brazil’s Modernization**

As he took office on March 15, 1990, Collor presented his vision to tackle Brazil’s critical situation in a speech he delivered before Congress. His proposal, dubbed “Project for National Reconstruction,” outlined the programmatic priorities that would orient his government: consolidation of the democratization process, monetary and financial
stabilization, economic modernization through privatization and economic liberalization, concern for the environment, social justice, the search for new formulas to insert Brazil in the world, and an acceptable solution to the problem of the external debt (Collor 1990a).

Collor’s message evidenced that he was intent on bringing a new orientation to the country’s foreign economic policy. He argued that Brazil faced a drastically changed international political economy. The Cold War was over, and the spread of globalization was generating unprecedented economic interdependence among nations. In particular, the accelerated formation of new economic blocs pressured countries to act decisively in order to re-position themselves (Collor 1990a).

Therefore, according to his view, Brazil needed to seek new ways to participate in the world economy, and it needed to do it quickly in order not to further delay the modernization of its economy. The option for Brazil could not be other than active participation in international affairs in order to safeguard its interests:

One of the key characteristics of modern Brazil has to be the active participation in the great international decisions […] For a country of our dimensions, with our determination of development, there is no better option than to be an active part in international decisions (Collor 1990a, 20).

Collor also reaffirmed international principles that were part of Brazil’s traditional diplomatic culture: respect of sovereignty, non-intervention, auto-determination, pacific solution of conflicts, compliance with treaties, and respect of human rights (Collor 1990a). Yet, his speech did not have the defensive, “circle the wagons,” tone that Sarney used when alluding to Brazil’s international position, which emphasized the need of upholding the country’s autonomy vis-à-vis the power of advanced developed economies.

On the contrary, in delineating the contours of a new foreign economic policy, the new President explicitly emphasized economic opening-up and integration to the world markets:

182 “The immediate purpose of my government […] the goal number one of my first year of administration, it is not to contain the inflation but to liquidate it” (Collor 1990a, 13).
Brazil will be open to the world. We want integration, increasing and competitive. Diplomacy will act, in an intense manner, both bilaterally and collectively, seeking in each moment new forms of cooperation [...] The impressive dynamics of the changes now in course in the international scenario makes the risk of falling in a situation of confinement and marginalization more dangerous [...] It is imperative to abdicate the sterile and unrealistic discourse of pseudo-nationalism that leads to isolation, to distrust, to the myopic illusion of self-sufficiency (Collor 1990a, 21; translated from Portuguese).

Collor signaled a break with traditional tenets of Brazilian developmentalism in a more definite manner than Sarney’s late discourses. Since the 1960s, that paradigm had emphasized international autonomy and protectionist trade policies in support of import-substitution industrialization (Veiga 2009).

The key terms in the new international orientation launched by the president were opening-up and competitive integration. Remarkably, the declaration that Brazil “will be open to the world” was unilateral, that is, regardless of what counterparts would offer in exchange. On the other hand, the search for a “competitive” integration implied the further dismantling of protectionist structures defending the domestic Brazilian market that Sarney’s reforms had initiated in 1988.

Yet, “competitive integration” did not mean a mere abandonment of economic nationalism but a reinterpretation of it in light of new international conditions:

… it was not a proposal to passively ‘adjust’ to the dynamisms of world capitalism; on the contrary, it was intended to restructure the Brazilian productive system with a view to make the Brazilian industry competitive in the international arena. Thus, formulators and diffusors of the ‘competitive integration’ project emphasized the formulation and implementation of industrial policies that stimulated private entrepreneurs to act in that direction. In that sense it distinguished and opposed itself to the neoliberal ideology. The ideology of the ‘competitive integration’ also differentiated itself from neoliberalism for being, contrary to it, not a form of defensive nationalism but of national assertion at the international level (Sallum Jr. 2011, 264-65; translated from Portuguese).

Sallum’s interpretation of Collor’s international economic strategy is important because it helps to better understand why in spite of his liberal vision he remained committed to a South-South integration project like Mercosur and resisted the Enterprise for the Americas Initiative (EAI) advanced by U.S. President George Bush in mid-1990.
In his speech, Collor also noted that the new political developments in Eastern Europe constituted another reason that pressed Brazil to seek international economic integration, particularly in light of its relatively high level of industrialization:

\[\text{it represents another factor to convince ourselves of the absolute necessity of a competitive integration of Brazil in the world economy. As a country equipped with an industrial park already complete and integrated, Brazil can march confident toward the experience of opening up of its economy (Collor 1990a, 24).}\]

Toward the end of his speech, the president reiterated the need to focus on international integration in response to demands dictated by its national interest:

\[
\text{Brazil does not accept to remain in tow of the process of international transformation. The only road marked by the national interest is the gradual but constant and assured integration of the economic process (Collor 1990a, 27).}
\]

Collor used a cautious tone to address Brazil’s relationship with the United States that reflected the conflictive state of affairs with the North American nation inherited from his predecessor.

\[
\text{In the bilateral relationship with the United States, I intend to exert the best disposition for dialogue and understanding. In the coexistence between the two democracies, the acknowledgement of their own characteristics, the respect for different or even divergent opinions must prevail. I am certain that differences of interest and perception, natural in an exchange as dense as ours will be treated in a constructive manner for mutual benefit (Collor 1990a, 23).}
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Sarney had confronted some serious difficulties in the bilateral relationship with the U.S. that was overshadowed by commercial disputes and the specter of the external debt\(^{183}\) (Correa 1996). Thus, despite his intentions of seeking for Brazil a new competitive integration with world markets, Collor did not allude to a potential preferential trade agreement with the United States.\(^{184}\)

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\(^{183}\) Examples are: the inclusion of Brazil in a list of countries that could suffer trade retaliation under the U.S. Trade Act of 1974 (see previous chapter, page 124), the actual retaliation suffered in the case of pharmaceutical products, and the tensions originated in the debt moratorium declared by Brazil in February 1987 (Correa 1996).

\(^{184}\) According to Abreu (1995), the participation of Brazilian exports to the United States market in 1990 represented 24.5% of Brazil’s total exports, while Brazilian imports from the United States accounted for 1.66% of total imports. The author concludes that a free-trade zone would bring significant benefits to Brazil because of the significant absolute value of the exports to the United
Regional Integration in the Southern Cone

Contrasting with his call for a drastic change in foreign economic policy, Collor confirmed in his first presidential speech that Brazil would continue considering South America as an immediate area of economic relevance and influence for Brazil’s interests:

[...] for Brazil, the great immediate space is Latin America, with its economic epicenter in the Southern Cone [...] Whence the increasing importance of the Latin American process of integration that I intend to systematically deepen in my government. I think that integration is the obligatory step for the modernization of our economies so that Latin America can join the protagonists of this moment of change in the world scenario (Collor 1990a, 22).

The statement represented a continuation of the Latin American policy adopted during the Sarney administration that had allowed the country to play a greater political role in the region, particularly in the Southern Cone (Correa 1996). Moreover, the new president acknowledged that the completion of the economic integration of the Southern Cone, already initiated under president Sarney, was a necessary springboard to insert the country into world markets.

Collor had already confirmed on February 14, 1990 his decision to continue the process of regional integration in South America, when he offered to the press an account of his trip abroad as president elect touring 12 countries:

…I travelled to three countries that are neighbors and friends of the Southern Cone. I held frank and fruitful talks with President Carlos Menem of Argentina, with President Julio Maria Sanguinetti and with President elect Luis Alberto Lacalle of Uruguay, and with President Andrés Rodríguez of Paraguay. I confirmed in those meetings the density of our relationship with each one of those nations [...] I reaffirmed the ideal of integration that will be the crossbeam of the Latin American policy of my government. I understand that integration is the necessary step for the modernization of our economies, and therefore, condition for Latin American to have a relevant role in this moment of profound transformations of the world scenario (cited in Flores 2005, 57; translated from Portuguese).

It was a confirmation that Collor was willing to assume the commitments undertaken by his predecessor with respect to regional integration. Moreover, on January 21, 1990 during his visit to President Sanguinetti in Montevideo, Collor had defended the idea of a Latin States. However, Brazilian gains would be limited by the diversification of its markets that results in a relatively modest participation of the exports to the U.S. within the total exports (1995, 251).
American common market, specifically mentioning Brazil, Argentina and Uruguay, noting that such integration could not only remain at the rhetorical level. He also said that the idea had to progress in a firm and gradual manner, without losing sight that the integration of the Southern Cone was the only way that would lead the South American countries to exit the confinement in which they were submitted (Zimbaro 1990; Flores 2005).

On March 16, 1990, one day after he was sworn in as President of Brazil, during the ceremony of formation of the Executive Commission of the Treaty of Integration, Cooperation and Development Brazil-Argentina, held in Brasília, Collor declared:

This is the moment to reaffirm the Brazilian will to fulfill the high purposes of the integration between Brazil and Argentina. The integration it weaved today with concrete gestures, with firm and unshakeable measures for the coming together of our countries. The Treaty of Integration, Cooperation and Development Brazil-Argentina is a fundamental piece of the process […] Despite the economic problems confronted by our countries, I see with satisfaction the continued success of the pioneer experience of bilateral integration (Collor 1990b, 21).

At a press conference on March 27, 1990, the President again reiterated his commitment to continue the process of economic integration with Argentina despite circumstantial problems that each country might have from time to time (Collor 1990c). Two months later, during another press conference, Collor again affirmed his commitment to regional integration in Latin America noting that this strategic orientation was inscribed in the country’s Constitution, and that he was concerned with its rapid materialization:

Latin American integration is one of the primordial themes of our foreign policy. We have commitments with our continent, we have commitments with Latin America, we have commitments with countries that are friends of ours, and we have commitments with our integration. It is fundamental, it is even written in the own constitutional text. That is why we are concerned not only with accelerating the agreements that were signed by past governments but we also promote new openings that make effectively possible that this integration leaves the sphere of the plan, the treaties, the decrees, the agreements and the terms signed by Brazil and those friendly countries and passes to the sphere of practice (Collor 1990d).

**Bilateral Economic Integration with Argentina**

Collor found an appropriate partner for the continuation of the bilateral integration

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185 Treaty signed by presidents José Sarney and Raúl Alfonsín on November 29, 1988 (TICD (1988, 28)).
project with Argentina in Carlos Menem, the new Argentine president since July 8, 1989. Menem won the elections as a candidate for the traditionally nationalist/populist Peronist party, but pressed by a deep economic crisis characterized by hyperinflation and recession, he very quickly embraced a program of radical economic reforms similar to the one that Collor proposed for Brazil. Like Collor, Menem was also determined to continue the integration policies of his predecessor, Raúl Alfonsín, which were centered on a close economic partnership with Brazil (Candeas 2010).

Yet, the Collor-Menem approach to integration was going to be different from the one shared by Presidents Sarney and Alfonsín, thus reflecting the contrast between their respective economic strategies. As noted by Candeas\(^\text{186}\) (2010):

> The ideological convergence of Presidents Collor and Menem was determinant for the acceleration of the trade liberalization policies. The bilateral integration, conceived during the Sarney-Alfonsín period as an integration project of productive units for the formation of large scale regional undertakings, became a project concentrated on commercial liberalization. The ‘common economic space’ anticipated by the 1988 Treaty was read under the optic of an expanded market for commercial ends, without necessarily a strategic complementarity of sectors (2010, 221; translated from Portuguese).

Presidents Collor and Menem acted rapidly on their promises to continue bilateral integration. They first met in Buenos Aires on January 21, 1990. According to a report\(^\text{187}\) of the meeting by the Brazilian Ambassador to Itamaraty,

> The two Presidents reaffirmed their intention of moving ahead with firmness and determination the program of integration between the two nations: the 24 protocols and the Treaty of Integration already signed will have to be fully complied with.

As already described above, in March 1990, immediately after Collor officially became President, both political leaders met again in Brasília to formalize the creation of the Executive Commission prescribed by the article 6 of the 1988 Treaty of Integration, Cooperation and Development Brazil-Argentina. In addition, Collor and Menem had also

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\(^{186}\) Brazilian career diplomat and professor at the Rio Branco Institute.

\(^{187}\) Confidential memo no. 2107 from the Brazilian embassy in Buenos Aires to Itamaraty, January 22, 1990; translated from Portuguese).
signed an agreement for the construction of a bridge over the Uruguay River linking the cities of São Borja (Brazil) and Santo Tomé (Argentina), and another one for the purchase of Argentine gas and the construction of a gas pipeline running from the Argentine Northeast to the Brazilian state Rio Grande do Sul (Collor 1990b).

**The Buenos Aires Act**

On May 28, 1990, Brazil announced that at the invitation of the Argentine government, President Collor would officially visit to Argentina on July 5 and 6, noting that the event underlined “the density of the ties that unite both countries reinforced by the program of economic integration […] as well as the identity that surges from the increasing congruence of interests.” (RPEB 65 1990, 66-67). This new meeting would constitute an inflection point in the development of the bilateral integration project.

During his visit to Argentina, President Collor spoke at a dinner offered in his honor by his Argentine counterpart, on July 5, 1990. He noted that the main goal was to continue the process of integration under novel schemes:

> With a view to achieve the major objective of the Treaty of Integration, Cooperation and Development, we will be giving firm and decisive steps in the direction of the effective establishment of a common market, basing the bilateral economic integration on still more solid foundations. The initiative undertaken by our countries opens a favorable perspective for the integration of Latin America. Its success can contribute in a significant manner to a greater sub-regional and regional convergence, *this time based in new methods and creative approaches* […] With this action we seek to strengthen our bargaining position, allowing a new and more just insertion of our countries in the world scenario (RPEB66 1990a, 6; emphasis added; translated from Portuguese).

The following day, Collor and Menem signed the Buenos Aires Act, which set the stage for the new approach to bilateral integration that would eventually shape the creation of Mercosur. It declared that “a common market between the Federative Republic of Brazil and the Argentine Republic will have to be definitely formed on December 31, 1994” (RPEB66 1990b, 61; translated from Portuguese).

The Act also established that “a special emphasis will be given to the coordination of
macroeconomic policies and to the generalized, linear and automatic tariff reductions as principal methodology for the creation of the Common Market” (RPEB66 1990b, 61; translated from Portuguese). In addition, a bi-national Common Market Group would formulate proposals to implement the Act.

The Annex 1 to the Act established the methodology to achieve the goals. It determined that “the progressive development and the definitive establishment of the Common Market make indispensable the coordination and harmonization of macroeconomic policies.” It also defined that “the backbone of the construction process of the Common Market will be constituted by generalized, linear and automatic tariff reductions to reach on December 31, 1994 a zero rate and the annulation of non-tariff barriers over the totality of the tariff universe” (RPEB66 1990b, 61; translated from Portuguese).

The Act’s approach represented a distinct departure from the one envisioned by the 1988 Treaty of Integration, Cooperation and Development (TICD). It not only brought an accelerated timetable but it also established, for the first time, a target date for completion of the common market. The TICD had followed the gradual, flexible, balanced and symmetrical approach first established by the 1986 Program of Economic Integration and Cooperation (PICE). Thus, it did not set a specific date for the achievement of the common market but it did determine that in a first stage a free trade zone between the two countries was to be reached by the end of 1999.

Once that first stage was completed, the Treaty envisioned another of undetermined length through which the two countries would seek the final establishment of the common market through a gradual harmonization of policies. Thus, the Buenos Aires Act collapsed the two-stage process of the Treaty of Integration, Cooperation and Development into one where both the free-trade zone and the common market were to be achieved by the end of 1994.
The new approach to the integration process reflected a belief shared by both
governments that it was necessary to expedite their competitive integration to the new
international political economy. In a joint message issued immediately after the signing of the
Act, Collor and Menem declared “that through this decision of transcendental importance for
the future of both Nations the economic and social development of their people will be
accelerated and the necessary conditions for jointly competing and participating more
actively in the world markets will be generated” (RPEB66 1990a, 10; translated from
Portuguese).

The Act was also to function as a “locking mechanism” in the sense that it helped to
ensure the implementation of Collor’s and Menem’s respective domestic programs of market
liberalization because it was required in order to comply with the terms of the new integration
agreement (Vaz 2002). Thus, the target date of December 31, 1994 determined by the Act
coincided with the deadline foreseen by the new industrial and trade policies that the Collor
administration had announced on June 26, 1990 to complete a timetable of tariff reductions
aimed at facilitating Brazil’s competitive integration to the world economy. These new
policies constituted a continuation and deepening of the process of economic liberalization
initiated by President Sarney in May 1988.

In presenting the new policies during a public interview on Brazilian television, the
Economy Minister of the Collor administration, Zélia Cardoso de Mello, stressed that they
represented “a break with the past:”

We are really making a great modification in the direction of modernization. We are
going to completely modify the model [of import substitution] that was in force until
today, […] First, starting July 1 we are formalizing the end of the quantitative control
of imports […] In other words, we are signaling and making effective the end of
administrative controls. We are making a reduction to 70% of the maximum
nationalization indexes to be demanded in operations with governmental organs and
agencies, against a previous average of 85% […] We are also reducing to 0% the
tariff rate for machines, parts, components […] that do not have national production.
We are reducing the tariff rates for textile imports. We are reducing in 20% the rate of
IPI [federal excise tax on industrialized products] levied on automobiles […] which
will allow the production of cars at fairly reasonable prices […] We are also creating
a commission that will have until March 31, 1991 to define the tariffs to be in force between 1991 and 1994. Today, we have custom tariffs that vary from zero to 105%. Our objective is to arrive at 1994 with tariffs that vary between zero and 40%, whereas the average should be 20% […] Those are, basically, the measures that we are taking today […] measures that represent, in fact, a great revolution (Folha de São Paulo 1990b; emphasis added; translated from Portuguese).

Thus, one can perceive a programmatic connection between the unilateral liberalization policies that intended to prepare Brazil for a competitive integration with the world economy and the new approach to the economic integration with Argentina that Collor had been stressing in his public discourse. In other words, Collor’s vision of a fast-tracked process of economic integration in the Southern Cone was in consonance with his strategy of rapid market liberalization for Brazil’s economy.

It is also relevant to examine Zélia Cardoso’s response to a journalist’s question about Brazil’s integration strategy during the noted televised interview because it provides an indirect glimpse into Collor’s policy intentions and expectations at that time:

*Journalist:* “Which is the strategy of the Brazilian government? Is it to join […] Argentina or to do like Mexico, to try to make a Common Market with the United States?”

*Zélia Cardoso:* “Even though I can’t respond completely to that question at this moment […] I can tell you in advance the following: we want – and this is a change quite important in connection with all the orientation that was followed until now - we want […] to integrate with the first world, without prejudice of our integration with Latin America […] In other words […] we are insisting with that question of the integration of Brazil to the developed capitalist world and the most advanced nations. I also guarantee you that we will be giving consistent steps in connection to our integration with Latin America. In sum, what I am telling you is the following: we do not understand that these are two conflictive objectives […] With the most developed nations, with the United States, we have important points of contact, as we do also with Europe and Japan. Brazil is in a privileged position because of its geographical position and its importance in the world scenario […] In sum, it [Brazil] can in several areas choose which are its adequate partners, and that is the policy that we will be following, trying always to offer the best conditions and trying always to walk in the direction of an enhancement of our relations with those blocs, with the United States, with Japan and with the European Economic Community” (Folha de São Paulo 1990b; emphasis added; translated from Portuguese).

Zélia Cardosos’s response, although somewhat disorderly worded, suggests that Collor was determined to pursue a two-track integration policy based on what he perceived to be Brazil’s “privileged” position that allowed on its part a relatively more autonomous international
behavior than other developing countries. One track was committed to Latin American integration and its immediate focus was to deepen the bilateral integration with Argentina, which appeared posed to achieve quick concrete results in the form of a new type of scheme. The other track was dedicated to integration with the “first world” (i.e., United States, Europe, Japan), which Collor also viewed as crucial for the success of his liberal economic strategy.

A Wider Scope for the Integration Project

Until then, Collor had continued Sarney’s policy in favor of maintaining the bilateral scope of the integration project at least for five years after the signing of the 1988 Treaty of Integration, Cooperation and Development, before other countries (i.e., Paraguay and Uruguay) were allowed to formally participate. Argentina, on the other hand, had showed marked interest in including other Southern Cone countries. This was clearly perceived by Brazilian diplomats. Thus, for example, a memo188 from the Brazilian ambassador to Argentina addressed to the Brazilian Ministry of External Relations in early May 1990 gave account of his meeting with the Argentine Minister of Foreign Affairs, Domingo Cavallo, noting that:

In reality, it is clearer each time the purpose of the government of President Menem to incorporate, as far as possible and at a faster rhythm as possible, Uruguay, Paraguay, Chile, and maybe Bolivia to the process of integration Brazil-Argentina.

Yet, by the time President Bush launched his Enterprise for the Americas Initiative (EAI) in June 1990 to create a hemispheric free-trade zone Brazil began to soften its resistance to the participation of other countries in the integration project. Behind this policy change there was a concern on the part of Brazilian policymakers for creating a broader front to resist what appeared as a new trade offensive on the part of the United States. The new attitude of the Brazilian government was evidenced, for example, in a memo189 from Ambassador Barbosa

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188 Confidential telex no. 0812, May 5, 1990; translated from Portuguese.
189 Confidential telex no. 437, July 27, 1990; translated from Portuguese.
to Itamaraty in late July 1990 about the possibility of creating a “group of the Southern Cone” in the Latin American Integration Association. Noting that there was an increasing tendency on the part of Chile and Uruguay to participate in the process of integration between Brazil and Argentina, Barbosa observed that “the participation of the four countries in the coordination of a common response to the ‘Initiative for the Americas’ reinforces that process of strengthening of the coordination links in the Southern Cone.”

The occasion for a bilateral agreement to allow the inclusion of other countries in the Brazil-Argentina integration project came during a bi-national ministerial-level meeting held on August 3, 1990 with the purpose of complying with the joint statement issued by Presidents Collor and Menem on July 6, 1990 that called for a coordinated response to the EAI, and to examine issues related to the bilateral integration. The memo from Itamaraty reporting on the meeting highlighted “the ample coincidence of points of view about the issues examined.” It summarized the basic agreement between Brazilian and Argentine representatives regarding the EAI by noting that

…the “Initiative” was evaluated as positive as far as it contemplated a region considered in the last 30 years of lesser priority for the United States. In that respect, despite the definitions and precisitions still necessary to compose a more concrete picture of that program, it was considered fundamental the coordination of positions between Brazil and Argentina in order to present a common position before the “Initiative.” The continuation of this exercise […] will allow us to present proposals to the North-American government that also contemplate our interests, such as the inclusion of the subject ‘access to technology’.

The memo also reported the agreement reached regarding the possibility of including Uruguay and Chile to the integration project:

On this subject, it was noted that Brazil and Argentina form the central nucleus of the process on which velocity and critical mass the integrationist project depends. In view of that, there was a coincidence that could be included the countries of the Southern Cone that were ready or in conditions of accompanying the rhythm that we were impressing to the process. Therefore, the new partners should not vindicate differentiated treatment under the pretext that their economies were less competitive

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190 Confidential memo no. 17950, August 4, 1990; translated from Portuguese.
191 It should be noted that Uruguay had already important contractual links to Brazil and Argentina through partial accords within LAIA, such as the Argentine-Uruguayan Accord of Economic Complementation and the Protocol of Expansion of Brazil and Uruguay Trade (Flores 2005).
It was remembered that the differentiated treatment was at the origin of the failure of the ALALC [LAFTA] and the relative immobility of the ALADI [LAIA] and other integrationist projects (emphasis added).

Thus, the meeting reinforced the idea of a united Brazil-Argentine front to respond to the U.S. proposal in a positive but cautious manner that avoided a simple acceptance of it. It also opened the door for the formal incorporation of other members to the bilateral integration project but, as demanded by Brazil, only if it was without any conditionings on their part. Consequently, Brazil and Argentina invited Paraguay, Uruguay and Chile to integrate the future common market at a meeting that took place at Itamaraty in August 1990 (Marques 2008).

Since then, the development of the process of integration in the Southern Cone proceeded in two parallel tracks for some time before it transitioned to a single quadripartite endeavor. One track remained the exclusive domain of Brazil and Argentina, the founders of the project that proceeded according to the political and legal agreements already formalized between them. The other track included Brazil, Argentina, Chile, Uruguay, and Paraguay. It progressed mainly on the basis of initial political understandings between the five parties where Brazil and Argentina tended to act as a bilateral bloc.

A memo from Itamaraty described the status of the integration process in the Southern Cone in early August 1990 based on its perceptions of the respective positions maintained by Brazil, Argentina, Chile and Uruguay:

Brazil seeks a competitive insertion in the international market and an increasing economic approximation with its neighbors of the Southern Cone, which is seen as the natural “economic space” given the facility of communications and the density of the relations between their members. The acceleration of the time periods for the creation of the common market with Argentina (until December 31, 1994), to which now adhered Uruguay, sets the tone of the understandings in the Southern Cone and indicates the priority of Brazil’s regional foreign policy. The proposal for the formation of a Free-Trade Zone with Uruguay, Chile and Paraguay until 12/31/95

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192 The memo evidenced a more circumspect attitude on the part of Brazil by noting in a separate added paragraph that “the Brazilian delegation manifested that the document [the framework agreement offered by the U.S. government] should be the object of negotiation, avoiding its actual characterization as ‘a treaty by adhesion.’”

193 Confidential memo no. 17962, August 9, 1990; emphasis added; translated from Portuguese.
defines a second level of action […] Argentina […] considers that the frustrated tentative to […] form a Free-Trade Zone in the regional sphere [of LAIA] was the factor that accelerated the understandings in the Southern Cone […] Chile considers that its only alternative is an ample insertion in the world economy and that the liberalization achieved is irreversible because it is the ‘vertebral column’ of its project of economic development […] The low tariff profile of Chile (15%) contrasts with the predominant levels in its neighbors (in Brazil, the average is 37%). This asymmetry turns integration into a delicate exercise: first because the ‘motto’ of integration lost credibility in Chile and politically would not be ‘sellable’ […] second, because despite these conditionings Chile shows a real desire to integrate, having thus to seek formulas that permit the conciliation of the two aspects. Thus, it is willing to accompany efforts to form a Free-Trade Zone, but it cannot in this stage adhere to the common market project because it would compromise its freedom in the handling of the external tariff […] Uruguay considers that given the level of trade with Brazil and Argentina, integration is a national imperative, without any type of conditioning related to the dimension of its market and productive park. It estimates that […] the reconversion of its industry could be faster and less painful than in Chile. It insists in the adhesion to the Treaty of Integration Brazil-Argentina by the formalization of conventional legal instruments […] The form of Uruguay’s insertion therefore should be negotiated and formal even if the accord to be subscribed is not yet defined.

What immediately strikes the reader is that there appears to have existed at that time a proposal under consideration to create a 5-country free-trade zone alongside the bilateral common market project between Brazil and Argentina, most likely as a way to accommodating the existing differences between the potential partners.

The first meeting of the Common Market Group (GMC), which was established by the Buenos Aires Act to design its implementation, was scheduled for the first days of September 1990 in Buenos Aires, Argentina. The inclusion of Uruguay in that meeting was not clearly defined yet. An Itamaraty memo noted that

…the expansion of the Common Market through a full participation of Uruguay in the process of formation of the mentioned Common Market, already accepted politically, is still pending of negotiations to conform the bases of that insertion of Uruguay […] in those conditions, prevail today different strategies of negotiation in the economic field […] and different levels of legal commitments […] the incorporation of Uruguay to the meetings [of the Common Market Group] on September 5 and 6 […] results from an accommodation with the timetable accepted previously to the adhesion, full and without pre-conditionings, of Uruguay to the process of formation of the Common Market Brazil-Argentina […] Therefore, it would correspond to the Uruguayan government to accentuate, at its convenience, the ‘trilateral’ scope of the negotiations on September 5 and 6.

194 Confidential memo no. 00468, August 25, 1990; translated from Portuguese.
According to a telex\textsuperscript{195} from the Brazilian embassy in Buenos Aires to Itamaraty, the first meeting of the CMG occurred “in a climate of extreme cordiality and understanding.” It resulted in the adoption of a timetable for the semi-annual liberalization of the tariffs of the two countries [Brazil and Argentina] and the progressive reduction of the exception lists to the general scheme of liberalization. In addition, it created sub-groups dedicated to the harmonization of instruments for macroeconomic policies. The telex also referred to agreements reached regarding the incorporation of Uruguay and Paraguay to the common market project:

There was coincidence of interest in preserving the treaty of economic integration, thus recommending the formalization of a new legal instrument to accommodate the insertion of Uruguay and Paraguay to the project of common market. Both delegations [Uruguay and Paraguay] reiterated a disposition of not contemplating differential treatment in the process of formation of the common market (except maybe the deferment of the time for the application of common regime). They emphasized the need to harmonize policies, especially, the clause of origin adjustments that discipline the inflow of products from third countries […] It was even admitted that until the formalization of the legal instruments to incorporate Uruguay and Paraguay, those countries participate, as observers, in the meetings of the CMG.

**The Agreement of Economic Complementation (ACE) No. 14**

As the official participation of Uruguay and Paraguay was being negotiated, Brazil and Argentina continued making progress in their bilateral project separately. In December 1990, the governments of both countries subscribed the Agreement of Economic Complementation No. 14\textsuperscript{196} (ACE-14) in order to implement the objectives and deadlines established by the Buenos Aires Act under the legal framework of the Latin American Integration Association.\textsuperscript{197} The ACE-14 essentially consisted of a schedule of progressive

\textsuperscript{195} Confidential telex no. 1341, September 5, 1990; emphasis added; translated from Portuguese.

\textsuperscript{196} According to Article 11 of the 1980 Treaty of Montevideo, ACE’s had the objective of promoting the optimal employment of factors of production and stimulate economic complementation (TM80 1991).

\textsuperscript{197} The rationale was that under LAIA, no member country of GATT could request access to the same terms and conditions that the two countries had agreed upon (Marques 2008).
trade liberalization, linear and automatic, benefiting the importation of products included in the tariff universe of the agreement to be achieved by December 31, 1994. In addition, the ACE-14 incorporated the 24 protocols that were part of the 1988 TICD, and established that with the objective of making viable the achievement of the liberalization schedule [...] as well as the definitive establishment of the Common Market, both countries will harmonize their macroeconomic policies as referred to in the Treaty of Integration, Cooperation and Development beginning with those connected with the flows of trade and the configuration of the industrial sector of both countries (Art. 10).

In this manner, the Act of Buenos Aires signed in July 1990 together with the ACE-14 signed in December of that year, constituted the necessary instruments to carry forward the economic integration of Brazil and Argentina. The formal inclusion of Uruguay and Paraguay to the project of creating a common market took place later through a new quadripartite agreement. The Common Market Group, now also including representatives from Uruguay and Paraguay, was charged with the responsibility of completing the necessary preparation for that event. To that effect, the CMG met several times between September 1990 and February 1991 (Vaz 2002).

**The Asunción Treaty**

The Presidents of the four countries finally met in Asunción, Paraguay, and signed the Treaty constituting Mercosur on March 26, 1991. The Treaty did not introduce any novelty in the terms and conditions of the integration process that had already been developed by Brazil and Argentina and had been stipulated in the Act of Buenos Aires and the ACE-14. Its first article declared the decision “to constitute a Common Market that should be established by December 31, 1994,” defining the common market as one that included:

> [t]he free circulation of goods, services and factors of production among the countries [...] The establishment of an external common tariff and the adoption of a common trade policy in relation to third States or group of States and the coordination of positions in regional and international commercial-economic jurisdictions. The

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198 It refers to “preferences” (preferências) or percentage reductions of “the most favorable tariffs applied to imports from third countries not members of ALADI (LAIA),” and other terms agreed upon for the importation of products originating from the countries signatories (ACE14 2012).
coordination of macroeconomic and sectorial policies between the State parties…

(RPEB68 1991a, 34; translated from Portuguese).

Article 5 established a transition period running from the date of the Treaty’s signature until the end of 1994, during which the program of trade liberalization would be implemented in order “to arrive at December 31, 1994 with zero tariff, without non-tariff restrictions, over the universe of goods negotiated” (RPEB68 1991a, 35). Although the Treaty established that during that period the main instruments for the achievement of a common market would also be the coordination of macroeconomic policies and the agreement on a common external tariff, it did not determine specific deadlines for their accomplishment. Thus, the Asunción Treaty can be considered

…essentially a framework agreement, it does not have other categorical provisions, beyond those contained in its Annexes […] It does not, for example, stipulate deadlines for the implementation of a common market in the cabal sense of the term. That is, in the same manner that a framework agreement, it makes a series of declarations of intentions, but what itself defines strictly speaking […] is the deadline for the constitution of the free-trade-zone between the four countries, anticipated to be reached by December 31, 1994. […] and it is for that reason that it [the Asunción Treaty] could be negotiated so rapidly, because it does not go into details (Marques 2008, 84-85; translated from Portuguese).

President Collor offered his perspective on the creation of Mercosur during the ceremony of the Treaty’s signature. The message stressed an argument that he had made from the beginning of his mandate, that is, that economic integration in the Southern Cone was a necessary instrument for a beneficial insertion in the world economy and thus, for the achievement of modernization:

We are not launching today a rhetorical and decorative piece of work in the history of the Southern Cone […] We knew that in an international conjuncture in so many aspects adverse due to the extemporaneous resurgence of trade barriers, protectionist practices and discriminatory measures in the North-South sense, the most recommendable alternative was the completion of what here, in the Paraguayan capital, we are creating to the surprise of the pessimists but for the greatness and prosperity of our countries. We knew that in a world made gigantic by the transnationalization of the economic and financial relations, and at the same time seduced by the impulse of gathering in mega blocs the influential post-industrial centers, there was no option to modernity. We started to write our own modernity by creating a Common Market that by strengthening our productive capacity on the basis of complementing our economies, it does not cut us off from the outside. On the contrary, it blesses our sub-regional mechanism the certainty that together we open up
enriched to establish partnerships with third parties, to capital flows, to technological innovation, in sum, to the vigor of the most promissory forces of the international scenario (RPEB68 1991a, 32; emphasis added; translated from Portuguese).

The message reflected Collor’s conviction that a scheme like Mercosur was the only way to achieve what he had been advocating since his presidential campaign, that is, to integrate Brazil with the advanced economies of the First World. This belief seemed to have been strengthened as the stagnant status of the ongoing multilateral negotiations within the Uruguay Round of the GATT revealed to him how difficult it was for Brazil to reach satisfactory agreements with developed countries even after his government had evidenced a commitment to open up and integrate the country to the world economy through a sweeping program of unilateral economic liberalization.

The Rose Garden Agreement

In June 1991, Collor travelled to the United States on occasion of the formalization of the so-called Accord Four-Plus-One, also known as the Rose Garden Agreement, between the countries members of the Mercosur and the United States. The agreement resulted from the political process to structure a united response to President Bush’s Enterprise for the Americas Initiative (EAI) that Brazil had encouraged. The main outcome of the agreement was the creation of an intergovernmental Trade and Investment Consultative Council to discuss trade barriers and forms to reduce them, but it did not establish any deadlines to that effect.199

The Brazilian President expected that the event could provide an opportunity for him to meet again with President Bush in order to obtain some tangible progress in the bilateral relationship. During a press conference in Brasília the day before his trip, he had said that he expected results in the areas of trade, external debt, transfer of technology, and the

199 In practice, this scheme would remain mostly “dormant” until after the terrorist attacks of Sept. 11, 2001, when ministers from the Mercosur countries agreed to reinvigorate the so-called Four-Plus-One mechanism in order to strengthen trade ties between the Mercosur region and the United States (FourPlusOneAccord 2001).
preservation of the environment, stressing however, that “Brazil does not ask for help, Brazil asks for a reciprocal treatment.” He seemed more moderate in his expectations this time, as if more aware of the difficulties that this goal entailed:

Let’s see if with this trip people gain in objectivity regarding our relationship with the United States, somewhat leaving the romantic and amateurish phase of our relations and entering a more professional, more pragmatic phase that reverberates rapidly in terms of reciprocal advantages for our countries (Folha de São Paulo 1991b; translated from Portuguese).

The day of his arrival, Collor spoke at the official reception offered by President Bush, remarking from the start that “[t]he relations with the United States are a priority for Brazil,” and underlining the sincere efforts of his administration to eliminate trade frictions between the two nations. The Brazilian President also hailed the EAI, appealed to President Bush to “close the chapter of trade disputes and the problems of the debt that belong to the past […] to join our efforts to expand bilateral trade, technological cooperation and new credits and investment flows,” and called for the formation of a new partnership between the two countries (RPEB68 1991b, 165; translated from Portuguese). Yet, despite his efforts and President Bush’s warm welcome, Collor’s visit did not make any significant inroads in the bilateral relationship (F. Rodrigues 1991).

In this manner, the disappointing experience with the United States was another confirmation that the actual behavior of the leading developed economies of the world did not live up to Collor’s expectations. They did not seem willing to engage Brazil in a preferential economic relationship simply in exchange for his efforts to change Brazil into a modern open economy that had abandoned its Third World rhetoric and its traditional defensive foreign economic policy. This reality was likely to give ammunition to those in Brazil who opposed his liberal views and policies. Collor referred to this opposition during a speech at the Washington Exchange of the Brookings Institution while visiting the U.S. in June 1991:

We come from decades along which the idea of development was associated with the search of autarkic roads of progress that led to a lesser density in economic relations with the exterior. That perception was deeply crystalized among us, and still there are
sectors that do not understand that progress is more associated each time to an intense and diversified insertion in the international environment. I had confronted, and continue having to confront, now in a lesser scale, the resistance of two basic types of distorted vision of the concept of national development: first, the one that insists in seeing the international environment as necessarily hostile and dangerous; second, the one that resorts to the argument of national interests to reclaim protection and subsidy for the inefficiency in the productive area […] If before the dictum was self-sufficiency, today the motto is ‘greater integration’ (cited in Flores 2005, 59; translated from Portuguese).

Collor’s presidency ended prematurely two and a half years after it began. His administration had been besieged by continued accusations of corruption in the media and public discourse. Eventually, the Brazilian National Congress decided to create a Parliamentary Commission of Inquiry in May 1992 to investigate his government. The Commission found evidence of corruption on the part of the president himself. This led to a request for his impeachment in the Chamber of Deputies. Collor resigned his post in December 1992, before the Senate had a chance to vote on the impeachment. Vice-President Itamar Franco assumed office as interim president at the beginning of the impeachment process on October 2, 1992, and upon Collor’s resignation he became president of Brazil until January 1995.

**Mercosur after President Collor**

Even though the creation of Mercosur resulted in a significant increase in intra-regional trade, by the end of 1994 the process of integration anticipated by the Treaty of Asunción had not progressed to the point of being able to establish a common market. Instead, what emerged by the end of the four-year period was an imperfect free-trade zone among the four Southern Cone economies. In August 1994 the presidents of Argentina, Brazil, Paraguay and Uruguay decided that Mercosur would be a customs union via the establishment of a common external tariff (CET). According to Rubens Barbosa:

The Treaty of Asunción signed in 1991 foresaw the establishment of a common market among the four member-countries in an unrealistic period of time. On the road to the formation of the common market it was foreseen the creation of a customs union, which was realized in 1994. There was an initial ambition in the four countries that was unrealistic. The governments sought to accomplish what it was established in

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200 Response to a questionnaire by author, Rio de Janeiro, June 26, 2010; translated from Portuguese.
the Treaty without taking into account the difficulties that they would confront to achieve even a customs union.

In practice, the customs union scheme largely favored Brazil’s interests. In this regard, Gregory and Gonçalves note that

The Customs Union was chosen because it strengthened the industry of Brazil guaranteeing a good margin of preference of Brazilian products in the markets of the other countries. The Brazilian private sector started to export more taking advantage of the opening of those markets.

Moreover, the ECT negotiated by the four countries in 1994 largely reproduced the tariff profile of Brazil (Veiga and Rios 2007). Thus, the decision to transform Mercosur in a customs union mainly reflected the interests of the Brazilian business sector and the preferences of Brazil’s foreign economic policymakers, which were ultimately motivated by the urge to preserve markets and to consolidate Brazil’s bargaining position to negotiate with developed nations. In this sense, Argentina, Uruguay, and Paraguay acted mainly as “regime takers” that accepted Brazil’s lead in the design of the institutional arrangement or model of integration and the definition of the external common tariff for the bloc (Veiga and Rios 2007).

Finally, in December 1994, the four member countries signed the Ouro Preto Protocol (OPP), which granted Mercosur legal international personality and further defined its institutional structure. The OPP continued the design pattern established by the Treaty of Asunción that created Mercosur, which emphasized intergovernmental decision-making based on consensus rather than a rules-based approach reliant on a detailed contractual agreement such as the one adopted by the North American Free Trade Agreement (NAFTA).

In this manner, the institutional model of Mercosur was characterized by a high level of flexibility and adaptability that facilitated continuous bargaining among the parties (Bouzas

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Joint response to a questionnaire by author, Rio de Janeiro, December 23, 2010; translated from Portuguese. Denise Gregory is Diretora Executiva of CEBRI - Centro Brasileiro de Relações Internacionais, Rio de Janeiro, Brazil. José Botafogo Gonçalves is Presidente of CEBRI and Diplomat, former Minister of Industry and Commerce, former Ambassador Extraordinary for Mercosur Affairs, former Ambassador to Argentina.
Group Decisionmaking and Bureaucratic Politics

Collor introduced sweeping changes in the administrative organization of the Presidency in an attempt to facilitate the implementation of his liberal strategy for the economic modernization of the country. The main goal of this reorganization was to dismantle the decades-old system of protection and inducements by eliminating bureaucratic strongholds traditionally aligned with developmentalist strategy and policies that could impede or delay his program of economic liberalization (Villela 2000; Fernandes 2010).

Changes in the Institutional Structure of Foreign Economic Policymaking

Given the political priority assigned to opening up and integrating into the world economy, it is not surprising that the changes implemented centered on the traditional institutional framework dedicated to foreign economic policy. The main outcome of this institutional remake was a redistribution of decisional power in favor of those actors aligned with the liberal agenda of the President.

The most important measure in this administrative reform that affected the structure devoted to foreign economic policy was the centralization of economic policymaking through the merging of three ministries, Finance, Planning, and Industry and Commerce into one all-embracing Ministry of Economy, Finance and Planning (MEFP\textsuperscript{202}). The MEFP became the central governmental organ responsible for the design and implementation of Collor’s economic policies, including industrial development, foreign trade and international economic and financial negotiations (Law 8028 1990).

The restructuring included the elimination of the Foreign Trade Desk (CACEX) and the Customs Policy Commission (CPA). Their functions were transferred to a new

\textsuperscript{202} Portuguese acronym for \textit{Ministério da Economia, Fazenda e Planejamento}.
Department of Foreign Trade (DECEX\textsuperscript{203}) as mere technical coordinating offices.\textsuperscript{204} DECEX was in turn subordinated to the National Secretariat of Economy (SNE\textsuperscript{205}) within the MEFP. In this manner, Collor removed or neutralized the long-standing influence of a previously powerful developmentalist bureaucracy that enjoyed enormous autonomy in foreign economic policymaking (Fernandes 2010).

The structural subordination of the foreign economic policymaking apparatus to one powerful MEFP which centralized economic decision-making in the hands of one minister reflected the intention of the Collor government to align Brazil’s trade policy with the goals of its domestic economic program to control inflation and achieve macroeconomic stabilization.\textsuperscript{206} The rationale was that trade liberalization would promote greater competition from foreign producers in the domestic market thus encouraging Brazilian entrepreneurs to lower their prices and to modernize their productive structures in order to become more productive and competitive (Villela 2000).

**Collor and the Ministry of External Relations**

The sweep of the institutional reorganization of the Presidency and the consequent change in the established distribution of power among ministries and bureaucratic agencies affected the scope of institutional influence that the Foreign Ministry had in the old structure of foreign economic policymaking. The centralization of decisional power in the MEFP had also resulted in the termination of the CONCEX where Itamaraty had important responsibilities. Moreover, the description of the Foreign Ministry’s areas of responsibility in the law that instituted Collor’s reorganization of the Presidency included a somewhat ambiguous reference to “participation in trade, economic, technical and cultural negotiations

\begin{itemize}
\item \textsuperscript{203} Portugese acronym for Departamento de Comércio Exterior.
\item \textsuperscript{204} The CACEX became the Technical Coordinating Office for Trade (CTIC), and the CPA was converted into the Technical Coordinating Office for Tariffs (CTT) (Fernandes 2010).
\item \textsuperscript{205} Portugese acronym for Secretaria Nacional de Economia.
\item \textsuperscript{206} Collor’s economic strategy was implemented through two successive stabilization plans, Collor Plan I and Collor Plan II, and the Industrial and Foreign Trade Policy (PICE) (Villela 2000).
\end{itemize}
with foreign countries and entities," which appeared to reduce the traditional leading role played by the diplomatic bureaucracy in international trade negotiations (Law 8028 1990).

As a result, Collor’s administrative reform aroused concerns in Itamaraty that its institutional role in the new government was being eroded in favor of the new all-powerful Ministry of Economy. Amorim (2003) offers a view of that reaction:

What I can say is that at that time I was in the Cultural Department of Itamaraty […] I transferred to the Economic Department with Minister Rezek. And the main preoccupation during the first days, and later when I was in the Economic Department, that took about a month, more or less, was above all to guarantee the competences of Itamaraty. Because in those first decree-laws or some provisory measure, some competences were transferred to the Economy Ministry […] like foreign trade negotiations that always was an area of competence of Itamaraty […]
The writing was a little ambiguous but it gave a predominant competence to the Ministry of Economy. Thus, our concern was above all to guarantee the continuity of Itamaraty’s competence, which was achieved (cited in Fernandes 2010, 67; also referenced in Mello 2000).

Itamaraty’s concerns seemed justified given that Collor had not shown early signs of relying on the advice of the diplomatic bureaucracy to configure his foreign policy vision. Thus, for example, according to Amorim (2003) the Foreign Office had little participation in the elaboration of the foreign affairs section of his inaugural speech in March 1990:

I imagine that he [Collor] had had some diplomatic advice but it had not been a formal advice from Itamaraty. I, personally, did not participate in anything, so all those measures occurred with great surprise, some of them more because of the extent, perhaps, than because of the manner in which they were supported, approved […] In the speech, it’s possible that he had had the collaboration of some diplomat, but to my knowledge there was not any institutional participation properly from Itamaraty. More so because I realize that the selection of the Minister of Exterior was made close [in time] to the taking of office, and I don’t think that there was a team properly formed” (2003, 3).

On the other hand, Collor recognized the prestige of Itamaraty as a diplomatic institution and

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207 In contrast, the presidential decree no. 94327 of May 13, 1987 established more unequivocally that the Ministry of Foreign Relations had “in its area of competence” trade, economic, financial, technical and cultural negotiations with foreign countries and entities (Decree 94327 1987).

208 Francisco Rezek was Minister of External Relations in the Collor administration from March 1990 to April 1992.

209 President Collor introduced most of his reforms via Presidential decrees or provisional measures (Fernandes 2010).

210 At the time, the press circulated the rumor that the preferred candidate for heading the Foreign Ministry was Fernando Henrique Cardoso for whose answer Collor reportedly waited until 15 days before the inaugural ceremony (Velasco e Cruz 2004).
frequently mentioned its efficiency. Additionally, various diplomats were appointed to other ministries and to advise the Presidency (Mello 2000). Thus, for example, Marcos Coimbra, a career diplomat and former ambassador to Greece, who was also Collor’s brother-in-law, was a close advisor during the electoral campaign and became Secretary-General of the Presidency (Folha de São Paulo 1990a).

**Itamaraty’s Internal Fissures**

The interrelated effect of two main factors seems to better explain Itamaraty’s relative fall from grace vis-à-vis the new MEFP within the Collor administration. One is that foreign economic policy, a critical component of the new strategy adopted by Collor to modernize Brazil, had to be consistently aligned with, and hence subordinated to, the President’s domestic stabilization plan and industrial policy. Thus, in Collor’s view, it made sense to place the main responsibility for foreign economic affairs, including international negotiations, under the jurisdiction of the MEFP, which under the authority of Zélia Maria Cardoso de Mello was solidly unified behind the President’s plan and readily committed to its application.

The other factor was the emergence of diverging orientations within the Foreign Ministry that competed for the direction of Brazil’s foreign policy (Velasco e Cruz 2004; Castelan 2009; Saraiva 2010; Casarões 2012). An analysis published in Folha de São Paulo on February 17, 1991 reported that Itamaraty was divided in three main internal currents. One of them proposed a closer relationship with advanced developed economies of the so-called First World. Another argued that Brazil had to continue its main alignment with Third-World countries. The third internal faction defended a commercial pragmatic approach to foreign policy.\(^{212}\) (Ferreira and Mossri 1991).

\(^{212}\) The analysis seemed to reflect the opinion of Professor Luiz Pedone, Director of the Political Science and International Relations Department of the University of Brasília, who was interviewed for the piece. The article also identified Minister Razek as a leading advocate of a closer relationship
These internal disagreements appeared to undermine the institutional capacity of Itamaraty to be at the forefront of a coherent foreign economic policy that was consistently aligned with the President’s preferences, and thus placed it at a disadvantage vis-à-vis the MEFP. This issue was particularly relevant for a President that demanded allegiance to his authority and undivided agreement with his vision. In the end, Collor’s approach toward Itamaraty was not to marginalize it from the foreign policy decision-making process but to buttress the internal sector of the diplomatic bureaucracy that was aligned with his liberal strategy of opening up and competitive integration to the world economy (Velasco e Cruz 2004).

A Pro-Mercosur Coalition

Yet, despite the dispute over spheres of influence between the MEFP and Itamaraty and the resistance of developmentalist sectors within the Foreign Ministry to Collor’s liberal policies, there was an issue around which all seemed to find a common ground: the project of bilateral integration with Argentina. National-developmentalists that criticized the President for his attempt to associate Brazil closely with the developed First World could not disagree with him in his commitment to continue the integration process initiated by Sarney. In this manner, the liberal-developmentalist coalition that coalesced around the integration project with Argentina during the Sarney administration was maintained under the government of

with the First World, Ambassador Ítalo Zappa as an exponent of the current favoring alignment with the Third-World, and Ambassador Paulo de Tarso Flecha de Lima as the main representative of commercial pragmatism. Saraiva (2010) offers a similar characterization. For her, the liberal wing (i.e., pro-First World) within Itamaraty was never more than a minority group that gained strength through the support of President Collor. The other two factions, which she identifies respectively as pragmatic institutionalist (i.e., commercial pragmatist) and autonomist (i.e., pro-Third World), proved to be more resilient and remained relevant after Collor’s political demise. The first one acquired more prominence during the era of President Fernando Henrique Cardoso (1995-2002). The other became predominant during the Presidency of Luiz Inácio Lula da Silva (2003-2010).

214 As noted by Folha de São Paulo (1990c) on commenting about the President’s cabinet: “Fidelity to President Fernando Collor was the principal standard in the formation of the new cabinet. More than technical or political questions, what made a difference was the commitment of the chosen candidates to follow the line of the President.”

215 That is the case, for example, of Paulo Nogueira Batista (1993).
President Collor (Saraiva and Briceño Ruiz 2009).

**The Role of Itamaraty in the Creation of Mercosur**

Political convergence around economic integration in the Southern Cone facilitated the necessary conditions for the Foreign Ministry’s prominent role in the creation of Mercosur vis-à-vis other governmental offices, particularly the all-powerful MEFP. Despite any misgivings that Collor may have had toward Itamaraty’s political allegiance, it was fairly clear that the diplomatic bureaucracy was largely unified in its commitment to regional integration despite divergences regarding the accelerated timetable that the President wanted to impose on the Project.216

Moreover, Itamaraty had been instrumental in its development during the previous administration. Therefore, when on March 16, 1990, Collor joined his Argentine counterpart to formalize the Commission for the Execution of the 1988 Treaty of Integration, Cooperation and Development, he allowed the Foreign Ministry to maintain its important coordinating role in that Commission.217

Something similar occurred on July 6, 1990, when the Presidents of Brazil and Argentina signed the Buenos Aires Act to create a common market between the two countries. The Act established the creation of a Bi-national Working Group, also known as the Common Market Group (CMG), which was in charge of elaborating and proposing all the necessary measures to accomplish the main objective of the Act by December 31, 1994. The CMG was subordinated to the Commission for the Execution of the 1988 Treaty, and was integrated by four representatives per each country. In the case of Brazil, this four-member team included envoys from the Foreign Ministry, the MEFP (Department of Foreign Trade and Department of Industry and Commerce), and the Central Bank. Yet, the Act established

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216 Batista (1993) critically noted that “The ex-President would make a mistake therefore in the deadlines and in the objectives for the constitution of Mercosur…” (1993, 110).

217 The members of the Brazilian team in the Commission were: Zélia Cardoso de Mello (Economy), Ozires Silva (Infrastructure), Francisco Rezek (Itamaraty), and Joaquim Roriz (Agriculture) (Folha de São Paulo 1990d).
that representatives from the Foreign Ministries of both countries would preside over the CMG meetings (RPEB66 1990b).

For Amorim (2003), Itamaraty played a key role in ensuring that the process of economic and trade liberalization initiated by Collor was used as an opportunity to deepen regional integration. Also, according to his view, the diplomatic bureaucracy played a moderating role in the instrumentation of Collor’s liberal policies, including the process of economic integration that led to Mercosur:

Itamaraty, by vocation, is a negotiating organ, and there was the risk, the possibility let’s say, that other organs, viewing it more from the point of view of domestic politics, said: ‘Well, this is good for us, isn’t it? Let’s do it at once and quickly.’ And so they would lose the chance to negotiate (2003, 4).

Despite the sweeping changes that Collor introduced in the administrative organization of the Presidency, which resulted in a new decision-making structure dedicated to foreign economic policy that appeared to sideline the traditional role of the Foreign Ministry in favor of an all-powerful Ministry of Economy, the diplomatic bureaucracy largely preserved a leading role in the formation of Mercosur.

**National Politics**

**Business Sector**

The advent of the Collor administration, despite the business-friendly tone of his liberal agenda, did not change the fundamental relation between the state and the business sector in the decision-making process of the integration project. Collor distanced himself from representative business organizations that he painted as part of the corporatist legacy.

He was critical of traditional business organizations, viewing them as custodians of a pattern of industrialization characterized by low efficiency and low competitiveness and thus impediments to his modernization program (Diniz 2001).

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218 “Collor rejected a campaign endorsement from FIESP before his election and afterward called FIESP one of the most retrograde institutions in Brazil” (Schneider 2001, 176).
Yet, despite the political rhetoric, Collor’s ideas to transform Brazil resonated with the business community. His program of liberal reforms thus found broad political support from the private sector (Kingstone 1999). According to Sallum (2011),

… both the changes in foreign policy, especially the construction of Mercosur, and the policies of economic liberalization (for example, trade and financial liberalization and privatizations) had substantial support from business (2011, 278).

According to Schneider (2001), Brazil’s participation in the new accelerated program of integration that culminated in the Asunción Treaty was decided without any significant input from business. The Buenos Aires Act, signed by both Presidents in July 1990, did not make any provisions for the formal participation of the business sector in the Common Market Group that was in charge of proposing measures to advance in the formation of a common market (RPEB66 1990b).

By then however, the reluctance and/or indifference that Brazilian business entrepreneurs had expressed at the inception of the program of integration with Argentina in 1986 had greatly dissipated. According to Marques (2008),

The reaction [resistance to integration] changed when the economic agents realized that the liberalization implemented by the two governments [Brazil and Argentina] was selective and gradual and that it did not have the devastating effect that they anticipated or feared. On the contrary, it generated very interesting business deals for the entrepreneurs (2008, 37).

Moreover, the initial adverse attitude became one of support once industrialists recognized that integration resulted in increasing gains rather than losses:

…the initial negative reaction was rapidly transformed into pressure from the capital goods sectors of both countries on the governments to expand the list of common goods that enjoyed a zero tariff in the exchange, after they corroborated that the agreement [the 1986 PICE] generated greater level of trade between the countries” (2008, 38).

A similar effect was perceived in other business sectors such as food production where the corresponding bilateral protocol had created fears among Brazilian producers in the southern states that it would ruin them. According to Marques (2008), “[n]othing like that occurred. On the contrary, the coexistence with imports was very good, generating a climate
indispensable for the negotiation of the Asunción Treaty that created Mercosur” (2008, 38).

Despite the relative weakness of business as a collective actor noted in the previous chapter, this sector played an important role in shaping Brazil’s preference to transform Mercosur into a customs union. According to Marques (2008), this decision was made:

Not because the textbooks on integration said that it should be that way, but for a much simpler reason: the Brazilian business sector systematically visited the government to say that there existed—and this is true—different conditions of production within each of the four economies. Why? Because you have different external financing agreements and conditions to access credits. The tariff burden is different in each of the four economies. Economic agents in each of them produced with important operational differences to the point of generating sensible distortions in matters of market competition. In that context, they [the business sector] insisted that we should at least try to correct one of them—which they saw as being one of the most important—that was the external tariff. Why? Because let’s say that a textile producer in Brazil had to compete with an Argentine textile producer. Not having an external common tariff, besides all the other differences in terms of credit, internal fiscal burden, etc., the Argentine competitor could import a capital good with zero tariff […] and would thus be able to produce a much cheaper supply of clothing and throw, by cause of the free-trade zone (FTZ), the final good in the Brazilian market with zero tariff. Thus, what did the private sector demand? That at the same time that a FTZ was established, a common external tariff was also defined so as to avoid that those differentiated tariffs could reflect themselves in artificially induced competitiveness by the other economies, playing later their products in the Brazilian market […] this is today the principal instrument for equilibrium of conditions within that market… (2008, 97; translated from Portuguese; emphasis added).

It is important to note here that in contrast with the case of the Mexico-U.S. Business Committee (MEXUS), which played a pivotal role in lobbying for a free trade agreement between Mexico and the United States, I have found no evidence that the Brazil-U.S. Business Council (BUSBC), a similar bi-organization interested in the growth of the economic and commercial relationship between the two countries, promoted the idea of a Brazil-U.S. free trade agreement at that time. The apparent lack of such lobbying effort is somewhat puzzling given the relative importance of the United States as a trade partner of Brazil and President Collor’s interest in promoting Brazil’s integration with advanced industrialized economies.

**Labor Unions**

At the time Collor became President in March 1990, two main peak labor unions
competed to organize and represent the interests of the Brazilian working class: the Central Geral dos Trabalhadores (CGT) and the Central Única dos Trabalhadores (CUT). The previous chapter sketched the processes from which these two organizations emerged in the early 1980s. They differed greatly in their approaches to the organization of the working class and in their political views. Yet, they tended to converge in their critical support of Mercosur.

The CUT was politically aligned with the Workers’ Party, upheld the principle of “free trade unionism” as stipulated by the International Labor Organization, and promoted a “unionism of contestation” based on the idea that workers can only advance their interests through struggle and confrontation. In contrast, the CGT tended to be politically aligned with the Party of the Brazilian Democratic Movement (PMDB), it advocated the notion of trade union unicity, that is, mandatory representation by a single, legally recognized union, defended the validity of the corporatist labor laws originated by the Vargas regime, and was less confrontational than the CUT.

Despite their differences, in 1986 the CUT and the CGT joined other top labor organizations from Argentina, Bolivia, Chile, Paraguay and Uruguay to launch the Southern Cone Trade Union Central Coordinator (CCSCS) under the combined sponsorship of the Inter-American Confederation of Free Labor Unions (CIOSL) and its sub-regional unit, the Inter-American Regional Organization of Workers (ORIT). The main objective of the CCSCS was to configure a joint effort to confront the challenges of the dictatorships still ruling in Chile and Paraguay as well as the consolidation of the democratization processes under way in the other countries (CCSCS 1986).

The CCSCS’s foundational act included a paragraph dedicated to the process of Latin American integration:

219 Confederación General del Trabajo (CGT) de Argentina, Central Obrera Boliviana (COB), Confederación Nacional de Trabajadores (CNT) and Confederación de Trabajadores (CDT) de Chile, Movimiento Intersindical de Trabajadores (MIT) de Paraguay, and Plenario Intersindical de Trabajadores - Convención Nacional Trabajadores (PIT-CNT) de Uruguay.
220 Spanish acronym for Coordinadora de Centrales Sindicales del Cono Sur.
In these terms, the need of a Latin American integration that favors a national and interdependent development combines with the winds of democratic renovation at the political and trade union levels. It shows the importance for the labor movement of having higher instances for the exchange of experiences, the aggregation of common demands, the elaboration of platforms oriented toward guaranteeing a democratic development, as well as to allow the integration of new experiences open to the new challenges that presents the international economic order (CCSCS 1986; translated from Spanish).

Yet, there is no available evidence that the CCSCS engaged in any serious debate about the implications of the integration program for the labor movement or issued any kind of public stance on the subject on occasion of the launching of the 1986 Program of Economic Integration and Cooperation (PICE), or in the immediate aftermath of the signature of the 1988 Treaty of Integration, Cooperation and Development (TICD) (Almeida Magalhaes 2000).

By the end of 1990 however, the CCSCS decided that labor unions should have an active role in the undergoing economic and social integration of the Southern Cone, and it began to present proposals for Mercosur by the time the Asunción Treaty was signed in March 1991. In December 1991, at a plenary meeting in Foz do Iguaçu, Brazil, the CCSCS approved a document on the integration process that included a proposal for the creation of an Employment and Labor Relations Subgroup within the Mercosur institutional structure. It was a reaction on the part of the top labor unions to the fact that the Asunción Treaty did not establish any specific quadripartite working group to deal with labor issues.

The CCSCS’s document was critical of Mercosur. It pointed to the project’s unrealistic deadlines for the achievement of the common market, the lack of concern for labor and social issues and its almost exclusive commercial emphasis that neglected the appropriate

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221 Yet, the organization’s website does not offer any specific evidence of the mentioned proposals.

222 El Mercosur definió una serie de organismos cuadripartitos para adoptar decisiones. Entre éstos diez subgrupos de trabajo se incluyen los temas centrales: política industrial y tecnología, agrícola, energética, asuntos comerciales, políticas macroeconómicas, etc. En estos subgrupos se autoriza la presencia de representantes del sector privado, es decir empresarios y trabajadores, aunque sólo como oyentes: no pueden dar opiniones, ni participar en las decisiones (Rodríguez 1993).
consideration of issues related to the industrial sector (Rodríguez 1993; Dirié 1993). Among other considerations, the document noted that

…the commitment of organized labor with integration exists under the condition that it is real in the sense of guaranteeing social, political and cultural protection and that the transformation of the productive structure is not developed in detriment of the workers and the whole of the popular sectors (cited in Dirié 1993; translated from Spanish).

Notwithstanding their criticisms, the top union organizations demanded participation in the decision-making process of Mercosur (Rodríguez 1993).

The CCSCS’s proposal to create a labor-related working subgroup within Mercosur was eventually approved, and in May 1992 a Work Subgroup (SGT\textsuperscript{223}) was officially established. It is today part of the institutional framework of Mercosur as SGT-10\textsuperscript{224} for Labor Affairs, Employment and Social Security (CCSCS 1986).

The breakdown of the political consensus that had sustained the governing coalition toward the end of the Sarney administration, the subsequent advent of the Collor presidency and his program of economic liberalization, as well as the change in the conception of integration process from one typified by gradual sectorial complementation toward another one characterized by rapid and automatic liberalization introduced a new dynamic within the labor movement. The contradictions among the extremely diverse labor forces coexisting inside the CGT, which in 1988 changed its name from Central Geral dos Trabalhadores (Workers’ General Central) to Confederação Geral do Trabalho (General Confederation of Labor), deepened, thus leading to successive splits.

One of them occurred in September 1989 when the faction led by Joaquim dos Santos Andrade (Joaquinzão) convened its own congress and formed a separate Central Geral dos

\textsuperscript{223} Portuguese acronym for Sub-Grupo de Trabalho.

\textsuperscript{224} The SGT 10 is composed by governmental, labor and business representatives. It discusses employment policies, labor laws, and the implementation of application of the ILO conventions in Mercosur. It also conducts surveys on the evolution of the labor market in Mercosur, and performs research on the situation of migrant and frontier workers in Mercosur (MTE 2012).
Trabalhadores.\textsuperscript{225} This CGT had no political affinity with the liberal vision of President Collor and tended rather to defend the corporatist/nationalist legacy of Varguism. Its policy toward Mercosur tended to be critical inasmuch as the liberal conception of the project neglected to consider its social implications and disregarded the participation of traditional organized labor in the political decision-making process. In this regard, the Central tended to coincide more with the CUT (L. Rodrigues 1991; Mariano 2011).

Another important split within the Confederação Geral do Trabalho took place in March 1991 as a group led by Luiz Antônio Luis Antonio Medeiros, head of the Steel workers Union of São Paulo, launched a new national top labor organization under the name Força Sindical (FS). Medeiros, in alliance with the leader of the Electrical Workers’ Union of São Paulo, Antônio Rogério Magri, had begun to promote within the CGT a so-called “syndicalism of results,” which in direct challenge to the pro-socialist and PT-linked CUT, upheld a pragmatic, non-partisan form of unionism that favored a market economy and gave preeminence to negotiations over confrontation with employers (L. Rodrigues 1991). FS supported Collor’s economic policies. The fact that Collor chose Magri as the Labor Minister of his administration reveals the political affinity that existed between the FS and the government.

In the case of the CUT, its adverse political reaction toward Collor’s policies was not surprising, given that it had supported the presidential election of Lula as “the best candidate for the working class” and had warned that “Collor did not represent any possibility of solution for this crisis that was of interest to the workers” (CUT 1991). Moreover, it had denounced the “recessive, anti-democratic and unconstitutional character” of the Plan Collor as opposed to the workers’ interests and to the national interests of Brazil (CUT 1991, 2).

Yet, despite its criticism of Collor’s policies, the CUT eventually turned instead to

\textsuperscript{225} Today it is known as the Central Geral dos Trabalhadores do Brasil (CGTB) (Brazilian Workers’ General Central).
what it called “sindicalismo propositivo,” that is, it adopted a more pragmatic approach toward the government’s liberal reforms (Sallum 2011). Thus, Jair Meneghelli, president of the CUT, called for a new tactic during the plenary session in Belo Horizonte in August/September 1990 arguing that “[i]t is necessary to stop saying only no and start to say yes, presenting alternative proposals” (cited in Sallum 2011, 281).

Moreover, starting in 1991 the CUT began to participate in the sectorial chambers that were created by the government’s Industrial and Foreign Trade Program (PICE) to define policies aimed at restructuring industrial sectors. It represented an advance in terms of labor participation in political decisions for domestic economic affairs (Sallum 2011).

In a similar manner, despite its severe initial criticism of Mercosur as a neoliberal integration project that was at odds with workers’ interests, the CUT eventually opted for seeking participation in the design of the integration project in cooperation with organized labor of other Southern Cone countries:

[Mercosur] demands responses from organized labor that exceed the national sphere of action. The labor union movement cannot situate itself at the margin of the trade accords signed by the governments of the region. It is necessary to intervene in that process, questioning its global objective and formulating proposals that preserve the interests of workers and the populations involved […] The CUT must make efforts in the direction of influencing, jointly with the labor movement of the countries of the region, in the course of this process of integration (CUT 1991, 10).

**Congress**

In the previous chapter I noted that in Brazil one can observe the traditional preeminence of the Executive vis-à-vis Congress in the formulation of national policies, particularly in the case of foreign policy. In this pattern the Legislative is relegated to a reactive role (Kinzo 1997). The government of President Collor continued and expanded the supremacy of the Executive power in the elaboration and implementation of foreign economic policy as the main decisions regarding trade liberalization were adopted through
medidas provisórias (provisional measures) and portarias do Executivo\(^{226}\) (executive administrative rulings). Thus, the opening of the Brazilian economy in the early 1990s was in the main carried out without consultation with Congress (Lima and Santos 2001).

Amorim Neto (2000) describes Collor’s approach to governing via decree-laws as follows:

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\text{[A]rticle 62 of the Constitution granted him [President Collor] the power to issue legally binding decrees (provisional measures). From the beginning, Collor made clear his political strategy: he decided to confront the hyper-inflation crisis in which Brazil was immersed since 1987 exclusively through provisional measures. He signed no less than 36 decrees during the first fifteen days of his government (and 163 during the year 1990), and appointed a ministerial cabinet composed by a majority of friends and technocrats. Collor governed through provisional measures during all of his first year in office and at the start of the second, despite the increasing dissatisfaction with the manner in which he engaged with Congress and with the general performance of his government (2000, under “CONCLUSÃO”).}
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In the case of Mercosur there was another important factor that facilitated the preeminence of President Collor’s initiative over Congress. It was the mandate that the 1988 Constitution established to pursue regional integration in Latin America. Such explicit directive was a delegation of power to the Executive by the Legislative that in turn reflected a broad strategic consensus among the political elite in that regard.

Therefore, when Collor decided to continue Sarney’s policy concerning bilateral integration with Argentina he could assume that the Constitutional mandate gave him sufficient power to act without consulting Congress. The subordinated role that Congress played in the decision-making process of the policy for Mercosur was reflected in the

\(^{226}\) “Among the most important trade liberalization measures there are: the provisional measure no. 158, which revoked all the exemptions and reductions of the import duty and the IPI [federal excise tax on industrialized products] on imports; the Economy Ministry’s administrative rule no. 56, which revoked the list of suspended imports (or Annex ‘C’ of the CACEX that banned the import of about 1,300 products); and the provisional measure no. 161 that eliminated special import regimes and abolished fiscal and regional incentives. Additionally, in June 1990, with the launching of the General Guidelines of the Industrial and Foreign Trade Policy (executive administrative ruling no. 365) it was announced a new tariff structure to be gradually established during the following five years, foreseeing a modal tariff of 20% in 1994, with the media of 14% and a maximum tax rate of 40%” (Lima and Santos 2001, 142).
Asunción Treaty signed in 1991. The document included a provision (Article 24) for the establishment of a Parliamentary Joint Commission of Mercosur “[w]ith the purpose of facilitating the implementation of the Common Market.” It also indicated that “[t]he Executive Powers of the State Parties shall maintain their respective Legislative Powers informed on the evolution of the Common Market object of this Treaty” (RPEB68 1991a, 37; translated from Portuguese).

**Political Parties**

During Collor’s Presidency, the influence of political parties on foreign economic policy was less likely to occur mainly due to the characteristics of his ascent to power and his governing style, which were already addressed in the first section of this chapter. What is important to examine here is the peculiar way in which the new president interacted with political parties during the period of his administration when the Mercosur project was born.

In 1990, the political party of President Collor, the Party of National Reconstruction (PRN) had only 31 seats in the Chamber of Deputies representing 6.3% of the total, and just 3 senators (4%). Given the weakness of his party’s position in Congress, under the conditions of the Brazilian presidential system one would have expected Collor to seek the support of other parties in Congress via political concessions and the offering of cabinet positions (Mainwaring 1997).

Yet, as already noted, the President followed a different path that essentially bypassed Congress’ approval and thus isolated him from any support from the political parties holding substantial positions of strength in the Legislative, such as the PMDB (26.5% of seats in the Chamber and 29.3% in the Senate), the PFL (18.2% and 17.3%), the PSDB or Party of the Brazilian Social Democracy 227 (12.1% and 16%), and the PDT or Democratic Laborist

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227 The PSDB was created in June 1988 mostly by legislators that left the PMDB (Kinzo 1993).
When Collor decided to move ahead with the integration project initiated by his predecessor, he did so with little consultation, if any, with political parties. Again, Collor counted on the fact that his commitment to regional integration was already instituted as a strategic mandate by the 1988 Constitution, and most political parties supported it.

**The International System**

International factors had an important influence on the policy of regional integration adopted by the government of President Collor, which combined continuity and change. On the one hand, it continued the project of regional integration centered in the Southern Cone of the Western Hemisphere initiated by the Program of Economic Integration and Cooperation (PICE) in 1986. On the other hand, it embraced a new conception that stressed an accelerated timetable and generalized linear and automatic tariff reductions instead of the long and gradual process of trade liberalization that Brazil and Argentina had established until then under the principles of gradualism, flexibility, balance and symmetry.

Two different sets of international variables affected Brazil’s regional integration policy during the Collor administration. One encouraged the continuation of the project initiated in the mid-1980s. The other fostered a change in the approach to integration.

The most important international variables that contributed to the continuation of the integration policy initiated by Sarney were 1) the enduring relevance of the Latin American Integration Association’s regional market for the industrial development and modernization of Brazil, and 2) the positive results derived from the integration experience with Argentina since 1986. Collor alluded to the importance of these factors at a press conference on March 27, 1990:

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228 The PDT was intimately linked with the figure of Leonel Brizola who led it since 1979 (Kinzo 1993).

229 For a full breakdown of party composition of the Senate and Chamber of Deputies, see Kinzo (1993, 22).
The Latin American integration is irreversible because it does not depend on circumstantial moments of prosperity or difficulty that countries go through. What is important is the ideal of Latin American integration [...] and without a doubt the Latin American integration has to start with the Southern Cone, not because the Argentine president or the Uruguayan president and the Brazilian president so desire. No! It is because facts naturally determine that it must happen: by the links that we have, by the commercial ties, by the proximity that we already have, by the trade that is already established in a very clear manner between our economies. Thus, naturally, integration would begin with the Southern Cone, and that is perfectly understood by all the countries of South America and of Latin America as a whole [...] It is fundamental that those initiatives do not perish, that those ties that aim above all at that integration in a short-term are not loosened. And we count also on the decisive participation of ALADI [LAIA], that in these last years is having an importance that really must be underlined, so that such integration occurs within the smaller space of time (Collor 1990c, 38-39; translated from Portuguese; emphasis added).

The systemic forces that encouraged a change in the approach to economic integration were essentially two: the rapid emergence of competing economic blocs and the so-called “Enterprise for the Americas Initiative” (EAI) launched in June 1990 by President George Bush.

The Impact of New Economic Blocs

President Collor referred to the emergence of new economic blocs in his inaugural speech before Congress in March 1990:

First of all, it is necessary to register the impressive change in the international scenario. The profile of a new Eastern Europe reveals the closing of one phase in the history of international relations dominated by the East-West ideological confrontation [...] new areas are ready to adopt the laws of the market economy, respect for human rights and the culture of liberty that are today universal trends. Everywhere, monolithic power, dirigiste structures and authoritarian residues are on the defensive. In that dynamic scenario, so different from that of only ten years ago, large economic spaces tend to emerge. It is not necessarily the case of closed blocs but of new economic and political configurations to which the competitive potential of each country will have to adjust. In the face of these transformations that accelerate the historical time, it is necessary to seek new formulas to insert the country in the world (Collor 1990a, 20; emphasis added; translated from Portuguese).

In this manner, the new post-Cold War international scenario changed the conditions for Brazil’s participation in the world economy. The seemingly irresistible trend toward economic unification under a capitalist mold and liberal economic institutions (Sallum, 2011) combined with the formation of competing regional economic alliances pressured
policymakers to find new, more competitive ways for integrating Brazil into the world markets.

Collor had also alluded to these new circumstances during a speech addressed to graduates from the Rio Branco Institute in May 1990:

… in the midst of the various and profound changes that in today’s world universalize the international relations, we have to seek and protect national solutions […] But it is important to equally recognize […] challenges that cannot be underestimated. I mention as an example the tendency in favor of the creation of economic mega blocks in the Northern Hemisphere that threaten to accentuate the marginalization of Latin America and Africa due to their structural economic fragility (RPEB65 1990, 7-9; emphasis added; translated from Portuguese).

One can interpret the new model of bilateral integration first envisioned in the Buenos Aires Act of July 1990 as a “national solution” to confront the threat of marginalization posed by the “mega blocs,” which in turn facilitated Brazil’s “competitive integration” to the world economy in a way that preserved and enhanced its industrial hegemony in South America.

**The U.S.-Backed “Enterprise for the Americas Initiative” (EAI)**

President Bush’s EAI contributed to convince President Collor not only of the need to accelerate the timetable of the integration project with Argentina but also of the convenience to allow other partners to participate in it (i.e., Chile, Paraguay, Uruguay). The EAI, announced on June 27, 1990, marked an important shift in the United States policy toward Latin America.

In his remarks introducing the proposal, the U.S. president described it as follows:

The three pillars of our new initiative are trade, investment, and debt. To expand trade, I propose that we begin the process of creating a hemisphere-wide free trade zone; to increase investment, that we adopt measures to create a new flow of capital into the region; and to further ease the burden of debt, a new approach to debt in the region with important benefits for our environment (Bush 1990).

The EAI had come on the heels of the news in March 1990 that Mexico and the U.S. were engaged in negotiations to achieve a free-trade agreement, and it followed the conclusion of a Canada-U.S. Free Trade Agreement in 1988, thus suggesting a new trend in U.S. foreign economic policy. It was released shortly before Brazil and Argentina signed the Buenos Aires
Act in early July 1990. It was precisely at the time Collor visited Argentina to conclude this new agreement that he expressed his reaction to the EAI on July 6, 1990:

…I could not fail to welcome the important pronouncement made by President George Bush last June 27 when he announced a revision of the economic policy of the United States in relation to Latin America and the Caribbean. It is a courageous, innovative, and comprehensive initiative that is based also on the premise that “each country of the region has to make its own options.” The “Enterprise for Americas” is, moreover, an acknowledgement that in Latin America there has emerged “a new leadership supported by the force of a popular mandate.” The perfect political-diplomatic understanding that today exists between Brazil and Argentina thus receives a constructive stimulus that will allow the two countries to reiterate their unity of purposes. President Bush’s proposal opens new horizons for hemispheric solidarity that will be more solid as long as the Latin American unity is also strengthened. There is not any conflict between these two venues: on the contrary, they complement each other in a historical synthesis that should always be more harmonic and beneficial for the stability of the American continent (RPEB66 1990a, 9; emphasis added; translated from Portuguese).

For Collor, the Bush initiative seemed to offer an opening to his expectations of integrating Brazil into the so-called “first world” of advanced industrialized economies. At the same time, the Brazilian President confirmed his position in favor of a dual strategy when he asserted that there was no conflict between the EAI and the process of integration with Argentina.

The U.S. proposal carried a new risk for Brazil because it offered Latin American countries, particularly those in the Southern Cone of the hemisphere, an appealing alternative to regional integration that objectively competed with the one offered by Brazil.230 The dilemma that Collor now faced was how to take advantage of the Bush Initiative while at the same time avoiding a potential disruption of Brazil’s regional project for Latin America that was centered on a close partnership with Argentina.

The EAI did not take Brazilian policymakers by surprise. Already in early June, 1990, Rubens Barbosa, who at the time was the Brazilian Permanent Representative to the Latin

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230 For Batista (1993), the Initiative exerted “sufficient attraction by its simple announcement to individually attract several Latin American countries and perturb processes of sub-regional integration” (1993, 111; translated from Portuguese).
American Integration Association in Uruguay, had reported to Itamaraty\textsuperscript{231} on the mounting evidence that President Bush may be announcing “concrete measures with the objective of reactivating the relationship of the United States with the region [Latin America]” during his upcoming trip to five Latin American countries. Barbosa offered in his memo ample evidence in support of that possibility.

Among the several references cited by the Brazilian ambassador, one provoked a comment on his part that revealed a central concern of Brazilian policymakers. It was a recent report by Carlos Pauletti, journalist for the Uruguayan newspaper El País, according to which the Bush administration was determined to carry out the first complete revision of American policy for the region in thirty years, including the possible negotiation of an important regional trade agreement to reduce or eliminate trade barriers between the United States and Latin America.

This possibility led Ambassador Barbosa to suggest that it was necessary to analyze its impact on the current regional schemes in force, as well as the role that Mexico\textsuperscript{232} could come to represent as a link between the United States and Latin America, particularly as a channel for the entry of industrialized products in competition with Brazil.

In other words, the vital issue for Brazil was how to preserve its preeminence in Latin American markets as an industrial powerhouse by containing competition from the United States and Mexico. The bilateral integration project with Argentina and its potential regional projection played a crucial role in this regard.

The U.S.-sponsored Initiative for the Americas had introduced a new variable in the international relations of Latin America that helped to modify Collor’s calculations regarding

\textsuperscript{231} Confidential telex no. 0509, June, 6, 1990; translated from Portuguese.

\textsuperscript{232} Brazilian foreign policymakers had been following Mexico’s foreign economic strategy with some apprehension. A confidential memo from Itamaraty to the Brazilian embassy in Mexico, for example, noted in early March 1990: “... it acquires especial relevance for the Brazilian Foreign Office to monitor […] the evolution of the Mexican trade policy with respect to its effort of penetration in the regional market, because it will be in direct competition with the Brazilian manufactures [which constitute] 83% of our exports to the countries of the ALADI [LAIA]” (confidential telex no. 129, March 3, 1990; translated from Portuguese).
the timing and scope of the integration project. It led Brazilian policymakers to broaden the economic bloc of the Southern Cone in order to increase Brazil’s bargaining capacity vis-à-vis the United States in the shaping of a potential hemispheric free-trade zone (Vaz 2002).

**Discussion and Synthesis**

I indicated at the beginning of this chapter that my explanation of the decision-making process that led the government of President Collor to seek the creation of Mercosur emerges from the solution of two interrelated puzzles. The first one refers to the president’s choice in favor of continuing the bilateral project of economic integration with Argentina instead of changing course via a trade agreement with the United States and/or Europe, which one would expect to be the preferred option of a leader convinced of the need to integrate Brazil with the advanced economies of the First World. The second puzzle alludes to the choice of a common market scheme instead of a free trade agreement, which would have appeared to be a better fit for Brazil’s concerns regarding its international autonomy.

The elucidation of the first puzzle recognizes the influence of the following factors. First, the pre-existing integration project centered on the Southern Cone had important advantages for Brazil. As the largest and most industrially developed economy, Brazil was the strongest party with substantial power to determine the main direction of joint decisions in accordance with its preferences and interests. It was a situation that satisfied the traditional concern of Brazilian policymakers with playing a hegemonic role in Latin American integration.

In addition, the initial implementation of existing agreements had proved in practice that, contrary to early pessimistic expectations from the business sector, economic integration with Argentina was highly beneficial for the industrial interests of Brazil. Thus, Brazilian policymakers had at their disposal the layout and the foundation of an integration project that had been cemented through years of diplomatic negotiations and signed agreements that in
addition enjoyed the sympathetic approval of other Southern Cone countries eager to join.

Second, despite the relative importance of the United States as a trade partner, conflicts affecting the bilateral economic relationship such as U.S. complaints against Brazil’s protectionist policy in the computer industry and its alleged disregard for intellectual property rights in the pharmaceutical industry, and Brazilian criticisms regarding U.S. barriers to the import of products like steel, orange juice and shoes (Folha de São Paulo 1991a), had made unlikely the possibility of an immediate negotiation of a bilateral trade agreement. Third, I found no available evidence that the U.S. private sector with business interests in Brazil tried to organize a lobby in favor of a trade agreement between the two countries.

Fourth, the policy of “competitive integration” promoted by President Collor implied the creation of an alternative bloc centered in the Southern Cone that could serve to negotiate Brazil’s engagement with advanced developed economies. Moreover, although Collor stressed the need to incorporate Brazil to the “First World”, in practice his foreign economic policy did not seek an exclusive alignment or partnership with the United States but rather it promoted the formation of an alliance with South American nations to confront the challenge of the Enterprise for the Americas Initiative (Moniz Bandeira 2004). Therefore, the priority granted to the formation of Mercosur was consistent with Collor’s policy of competitive integration.

The second puzzle can perhaps be fundamentally explained by the defensive character that Brazilian policymakers wanted to instill in the integration project even in the case of an open model of economic integration like Mercosur. A common market implied “the establishment of a common external tariff and the adoption of a common trade policy in relation to third States or groups of States, and the co-ordination of positions in regional and international economic and commercial forums” (RPEB68 1991a, 34; translated from
Such an arrangement allowed Brazil to maintain a sub-regional economic bloc under its hegemonic leadership that mainly responded to its strategic interests and preferences. These were in the end motivated by the need to protect a regional market for its industrial exports and to preserve a zone of influence for Brazilian diplomacy that served to reinforce the country’s bargaining position vis-à-vis more powerful international actors.

The fact that the common external tariff established for Mercosur mainly reflected the preferences of Brazil is evidence of this claim. Another confirmation is that Brazil’s preferences prevailed in the design of Mercosur institutional structure and that the other members of Mercosur mainly accepted its lead in this regard.

Despite the controversial character of his presidency and the severe fallout of his political demise, Collor’s leadership was instrumental both in reviving the process of economic integration in the Southern Cone initiated in the mid-1980s and in changing its character toward a model that served the needs of an accelerated liberalization of the Brazilian economy. The President’s leadership style and the institutional structure of foreign economic policymaking that he helped to further centralize were contributing factors to his agency role in the formation of Mercosur. Because of these conditions, the ideas that dominated Collor’s thinking helped to shape the political outcome and are thus part of the explanation of Mercosur.
Chapter 5
The Difference that Ideas Make: Comparing Processes and Decisions

In the previous three chapters, I studied separately why and how Mexico joined NAFTA and Brazil joined Mercosur in the early 1990s. The in-depth analysis of each case exposed important factors that influenced each country’s political decision-making in that regard. In this chapter, I compare the foreign policy processes and decisions that led Mexico and Brazil to make those choices. In doing so, I seek to confirm Rosenau’s (1980) claim:

The comparative method […] is most useful with respect to the generation and testing of propositions about foreign policy behavior that apply to two or more political systems. Only by identifying similarities and differences in the external behavior of more than one national actor can analysis move beyond the particular case to higher levels of generalization (1980, 87).

I probe for similarities and differences in the relative influence exerted by a set of variables that I found were equally present in the foreign policymaking processes of the two countries. The results of this comparative analysis can both help to address the questions that originally motivated this study, and serve for the testing of the main hypothesis that I advanced in Chapter 1.

I organize the chapter in several sections. In the first one, I compare the effect of variables acting at the international level of analysis. In the second, I do the same with those operating at the domestic level. I offer a comparative synthesis in a third section. In the final section, I draw the main conclusions of the study, including lessons for the literature and the discipline.

International Variables

As developing Latin American countries, Mexico and Brazil confronted a similar pattern of international influences that conditioned their economic development and shaped their political behavior in the global political economy. The most relevant international factors associated with the foreign economic policies for regional integration that both countries began to devise in the mid-1980s are the following: Mexico’s and Brazil’s
participation in the Latin American Free Trade Association (LAFTA) and the Latin American Integration Association (LAIA), the international debt crisis of 1982, the defensive trade policy of the United State in the 1980s, the end of the Cold War and the surge of international economic blocs, and the spread of globalization by transnational corporations.

**Participation in LAFTA and LAIA**

The experience of participation in LAFTA and LAIA conditioned Mexico’s and Brazil’s choice of new integration policies that led to the creation of NAFTA and Mercosur. The involvement of both countries with Latin American integration schemes in the post-World War II period started in 1960 with LAFTA. This experience was important for both countries in two main respects.

On the one hand, it allowed them to interact with other Latin American economies within an institutional framework that stimulated economic cooperation and intra-regional trade. It was thus an important learning experience in international trade negotiations with developing peers that facilitated the perception of common interests with a view to creating a free-trade zone (Marques 2008). On the other hand, it permitted them to discern and compare the relative strengths and weaknesses of their respective positions in the political economy of the region as they advanced in their industrial development.

Between the creation of LAFTA in 1960 and its replacement by LAIA in 1980, Mexico and Brazil developed comparable positions of relative economic strength vis-à-vis other Latin American nations. Their relatively strong standing among peers had been fueled by similar patterns of economic development (i.e., large domestic markets, sizable gross domestic products, and high growth rates) that allowed them to achieve some of the most advanced industrial structures among developing economies. Besides sharing size attributes (i.e., big populations and large geographical areas), their respective economic trajectories had been shaped by analogous strategies of import-substitution industrialization with participation
of foreign capital (Douglas Graham 1982).

Yet, Brazil experienced greater economic interdependence with other members of LAFTA than Mexico did. This phenomenon reflected a highly concentrated geographical pattern of trade within that regional market. According to Bulmer-Thomas (2003), “in LAFTA Argentina, Bolivia, Brazil, Paraguay, and Uruguay formed a bloc that dominated intra-LAFTA trade” (2003, 297). In analyzing patterns of interdependence among LAFTA members according to trade flows, Milenky (1973) concludes that in the case of Mexico “[r]emoteness from the rest of the zone seems to put Mexico out of the pattern of large-country dominance” and “at the fringes of the group” (1973, 70). In contrast, the author identifies Brazil as one of the two countries (the other was Argentina) most tied through trade to other countries of the area.

LAFTA however, failed to achieve its original goal of creating a free-trade zone among its members in a period of 12 years. By introducing a more open and flexible approach, LAIA brought a new dynamics to the program of Latin American integration. As noted above, the institutional change originated with the agreement reached at the Tokyo Round of GATT trade negotiations in 1979 that allowed for a new economic integration mechanism for developing countries known as economic preference areas:

The novelty was that these countries were authorized to negotiate among themselves –multilaterally, plurilaterally, or bilaterally- economic preferences not extending to the other Contracting Parties and without the need to include the substance of their trade as required by GATT Article XXIV for free trade areas and customs unions (INTAL 2010, 5).

Thus, LAIA’s legal framework allowed country members to engage mutually in regional integration agreements encompassing economic preference areas of reduced scope. Under these circumstances, it was logical to expect similar integration initiatives on the part of Mexico and Brazil in order to take advantage of LAIA’s flexibility.

Both countries shared a pattern in the geographical distribution of their international trade. They had a relatively low degree of interdependence with the regional market of the
Latin American Integration Association (LAIA), although Brazil had a relatively higher one than Mexico. In addition, Brazil enjoyed the geographical advantage of proximity to its regional trading partners, as it shared frontiers with Uruguay, Argentina, Paraguay, Bolivia, Peru, Colombia, Venezuela, Guyana, Suriname, and French Guiana. In quantitative terms the largest portion of both economies’ exports and imports was linked to advanced industrialized nations (United States and Europe) rather than to developing Latin American countries.

Yet, in qualitative terms LAIA did represent a significant market for the export of Mexico’s and Brazil’s manufactures and thus it constituted an important stimulant for their industrial development, which for both countries was a strategic concern. Moreover, it constituted an incentive to seek the establishment of PSAs with other country-members in order to institutionalize preferential access to markets for their manufactured exports.

In this sense, a regional conflict of interests developed between Mexico and Brazil. They competed for export markets in Latin America and for potential integration partners under the more flexible rules established by the LAIA. A confidential memo233 from Itamaraty to the Brazilian embassy in Mexico retransmitting a telegram from the Brazilian representative to the LAIA reflected this situation as perceived by Brazilian policymakers:

The composition and geographical distribution of Mexico’s foreign trade with the other members of LAIA [for the years 1987 and 1988] represents about 3% to 4% of its global exchange […] In reference to the intra-zone distribution, the main markets for Mexican products for the year 1988 are Argentina (14.9%), Brazil (13.8%), Colombia (22.5%), Chile (23.9%). The main imports come from Argentina (23.9%) and from Brazil (52.2%). The relative marginal importance of the LAIA countries is, however, qualitatively significant inasmuch as more than 60% of Mexico’s exports for the region are of manufactured goods […] It is perceived that Mexico pursues a double-reach strategy in that it seeks on the one hand to maintain open the political channels through trade ties negotiated with the countries of the area, and on the other hand, to establish the bases to expand the exports of manufactures […] Thus, […] it acquires special relevance for the Brazilian foreign service to monitor the evolution of Mexican trade policy in connection with its penetration effort in the regional market, because it will be in direct competition with Brazilian manufactures, which represent 83% of our exports for the countries members of LAIA (1990, 2-3).

233 Confidential telegram no. 129 addressed to BRASEMB Mexico, March 2, 1990; translated from Portuguese.
Mexico and Brazil responded differently to the incentives provided by LAIA. Brazil, which within the former market of the Latin American Free Trade Association (LAFTA) was most closely linked by trade flows to Argentina (Milenky 1973), embraced a bilateral scheme of economic integration that became the cornerstone of its regional integration policy. The 1986 PICE, the 1988 TICD, and Mercosur were all undertaken under the protection of the legal framework of LAIA, which allowed them to avoid being subject to the “Most Favored Nation” clause of the General Agreement on Tariffs and Trade with respect to both members and non-members of the association.

In the 1980s, Mexico subscribed to Agreements of Economic Complementation (ACEs\textsuperscript{234}) with Uruguay, Argentina and Peru but these agreements were modest by comparison with the magnitude and importance of the process of economic integration initiated by Argentina and Brazil in 1986. Mexican policymakers at that time did not envision a closer economic association with Latin America as an alternative strategic means to deal with the effect of the 1982 crisis. Instead, since 1985 Mexico had already begun a sustained process of rapprochement with the United States, its most important trade partner, which helped to clear the way for a more appealing economic integration option to overcome the effects of the crisis and revive economic growth. Brazil did not have such an alternative and did not search for it.

The institutional framework of LAIA conditioned Brazil’s and Mexico’s definitions of regional integration policies but did not determine them. Its impact was different in each country due to the intervening influence of other relevant factors, such as the different patterns of bilateral relationship with the United States and the dissimilar economic strategies pursued by the political leadership of each country.

\textsuperscript{234} ACE is the Portuguese acronym for Acordo de Complementação Econômica. The ACEs signed by Mexico were: no. 5 with Uruguay in 1986; no. 6 with Argentina in 1987; and no. 8 with Peru in 1987 (Aladi 2012).
The successive experiences of LAFTA and LAIA allowed Mexico and Brazil to
gauge the extent of their respective economic interdependence with other countries of the
region, and to assess their own relative strengths and weaknesses as they developed their
respective economies. Both countries were large economies with substantial industrial
development that also shared a similar geographical distribution of international trade. The
largest share of Mexico’s and Brazil’s overall foreign trade was absorbed by advanced
industrialized economies, but the regional market covered by LAFTA-LAIA attracted most of
their industrial goods exports. Yet, Brazil was favored by a closer proximity to its regional
trade partners than Mexico, and in turn this factor helped Brazil to also establish a higher
level of economic interdependence with countries in the region than Mexico. Under those
conditions, the new institutional context established by the LAIA’s legal framework opened
an opportunity for Brazil, better positioned than Mexico, to launch an integration scheme
with its closest trading partner, Argentina.

The International Debt Crisis of 1982

Mexico and Brazil were similarly constrained by the international financial crisis that
began in August 1982 when Mexico declared that it could not service its foreign debt. The
phenomenon rapidly extended to twenty seven countries, including Mexico, Brazil,
Venezuela, and Argentina (FDIC 1997). The crisis originated with the sharp increase in crude
oil prices that occurred when members of the Organization of Petroleum Exporting Countries
(OPEC) reduced production in 1973-74 to assert their political power and augment their
revenues235 (Smith 2008). The surge in oil profits led to the accumulation of dollar-
denominated bank deposits, which thus became available as loanable funds by international
banks. Careless credit practices and lax bank regulations facilitated an enormous expansion
of lending to developing countries (FDIC 1997).

235 Other oil shocks followed in 1978-79 due to strikes in the oil sector of Iran that preceded the Iranian
Revolution, and in 1980-81 due to the Iran-Iraq War (James Hamilton 2011).
At the same time, the oil shocks had induced inflation and stagnation in developed countries, forcing them to restrict imports from developing economies, thus exacerbating their balance of payment problems and further stimulating their international borrowing. The U.S. Federal Reserve’s decision to sharply increase interest rates in order to control inflation triggered the overall crisis in mid-1982. The combined effect of rapidly growing levels of indebtedness, decreased markets for their exports, and the sudden rise in borrowing costs severely strained the capacity of developing countries to service their debts, which culminated with Mexico’s moratorium declaration in August 1982 (FDIC 1997; Smith 2008). Immediately, banks stopped lending to debtor countries, thus severely constraining the continuing development of Mexico’s and Brazil’s economies, which until then had been heavily reliant on foreign savings by following a strategy of “growth through indebtedness” (Castello Branco 1993). Yet, the relative impact of the crisis in the two countries was different.

In Mexico, the crisis created favorable conditions for a significant political change at the top of the official party, the PRI, where a new leadership began to promote a new economic strategy to revive stagnant economic growth based on trade liberalization and the abandonment of the import-substitution model of industrialization (ISI). In contrast, the constraints imposed by the debt crisis did not lead policymakers of the military regime in Brazil to change the long-established ISI model of development based on developmentalist tenets. The new government of President Sarney (1985-1990) continued that economic strategy and the foreign policy of his military predecessor that pursued deeper economic relations with Latin American partners, particularly in the Southern Cone, as a way to forge a defensive economic bloc that could preserve Brazil’s international autonomy amid the perception of a threatening international environment dominated by more powerful state actors.
Thus, the international crisis was a broad precipitating factor that shook the external conditions of existence of Mexico and Brazil, and in so doing it provoked different reactions that were shaped by their respective domestic political economies. Brazil focused its attention in Latin America and embraced bilateral economic integration with Argentina. In contrast, Mexico concentrated its immediate international efforts in mending economic relations with the United States.

**The Trade Policy of the United States**

In the 1980s, the United States was the major partner of both Mexico and Brazil in trade, investments, technology, and international financing. Its trade policy decisions tended to have significant implications for the bilateral economic relations with both Latin American countries. In this manner, it constituted a major factor in the strategic calculations of Mexico’s and Brazil’s political elites when defining a path for the development of their economies, including their articulation with the world economy and policies of regional integration.

From the 1970s the United States began to implement a defensive foreign economic policy that attempted to counterbalance the relative decline of its international competitive position vis-à-vis the growing challenge of Europe and Japan. It was reflected in successive Trade Acts issued by the U.S. government starting in 1979 that focused on measures to oppose what it perceived to be “unfair practices” by trade partners (Destler 2005). Mexico and Brazil were among the targets of this new trade policy orientation that resulted in significant bilateral trade disputes and frictions during the 1980s.

At the same time, in the 1980s the U.S. began a new bilateral approach in its trade policy notwithstanding its traditional commitment to GATT-based multilateralism that it had maintained since the end of the WWII. The new orientation led to successive FTAs with Israel in 1985 and Canada in 1988. The new emphasis on bilateral trade agreements was also
motivated by strategic concerns regarding its declining competitive position in the international political economy. This U.S. policy change introduced a new factor in the complex causal matrix of regionalism in the western Hemisphere.

The pattern of bilateral interaction that consequently emerged between the U.S. and the two Latin American nations however was different. The United States pressured Mexico to reform its trade policies but it also showed early on that it was interested in exploring the possibility of a North American economic bloc. The United States had an additional strategic interest in ensuring the economic progress and political stability of its southern neighbor. Thus, during the course of the 1980s the U.S. and Mexico reached successive bilateral understandings (i.e., the Bilateral Understanding on Subsidies and Countervailing Duties in 1985; the Framework of Principles and Procedures for Consultation Regarding Trade and Investment Relations in 1987; the Understanding Regarding Trade and Investment Facilitation Talks in 1989) that gradually cleared the way for an eventual comprehensive free trade agreement.

Brazil and the United States on the other hand maintained a more contentious economic relationship throughout the Sarney administration. Moreover, by the time the U.S. and Mexico had begun solving their differences in the mid-1980s Brazil was already focused on a project of economic integration in the Southern Cone that was being challenged by the U.S. in the GATT. There is no evidence that the U.S. ever entertained the idea of a trade agreement with Brazil at that time. The period of President Collor did not bring a diplomatic breakthrough in the bilateral relationship.

Therefore, the influence that the United States exerted both through political pressure to force a change in Mexico’s and Brazil’s foreign economic policies and via the example of its new bilateral FTAs with Israel and Canada, operated through the different domestic political economy of each country. In Mexico, it not only encouraged the deepening of
market liberalization and the opening up of the economy that the administration of President De la Madrid began to introduce in 1983 but it also found a disposition on the part of the Mexican government to negotiate bilateral frictions away.

In contrast, the political reaction in Brazil was more defensive and less accommodating. Instead of seeking a negotiated compromise to U.S. complaints, Brazilian policymakers tended to firmly withstand what they perceived as a threat from a more powerful state actor and focused their efforts on economic integration with Argentina.

**Revival of Regionalism and Emergence of Economic Blocs**

The emergence of the European Economic Community played a role in the creation of LAFTA in 1960 (Milenky 1973). The signing of the Treaty of Rome in 1957 was for Latin American countries both a competitive threat and an incentive to advance their own project of regional economic cooperation. It constituted an example of policy diffusion in the area of international cooperation (Simmons, Dobbin, and Garrett 2006).

The revival of the European integration project and a new trend in the United States’ foreign trade policy in favor of bilateral trade agreements helped to propel a somewhat similar process of policy emulation in the late 1980s and early 1990s. The spread of regionalism and the emergence of economic blocs influenced the strategic calculations of the Mexican and Brazilian governments. It put pressure on them to find new ways to insert their economies into the international economy. But their respective responses were different.

In Mexico there was an active and deliberate search for international experiences of economic integration beyond the Latin American region from which policymakers could learn and adapt to the needs of the country. Policymakers followed with interest the revival of the European integration project in the 1980s, particularly the incorporation of Spain and Portugal into the European Union in 1986, and the process of forging a free-trade agreement between Canada and the United States that started in late 1985. These processes informed
and shaped Mexico’s ultimate decision to seek a trade agreement with the United States. Brazil showed a marked reluctance in seeking inspiration from outside the Latin American region to validate their bilateral project with Argentina. Yet, despite rejecting any quick comparison with the European process of integration, Brazilian policymakers visualized a parallel between the German-French example of economic and political cooperation and that of Brazil and Argentina. In both cases, the country with a comparative advantage in industrial development (i.e., Germany and Brazil) joined in economic integration with another that had an agricultural comparative advantage (i.e., France and Argentina) (Marques 2008, 68).

President Collor perceived the growing importance of regional economic blocs after the end of the Cold War, noting that they presented a competitive challenge for Brazil. However, the main influential thrust of this perception was to prompt the revival of the existing bilateral project of integration with Argentina initiated by Sarney rather than to search for alternative venues elsewhere.

**Globalization and Transnational Corporations**

Transnational enterprises (TNEs), also known as multinational corporations (MNCs), are associated with the advance of economic globalization by means of their foreign direct investment, transnational production processes and international trade. In that regard, Frischtak (2004) notes that

> By the late 1980s MNCs began shifting from mostly an inward orientation, where the compelling logic of the investment was to serve domestic markets behind high trade barriers, to organizing production systems and investing in platforms serving markets on either a regional or global scale. The strategy of integrating MNCs regional (and then global) operations dovetailed with efforts to establish regional trade arrangements (RTAs) (2004, 1).

Thus, TNEs may be motivated to play a leading role in the promotion of regional integration.

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236 Also, as noted in Chapter 3, President Sarney’s vision of a partnership with Argentina appeared to have been inspired by the example of the French-German treaty that ended the perennial enmity between the two European countries.
agreements. Their relative role in the promotion of regional integration policies in Mexico and Brazil has been, however, quite different.

In Mexico, the active political lobbying by a transnational pro-NAFTA business coalition led by U.S. multinational corporations with interests in Mexico was an important factor in Mexico’s decision to join a free trade agreement with the United States. In contrast, I have found no available evidence of a similar organized lobbying effort by TNEs in Brazil in favor of a trade agreement with the United States. Nor have I found evidence of transnational business enterprises pressuring the Brazilian government into seeking bilateral economic integration with Argentina. Multinational corporations benefitted from and provided political support for the creation of Mercosur but they did not constitute an initial driving force of the project.

**Domestic Factors**

International variables represented external forces that conditioned decision-making processes in Mexico and Brazil to define regional integration policies. Yet, only the action of causes internal to the specific political economy of each country ultimately explained actual political outcomes. The most relevant domestic factors exposed by the individual analysis of each case are the following: the institutional structure of foreign economic policymaking, political-economic ideas among top decision-makers, the interpretation of the national interest, the choice of strategy for economic development, and the role of the business sector.

**The Institutional Structure of Foreign Economic Policymaking**

When Mexico and Brazil began to define their new regional integration policies in the 1980s, their presidential political systems shared an important attribute. In both cases, the Presidency, a collective actor composed by a reduced circle of policymakers that included the president and members of his cabinet and governmental bureaucracies, had substantial political power to act autonomously from societal influences and congressional control. This
was even more salient in the case of Mexico’s and Brazil’s foreign policy decision-making, including issues related to international trade and regional integration agreements.

Accordingly, definitions of foreign economic policy in both Mexico and Brazil largely depended on the President’s leadership style, the actual distribution of political power within the decision-making group, the interests that motivated its members and the kinds of ideas and approaches that were prevalent among them. The President’s management style determined the level to which decision-making authority was delegated and was a deciding factor in the actual distribution of political power within the governmental bureaucracy. The ideas of the most powerful decision-makers constituted a crucial intervening factor that helped to shape the interpretation and definition of interests and policy outcomes.

This type of institutional setting for decision-making facilitated the relatively rapid and unobstructed development of Mexico’s and Brazil’s policies for regional integration according to the preferences of their key policymakers. Yet, paradoxically, other important idiosyncratic institutional features that separated Mexico’s presidential system from that of Brazil did not make a significant difference in the relative ease with which their respective decision processes unfolded.

In Mexico, during De la Madrid’s and Salinas’ governments, the corporatist dominance of an official party, the PRI, that controlled Congress, complemented and reinforced a strong presidential system. In contrast, Brazilian presidentialism, which also granted enormous power to the executive branch, faced a high level of party fragmentation combined with an open-list electoral system that weakened party discipline in Congress, thus forcing the President to seek political support in the legislature via the formation of a coalition cabinet. Yet, the Brazilian presidential system, while seemingly at a disadvantage with respect to that of Mexico, worked effectively in processing policy decisions as the President’s power to govern via decrees and his capacity to determine Congress’ agenda
more than compensated for the potential lack of legislative support.

There were two important additional institutional factors that distinguished Brazil from Mexico regarding foreign economic policy processes and decisions for regional economic integration at the time both began pursuing their respective projects. They help to explain the continuity that characterized Brazil’s foreign policy for regional integration vis-à-vis Mexico’s inclination for change.

One of those factors was the fact that the 1988 Brazilian Constitution established a clear mandate to seek economic, political, social and cultural integration with other Latin American countries. It constituted a specific delegation of power to the Executive branch by Congress with respect to the country’s foreign policy for regional cooperation. It also signaled the existence of a broad consensus among the Brazilian political elite that South-South regional integration was a preferred strategic orientation for Brazil. Thus, the noted constitutional prescription limited the possibility that the Presidency could undertake a change in orientation toward a North-South integration policy.

In Mexico, the Constitution did not establish a similar mandate for the country’s foreign policy, in favor of either a South-South or a North-South strategy for regional integration, and thus the Presidency did not have a specific delegation of power from Congress to act in this regard. On the contrary, at the time that the government of President Salinas decided to seek an FTA with the United States, there was no consensus in this regard among the Mexican political elite. Moreover, given the controversial nature of the proposal, the President, despite being the party leader, had to work politically to gain the support of the PRI in the Senate in order to obtain the necessary approval for the initiative as prescribed by the Mexican constitution.

The other institutional factor was the distinctly prominent role that Brazil’s professional foreign affairs bureaucracy, maintained during the successive administrations of
Presidents Sarney and Collor, albeit with relatively less intensity in the latter, in the formulation and implementation of regional integration policies. The institutional participation of Itamaraty’s high quality bureaucracy, which exhibited a low level of politicization, helped to shield the foreign policy decision-making process for regional integration from influences or controls external to the Presidency.

Also, the Foreign Office’s long-standing, strong organizational culture developed around paradigmatic foreign policy concepts and orientations tended to establish a cohesive behavior on its ranks that contributed to the stability and continuity of Brazil’s foreign policy. Itamaraty’s diplomats, for example, contributed to the writing of Article 4 of the 1988 Constitution, which established a long-term mandate to pursue the regional integration of Latin America (Côrtes 2010, 284).

The emergence of at least two competing currents within Itamaraty, one nationalist and another liberal, in the late 1980s, did not result in a significant politization of the institution nor did it lead to a breakdown of the basic consensus uniting its personnel around the project of integration with Argentina. Thus, overall the Foreign Ministry tended to be a moderating force against radical and sudden foreign policy changes, including those pertaining to regional integration.

Additionally, Itamaraty had been restructuring its organization, expanding spheres of competence and responsibility and enhancing the professional expertise of its personnel, particularly on international trade, in an effort to meet the demands of Brazil’s evolving foreign policy and maintain its paramount institutional standing within the structure dedicated to foreign economic policymaking. This effort allowed the diplomatic institution to be relatively well-positioned to play a leading role in the development of bilateral economic integration with Argentina and the subsequent creation of Mercosur.

Mexico’s Ministry of Foreign Relations (SRE) did not have an institutional stature and prestige comparable to that enjoyed by the Brazilian counterpart within the state structure dedicated to foreign economic policymaking. Also, the SRE’s institutional capacity had not kept up with the demands imposed by increasingly complex international affairs, particularly those related to international trade, for which its diplomatic personnel were not adequately prepared.

These limitations, united to its strong organizational culture deeply embedded in a nationalistic paradigm, hampered the SRE’s chances of playing a major role in the new foreign economic policy that the successive administrations of Presidents De la Madrid and Salinas began to pursue as a result of their new strategy to open up and liberalize the Mexican economy.

In consequence, the diplomatic institution suffered marginalization from the reduced group of actors that participated in the NAFTA decision-making process, that is, President Salinas and his economic cabinet, particularly the Ministry of Commerce and Industrial Development (SECOFI). The lack of significant SRE involvement facilitated the drastic and sudden change of course that Mexico’s policy for regional integration experienced during the Salinas administration when it embraced the idea of a free trade agreement with the United States.

The Core National Interests

The relative size and development of Mexico’s and Brazil’s economies as well as their relative power as sovereign states within the international political economy were attributes that determined the strategic national needs of both countries. Two core national interests, besides the basic need to survive as states, broadly conditioned the international behavior of Mexico and Brazil, and thus their foreign economic policies and corresponding regional economic integration projects.
One was the need for economic development, that is, the interest in becoming advanced industrial economies, which as developing countries both shared. The other, desire to maintain autonomy, represented their interest as sovereign states in controlling the direction of their own affairs despite external constraints. As large but relatively weak Latin American regional powers, both countries shared these interests since they were similarly exposed to potential restricting influences from other more powerful states, particularly those of the United States.

The debt crisis of 1982, for example, seriously threatened these two core national interests of Mexico and Brazil by thwarting the continued development of their economies, limiting their options, and making them more vulnerable to external pressures. This was a reflection of both the relatively limited development of their economies and the relatively weak international power position of their countries. Thus, the governments of both countries were pressed to reassess the manner in which they viewed these interests in light of new conditions, and to devise effective means to protect them, while always mindful of the structural conditions that constrained them.

When both the Mexican government of De la Madrid and the Brazilian government of Sarney began to consider what to do to get their countries out of the crisis, they had to consider not only their own interests as elected Presidents, or the interests of their respective business communities, or those of their respective popular sectors. All these interests were certainly relevant, and needed to be attended. But also, as heads of state, they had to take into account the more fundamental interests of their nations as collective actors in the world scenario.

It is in this sense that their respective national interests broadly shaped their economic strategies and foreign economic policies. Yet, this influence was mediated by the interpretation that policymakers made of them according to the ideas that informed and
guided their thinking. In other words, Mexico’s and Brazil’s national wants motivated decision-makers to act but a more proximate cause of their actual decisions was what they thought they needed to do to meet those needs (Wendt 1999).

The fact that both nations had similar core national interests (i.e., development and autonomy) led their governments to frame their respective projects of regional economic integration to serve two basic national needs. One was the revival of economic growth and the promotion industrial development and modernization. The other was the preservation and strengthening of the international autonomy of their nations.

Globalization and the emergence of competing economic blocs had significantly changed the structure of the post-Cold War international political economy. Thus, Mexican and Brazilian policymakers were forced to seek new formulas to insert their economies in the world economy in order to satisfy Mexico’s and Brazil’s national interests.

In NAFTA, Mexico was a developing country in association with two more advanced, developed nations, one of which had become the sole superpower after the demise of the Soviet Union. Mexico was the weakest partner of the three that formed the new bloc. As such, it chose an economic integration with partners that offered greater chances of rapid export-led growth than other alternatives, and it thus satisfied the need for economic development. At the same time, it chose a type of agreement that was contractual, subject to strict negotiated rules that minimized the possibility that the U.S., a more powerful partner, could act unilaterally or arbitrarily to impose onerous conditions on Mexico with adverse consequences for its interests, thus meeting the demand for preserving its autonomy.

Brazil was in a different position as a member of Mercosur. It was the strongest economy and the most powerful country of the four members. Its need for continued industrialization and modernization was met by partnering with countries with relatively less industrial development, hence providing a preferential market for its industrial exports. As a
regional power, Brazil could use Mercosur to leverage its trade negotiations with the United States and Europe in a manner that satisfied its need for autonomy. Moreover, Mercosur’s customs union model was based on intergovernmental consensus rather than on contractual agreements. It gave Brazil, the stronger partner, the opportunity to prevail in negotiations with the other governments of the bloc instead of subjecting itself to the “tyranny” of a contractual agreement that left no room for political maneuvering.

Mexico’s and Brazil’s divergent roads to integrate themselves into the world economy via NAFTA and Mercosur are largely due to the different way in which their governments conceived of their core national interests and the manner to defend them. In order to understand their divergent views we need to compare the economic strategies they devised and the development paradigms that influenced their political thinking.

**The Strategy for Economic Development**

Historically, Mexico’s and Brazil’s development strategies have played an important role in shaping their relationship with the world economy (Gereffi and Wyman 1990). Their foreign economic policies, including policies for regional integration, tended to be largely determined by, or were dependent on, the choice of national economic strategy.

Thus, in the long period during which the two countries engaged in state-led import-substitution industrialization, their trade policies were similarly focused on protecting domestic markets in order to develop their national industries. Accordingly, their policies for regional integration, centered in Latin America around schemes like LAFTA and LAIA, mainly aimed at enlarging domestic markets in order to achieve economies of scale for their industries rather than at promoting the expansion of free trade among members to enhance economic efficiency and industrial productivity through foreign competition.

The 1982 international debt crisis put an abrupt end to the strategy of “growth through indebtedness” that accompanied Mexico’s and Brazil’s import-substitution models for
industrialization (ISI). In devising a response to the severe challenge imposed by the sudden lack of external financing, the two countries undertook divergent roads to reignite economic growth.

Mexico, under the government of Miguel de la Madrid (1982-1988), began to abandon ISI in favor of an export-led growth strategy based on market-oriented reforms and the opening up of the economy, and started to normalize its trade relations with the United States while seeking to expand markets in Europe and Japan for its exports. Brazil reacted differently. Still under military rule, it adjusted its import-substitution strategy to the constraints imposed by its external debt obligations rather than changing it for a different one.

Thus, it severely restricted imports and intensified the promotion of exports to generate a surplus with which to service its debt. In doing so, it deepened the pursuit of a South-South trade strategy that its last military President João Baptist de Oliveira Figueiredo (1979-1985) had started, which focused on Latin America’s markets for its manufactured exports via the LAIA’s legal framework. This trade strategy led the new civilian government of José Sarney (1985-1990), still inspired by the ISI model, to initiate in 1986 a bilateral project of economic integration with Argentina that became a centerpiece of Brazil’s regional integration policy.

Therefore, the bilateral integration scheme (PICE) was designed on the basis of a “managed trade” approach rather than according to principles of competitive free trade. In this manner, it sought to maintain an equilibrated balance of trade between the two countries through a gradual, flexible, balanced and symmetrical integration process negotiated by sectors that would establish a free-trade zone in 10 years. Thereafter, according to a new treaty (TICD) signed two years later, the project would become a common market in an unspecified period of time.

The different strategic development choices made by Mexico and Brazil in the
aftermath of the 1982 crisis conditioned the later development of their respective regional integration policies. In the late 1980s, the end of the Cold War, the spread of globalization and the emergence of competing economic blocs further pressed both countries to find new ways for inserting themselves into the global economy to ensure economic growth.

Again, the two countries followed different paths. Mexico, now under the government of Carlos Salinas de Gortari (1988-1994), continued and deepened its neoliberal strategy and further advanced in the settlement of trade-related issues with the United States to the point where both countries were ready for a comprehensive treaty. Faced with indifference in Europe and Japan, the Mexican government finally asked the U.S. to initiate negotiations for an FTA that became the tripartite NAFTA (Whalley 1993; Salinas 2002). The step was coherent with the logic of its chosen strategy for economic development. It helped to further open the country to the world economy by means of a treaty that ensured preferential access to the large developed market of the U.S. for its industrial exports, and the flow of capital investments from that country.

By late 1988, the Sarney administration began to acknowledge the exhaustion of the ISI strategy that had guided Brazil’s economic development, and started to move the country toward a process of gradual economic liberalization. His successor, Fernando Collor de Mello (1990-1992), pursued the new strategic orientation with renewed vigor by seeking the rapid opening up of the Brazilian economy combined with an accelerated domestic program of economic liberalization in order to achieve the country’s competitive integration to the world economy.

The conception of the bilateral project of economic integration with Argentina changed significantly in accord with the new economic strategy pursued by the Collor administration, which coincided with that initiated by the new government of Argentina headed by President Carlos Saúl Menem (1989-1999). Thus, they agreed on a revamped and
accelerated bilateral project to establish both a free-trade zone and a common market by the end of 1994 through a new approach consisting of generalized, linear and automatic tariff reductions affecting the entire tariff universe, and the coordination of macroeconomic policies.

The bilateral integration scheme thus redesigned eventually became the instrument for the creation of the quadripartite Mercosur once Paraguay and Uruguay joined in. By August 1994, however, realizing that Mercosur would not meet the deadline to be a common market, the four signatory countries agreed to establish the common external tariff, thus effectively transforming Mercosur from an imperfect free-trade zone into a customs union.

Thus, despite the similarity of the liberal approaches implemented by the governments of President Salinas in Mexico and President Collor in Brazil to direct the economic development of their countries, their respective economic strategies diverged in one crucial respect: the manner in which they sought to configure the two countries’ relationships with the world economy in the early 1990s.

By joining NAFTA, Mexico adopted a more open and direct path for its insertion in the global economy through economic integration with advanced developed economies structured around a comprehensive free-trade agreement. It was a defining prelude to the subsequent transformation of Mexico into a major Latin American trading power via the negotiation and conclusion of numerous FTAs with both developed and developing countries from different parts of the world (Ortiz Mena L.N. 2004).

In contrast, Brazil chose a less open and more indirect route via the simultaneous support for the creation of Mercosur and resistance to the U.S.–sponsored Initiative for the Americas. Instead of directly procuring economic integration with advanced industrialized countries, Brazil prioritized the strengthening of its international bargaining capacity via a customs union with other developing Southern Cone countries. Since then, Brazil’s has
projected itself internationally as a global trader but it has been reluctant to conclude preferential trade agreements with advanced industrialized economies like the United States and the European Union (Veiga 2004).238

**Ideational Factors**

A variety of internal and external variables conditioned Mexico’s and Brazil’s foreign economic policy options. Yet, how policymakers viewed and interpreted the impact of those factors as they generated threats and opportunities for their countries’ national interest was a critical intervening factor that affected their policy choices. Their views and interpretations as well as the policy designs that ensued emerged through the lenses of the ideas that informed and guided their political thinking at that time.

In Mexico, the selection of Miguel de la Madrid as the official PRI candidate for the 1982 presidential elections in the aftermath of the debt crisis signaled a momentous shift in the correlation of political forces within the party. Given the presidential-corporatist structure that dominated the Mexican political system at that time, this selection not only determined the successful takeover of the PRI’s direction by the candidate’s faction and his subsequent electoral victory in the presidential contest. It also ended the longstanding ideological hegemony of national-developmentalism in the party and in the direction of Mexican politics by bringing to power a new set of liberal political and economic ideas that would shape a new strategic course for Mexico’s economic development.

Structural constraints imposed by the severe debt crisis of 1982 did not prescribe De la Madrid’s new economic strategy of export-led growth based on market-oriented structural reforms and the opening up of the economy through unilateral trade liberalization. It was rather a response dictated by the choices made by the president and the small group of

\[238\] Amorim (2007) explains Brazil’s approach in this regard, as follows: “With developed countries, the expansion of our economic relations does not necessarily depend on the negotiation of free-trade agreements. In our experience, these agreements are difficult to negotiate by virtue of the many protectionist barriers that developed countries refuse to eliminate, especially in areas in which we are competitive—as in the case of agribusiness” (2007, 73).
government officials that controlled the political decision-making process dedicated to
economic affairs under the influence of the liberal ideational framework that shaped their
analyses.

Something different occurred in Brazil. The 1982 debt crisis did not lead to a sudden
end of national-developmentalism as the guiding doctrine for economic development and
foreign policy. It remained dominant during the final years of the military regime, and
continued controlling the political thinking of Brazilian elites for the greater part of the
Sarney administration. Thus, neither the end of international financing and its severe
economic consequences nor the transition to a democratic civilian government brought to
power a new set of ideas that could have shaped an earlier process of economic liberalization
and the opening up of Brazil to the world economy.

One important factor that helps to explain the two countries’ contrasting susceptibility
to changing their dominant development paradigms in the face of severe external constraints
is the different situation of relative external vulnerability in which they found themselves at
the beginning of the international financial crisis of 1982. Mexico’s relatively weaker
economic position made it more vulnerable to the effects of the crisis, as demonstrated by its
inability to service its debt in August 1982, an event that is generally considered the
beginning of the Third World debt crisis. This greater vulnerability made a sector of
Mexico’s political elite more predisposed to replacing national-developmentalism by
neoliberal thinking.

The difference in economic strength largely originated with the divergent economic
strategies adopted by Mexico and Brazil at the time of the 1970s oil shocks. Mexico diverted
its economic focus to developing the production of newly found oil reserves for export, while
Brazil centered on developing alternative sources of energy and on deepening its ISI model,
thus further advancing in the integration of its industrial structure and expanding the export of
manufactured goods. As a result, Brazil, an oil importer that had been adversely affected by the oil shocks, was now in a relatively better position to withstand external pressures derived from the debt crisis than Mexico, which also suffered from the sudden fall in the international price of oil that occurred in mid-1981 (Villarreal 1990).

Therefore, national-developmentalism maintained a dominant influence among the Brazilian political elite that was cemented by the relatively successful results obtained through the ISI model that it had inspired. These achievements contributed to the belief that Brazil, because of its size and level of development, was relatively less vulnerable to external pressures, less dependent on imports (which the need to service its international debt had made more onerous), and thus more capable of generating international reserves through exports (Sarney 1986). Thus, the debt crisis did not lead in Brazil to an immediate breakup of the consensus around the dominant paradigm for economic development but to an adaptation of the ISI strategy to the new international constraints.

Accordingly, when the government of President Sarney initially decided to pursue bilateral economic integration with Argentina in the mid-1980s, its conception of the project reflected the autonomist orientation of a defensive economic strategy drafted according to tenets of national-developmentalism. Similarly, the fact that the government of President De la Madrid showed receptivity to the pro-free-trade lobby of the MEXUS, the bi-national coalition of business, and also reacted positively to the pressures from the United States regarding trade policy, was not a direct result of structural economic constraints, although these played an important conditioning role. The determining factor that led to this political behavior was the liberal orientation of De la Madrid’s policies, which tended to coincide with those of the MEXUS and the United States.

In this manner, the contrasting development paradigms that influenced the governments of President De la Madrid and President Sarney were crucial intervening factors
in the interpretation of national interests and the design of different economic strategies for Mexico and Brazil. Their foreign economic policies emerged from these strategies and the paradigms that inspired them.

Carlos Salinas de Gortari continued and deepened the new strategic course that the government of De la Madrid had established for the country. Salinas not only shared his predecessor’s vision for the economic development of Mexico, but he had actually been a key member of the previous administration and had participated in the elaboration of its policies.

The continued political prevalence of the development paradigm inaugurated by De la Madrid however, depended on Salinas being elected as the new president of Mexico in 1988. The fact that Salinas prevailed by a margin that was the smallest of any previous PRI candidate and amid serious allegations of fraud on his part evidenced that a return to the predominance of national-developmentalism in Mexico was possible, via the electoral triumph of his main opponent, Cuauhtémoc Cárdenas, candidate for the left-leaning PRD.

Once he became President of Mexico, however, Salinas consolidated the influence of the liberal framework over foreign economic policy, including regional economic integration. In this sense, during his administration there was a cohesive orientation toward economic opening up, and the decision to join NAFTA marked the beginning of a consistent Mexican regional integration policy based on FTAs with developed and developing countries that reflected a liberal vision of trade.

In Brazil however, the emergence of neoliberal thinking toward the end of Sarney’s government and its consolidation during the Collor administration did not completely overcome the influence of national-developmentalism over the country’s foreign economic policy. Thus, trade liberalization began in late 1988 during Sarney’s Presidency and advanced

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239 Despite the initial predominance of national-developmentalism in the Sarney administration, an incipient liberal current of thought that advocated a policy of gradual foreign trade liberalization was already present. Its two most visible representatives were perhaps the secretary general of the Brazilian Foreign Ministry, Paulo Tarso Flecha de Lima (1985-1990), who also was a close advisor of the President, and the head of the Customs Policy Commission, José Tavares de Araújo (1985-1988).
with President Collor, but there was a persistent defensive posture in Brazil’s international trade negotiations with developed economies, that continued to reflect the ideological influence of the national-developmentalist paradigm (Veiga 2004). Such influence was present in the explicit reference to the formation of a Latin American community of nations as a strategic goal of Brazil’s foreign policy by the 1988 Constitution, which expressed a developmentalist consensus among the political elite.

Brazil’s foreign policy for regional integration combined the contradictory influences of liberalism and national-developmentalism. Mercosur, for example, established an accelerated time table to eliminate tariffs and non-tariff barriers over all traded goods among the four countries that formed it, which represented a liberal approach to trade. But it also instituted a protective common external tariff that favored Brazilian industrialists, which reflected the intellectual influence of national-developmentalism.

Another example of ideological ambivalence is Brazil’s response to the U.S.-sponsored Enterprise for the Americas Initiative (EAI) during the Collor administration. As a government that appeared to be under the dominant influence of neoliberal ideas and determined to integrate Brazil with the so-called “first world,” one would have predicted more receptivity on its part to the EAI as an opportunity to engage the United States in the negotiation of an FTA. Yet, the Brazilian government resisted the Bush initiative as a threat to Brazil’s interests, that is, its interpretation of the EAI and its corresponding political response were shaped by national-developmentalist logic.

In this fashion, despite a coincidence in the liberal framework that appeared to guide the governments of both countries in the early 1990s, their actual interpretation of national interests, design of economic strategies, and approaches to foreign trade and regional

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240 Itamaraty’s Secretary General Paulo Tarso Flecha de Lima acknowledged the existence of two competing ideological currents within Itamaraty, which he labeled “liberal” and “nationalist” (Casarões 2012).
integration differed. The main ideational source of that difference was the extent to which national-developmentaldism retained a degree of influence over policymaking.

In Mexico, neoliberal thinking was a more consistent ideological factor influencing the making of foreign economic policy than in Brazil in the early 1990s. The government of President Salinas prevented ideological inconsistencies by marginalizing potential adversaries, such as the ministry of foreign relations, a nationalist stronghold, from the main decision-making process, thus facilitating the decision to join NAFTA.

In contrast, despite President Collor’s seemingly steadfast adherence to a liberal outlook there was a persistent ideological duality in the Brazilian foreign economic policymaking process leading to Mercosur. A factor that appears to have played an important role in this regard is the participation of Itamaraty, where national-developmentaldism was still influential, in the process that decided Brazil’s policy for Mercosur.

**Business Elites**

Two important differences distinguished the role of the business sector in the decision-making process of NAFTA from that of Mercosur. One is that in Mexico, despite the relative institutional insularity of foreign economic policymaking from societal influences, there was an important proactive effort by a section of the business community to influence the policy outcome in its favor. In the case of Brazil, business elites mainly played a reactive role in a process initiated and guided by state policymakers, thus evidencing a relative lack of interest in the project. However, once the bilateral integration project with Argentina began to take shape and demonstrate that was beneficial to their interests, Brazilian business sectors lent their necessary support, which continued throughout the process leading to Mercosur.

A factor that affected the dissimilar behavior of the business sector in each country was that in Mexico, ideas played an important role in helping to forge the bi-national
coalition of business elites that lobbied for NAFTA, because of the agency effort of the U.S. Council’s business leaders. In contrast, there is no available evidence that in Brazil interested political entrepreneurs attempted to build consensus to organize a lobbying effort among business elites in support of the initial integration project with Argentina and later in connection with Mercosur. Thus, ideas could not play a similar role in Brazil.

The other difference is that in Mexico, the interests of export-oriented business sectors that favored free trade tended to prevail in the making of foreign economic policy, while in Brazil, the interests that predominated in that regard were those of domestic-market-oriented industrial elites. These business segments had growing trade links to the Latin American regional market but were at the same time very sensitive to competition from advanced industrialized countries, which caused them to maintain a defensive attitude toward foreign trade negotiations with the United States or the European Union (Markwald 2006). They also showed concern for what they perceived as potential unfair competitive advantage from Mercosur partners if they were able to adopt a tariff structure that was lower than the one used by Brazil.241 Thus, they lobbied the Brazilian government for the establishment of a common external tariff to protect Brazil’s industrial interests and hence helped to transform Mercosur into a customs union (Marques 2008).

In this manner, in both countries there was a convergence of interests between the government and the business elite, which was necessary for the successful implementation of the corresponding integration projects they pursued. Yet, the kind of interests that united these two actors was different in each country.

In Mexico, government needed to ensure economic growth and wanted to do it through an export-led strategy that included preferential access to the huge U.S. market and

241 The concern of Brazilian business in this regard was evidenced during the negotiations to determine the degree of openness that the customs union should have: “Argentina, like Uruguay and Paraguay, had low tariffs on capital goods; one of its aims in opening its economy was to allow its firms cheap access to imported technology. Brazil, in contrast, wanted to protect its own capital goods industry” (Economist 1996).
inflow of capital investments from the U.S. business sector. This coincided with the business interests of U.S. multinationals and large internationally-oriented Mexican enterprises, which wanted a trade agreement that could minimize transaction costs and mitigate political risks while also granting preferential access to markets, liberalizing foreign direct investment, strengthening intellectual property rights, and establishing dispute settlement procedures.

In Brazil, the locus of mutual interest was different. In the pursuit of economic growth, the government wanted to secure a market for the country’s manufactured exports that could also serve as a training ground for the gradual modernization of its industrial park so as to make it internationally competitive, while at the same time establishing an economic bloc to strengthen its bargaining capacity in international negotiations with the United States and the European Union. The interests of the Brazilian industrial elite were similar. Industrialists needed a regional preferential market for their manufactured products that was also protected by an external common tariff so that they could avoid a sudden open competition with the industry of developed economies.

## Comparative synthesis

In the early 1990s, Mexico and Brazil were the two largest and most industrially advanced developing countries in Latin America. They enjoyed considerable regional reach but were significantly weaker than advanced industrialized countries like the United States, major European powers, and Japan. Having comparable economic and power attributes determined that the two countries also shared core national interests in terms of economic development and international autonomy. These interests broadly shaped their international behavior and thus also affected their decisions to join regional integration agreements like NAFTA and Mercosur.

Notably, despite their analogous strategic interests at that time, each country developed a distinctive policy for regional integration. Mexico opted for a North-South FTA
with the United States and Canada, two stronger partners with advanced developed economies. Brazil decided instead to join a South-South customs union with Argentina, Paraguay and Uruguay, three weaker developing partners with different degrees of lesser industrial development than Brazil’s.

Moreover, in the eyes their respective policymakers, Mexico’s and Brazil’s divergent RIA choices satisfied the requirements of their national needs at a time of significant structural changes in the international political economy. The key to this apparent puzzle lies in the different effect that a similar set of international and domestic factors had in each country’s foreign policy processes and decisions.

The state structure dedicated to foreign economic policymaking was a key factor that intervened to shape the decision-making processes of the two countries. The relative institutional insulation and autonomy that this structure enjoyed determined that policy outcomes in both countries originated in a restricted circle of policymakers that included the President, close advisors, members of his cabinet, and related governmental bureaucracies. Political decisions largely depended on the issues at hand, the President’s leadership style, the interests that motivated the members of this group, the kind of ideas and approaches that informed their thinking, and the actual distribution of political power among them.

The success of a RIA largely depends on the fact that it meets a demand for economic integration from market forces represented by business elites, who would stand to gain from the institutional arrangement provided by the government (Mattli 1999). Thus, although Mexico’s and Brazil’s political structures at that time restricted the participation of societal actors in foreign economic policymaking, the successful launching of NAFTA and Mercosur required at least the political support of the business sector.

The business backing of both projects existed, but the manner in which it emerged was different in each country. In Mexico, there was a pro-free-trade binational business lobby
that proactively sought to influence the NAFTA decision-making process and provided early political support to the government. In the case of Brazil however, the initial reaction of the business elites to the bilateral integration project with Argentina initiated in 1986 was a mix of skepticism and resistance. Their support was forthcoming only after the integration project was under way and the potential gains became tangible, but business participation continued to be subordinated to the initiative of governmental policymakers.

Overall, Mexico’s and Brazil’s different policy choices for regional integration emerged from similar institutional patterns of decision-making. The key question that drove the process in each country was how to re-configure global economic relations to ensure continued economic growth in a changed international political economy. The divergent paths that top Mexican and Brazilian foreign policymakers chose to insert their countries into the world economy were thus major determining factors that set their policies for regional integration apart.

The roads they chose responded to different re-interpretations of their national interests in light of external events that changed the conditions of Mexico’s and Brazil’s existence. In this regard, international factors played an important role in triggering domestic political processes to realign their needs for development and autonomy accordingly. A most important event with major consequences for the subsequent course of Mexico’s and Brazil’s political economies through the 1980s and early 1990s was the international debt crisis. It ended the possibility of continuing the strategy of growth through indebtedness that both countries had adopted since the 1960s to promote their import-substitution models of industrialization. In so doing, the crisis forced policymakers to reassess their countries’ options, encouraging them to adopt different development strategies and corresponding foreign economic policies according to their respective domestic political conditions and processes.
Previous international experiences that both Mexico and Brazil had with regional projects like LAFTA and LAIA also played a role in conditioning their strategic responses in late 1980s and early 1990s. These experiences made them aware of their relative international standing in Latin America and the potential opportunities that such regional markets had for each of their economies. In essence, they suggested that despite the similar relevance that the LAIA market had for the export of Mexican and Brazilian manufactures, Brazil had an edge because of the higher level of trade interdependence it had achieved with other countries of the area.

The foreign economic policies of the United States in the 1980s also played an important role in shaping the strategic calculations and policies of Mexico and Brazil in two main ways. One was through political pressure to force a change in these countries’ trade policies away from what the U.S. labeled to be “unfair” practices. The other was through a new emphasis on bilateral free-trade agreements vis-à-vis a traditional support for multilateral agreements. These two aspects of U.S. trade policy evoked contrasting reactions from Mexico and Brazil that contributed to their different foreign policies for regional integration.

Mexico tended to acquiesce to U.S. demands, and visualized an opportunity in the new U.S. openness to trade bilateralism to forge economic integration via a comprehensive free-trade agreement. Brazil resisted U.S. pressures and focused instead on creating an alternative South-South economic bloc.

Several new international developments toward the end of the 1980s and early 1990s, such as the emergence of competing economic blocs, the spread of globalization, and the end of the Cold War, were additional factors that further pressed Mexico and Brazil to search for new ways to insert their economies in the global currents of trade and investment in order to satisfy their need for development and autonomy. Again, the responses from Mexican and
Brazilian policymakers diverged, thus leading to the development of different regional integration policies.

In both Mexico and Brazil, the existence of centralized and autonomous institutional frameworks dedicated to foreign economic policymaking facilitated that key policymakers’ political and economic views played an important intervening role in the redefinition of national interests and related strategies to satisfy them. In Mexico, neoliberal ideas shaped policymakers’ conceptualization of the country’s needs for development and autonomy. In their view, economic growth demanded Mexico’s immersion in the international currents of trade and investment, particularly those of advanced developed economies. Likewise, the effective defense of the country’s autonomy required them to acknowledge the inevitability of the international interdependence brought about by globalization.

Brazilian strategists viewed their core interests differently through the combined lenses of liberalism and national-developmentalism. Economic development was conceived as part of a competitive integration with the world economy that relied on a more cautious and defensive opening up of the economy. Autonomy continued to be a paramount concern, as the recognition of a more interdependent international system was accompanied by a concern for building South-South coalitions that mediated the relations with the major international centers of power.

Diverging visions of strategic interests gave rise to differing strategies for economic development and international behavior. In turn, these strategies determined the paths to integrate Mexico and Brazil into the international political economy. In Mexico, the government chose export-led growth based on market-oriented reforms and economic opening up through trade liberalization. Its foreign policy focused on generating advantageous external conditions for economic development. NAFTA was a type of regional integration scheme that fitted the vision of Mexican policymakers to insert their country in
the international currents of trade and investment via its association with the United States.

Brazil’s policymakers decided to focus on securing a regional market for the export of manufactured goods that could serve to gradually modernize its industrial structure and make it more competitive in global markets. They promoted economic liberalization and opening up but at a more gradual pace than Mexico as they resisted open competition from the United States and Europe. Foreign policy emphasized the creation of favorable external conditions for the autonomous behavior of Brazil. Mercosur was the preferred integration scheme for Brazil because it satisfied the defensive strategy devised by the government to bargain its way into the world economy protected by a common external tariff.

Conclusions

My study addressed two main questions that have received inadequate attention in the pertinent literature: Why and when do governments decide to join regional integration agreements? Why do they opt for a particular type of scheme? To do so, I undertook a comparative study of the foreign economic policy processes and decisions that led Mexico to join NAFTA and Brazil to join Mercosur. I chose a comparative methodology because it not only brings together in-depth case study and cross-case comparison, which mitigates the risk of making erroneous inferences, but it also allows a higher level of generalization than a single case (Rosenau 1980; George and Bennett 2004). I structured the study of the individual cases applying the Foreign Policy Analysis methodology (Hudson 2007), which distinguishes several basic levels of analysis: the individual decision-maker, group decision-making or bureaucratic politics, domestic politics, and international system. I used an eclectic analytical framework as recommended by scholars to study a phenomenon as complex as regional integration (Gilpin 2001; Moravcsik and Schimmelfennig 2009).

In essence, my argument claimed that both the decision to join a regional integration agreement and the choice of a particular type of agreement crucially depend on how top
policymakers want to configure the country’s relationship with the world economy. Their interpretation of core national interests and their selection of economic strategy largely shape this determination. A critical intervening factor in this process is the political and economic ideas that inform and guide the behavior of political leaders.

In this regard, I hypothesized that a greater predominance of neoliberal ideas will increase the likelihood that the government will adopt an economic strategy that emphasizes opening up to the world economy and that it will seek North-South free trade schemes that rely on contractual agreements to govern the integration process. In contrast, a greater influence of developmentalist ideas will increase the probability that the government will choose a defensive strategy of economic development that resists open integration with the international economy and that it will prefer South–South integration schemes based on intergovernmental bargaining and consensual decision-making to manage the integration process.

Another important intervening variable is the institutional structure of foreign policymaking that shapes and manages the decision making process. In this case, I hypothesized that the greater the institutional power of the presidency vis-à-vis the legislature and the greater its political autonomy from domestic societal influences, the greater would be the relevance of top decision-makers’ ideas in foreign economic policymaking, including ideas on regionalism.

I also argued that international factors play an important role in determining the external conditions under which states must define their interests and determine strategies to satisfy them, including policies of regional integration. On balance, however, the most decisive explanatory variables affecting policy decisions concerning regional integration are domestic.

In Chapter 2, I investigated why the government of President Salinas decided to
pursue a free-trade agreement with the United States which set in motion the creation of NAFTA. I showed that drastic international changes caused by the end of the Cold War, globalization, the formation of economic blocs, and the new trade policy of the United States created propitious conditions for a radically new regional integration initiative. I also noted the important lobbying efforts of a powerful pro-free trade Mexican-U.S. business coalition. Yet, I highlighted the decisive role played by a pragmatic president and the small group of government officials that controlled the foreign economic policymaking process. In this regard, I stressed the intervening influence of neoliberal ideas that oriented Mexican decision-makers in their assessment of national interests, in devising an export-led economic strategy based on market-oriented reforms and trade liberalization, and in determining that the country needed to engage the United States in the negotiation of a free trade agreement.

In Chapter 3, I studied the causes that induced the government of President Sarney to pursue a project of bilateral economic integration with Argentina starting in 1986, which eventually became the precursor of Mercosur. I noted the important conditioning role played by international factors such as the debt crisis of 1982, the new protectionist policies of advanced developed economies, and the increasing strategic importance of the Latin American Integration Association (LAIA) for Brazil’s industrial development. I underlined, however, the more decisive effect of domestic variables, such as the institutional structure of foreign economic policymaking, the agency part played by President Sarney and his close advisors at the Ministry of Foreign Relations, and the dominant ideological influence of national-developmentalism, which shaped an economic strategy centered on a protectionist model of industrial development and international autonomy.

In Chapter 4, I analyzed why the government of President Collor decided to continue the integration project initiated by his predecessor, which led to the creation of Mercosur. I analyzed the impact of international variables such as the continuing attraction of the
Southern Cone market for Brazil’s development and modernization, the positive initial integration experience with Argentina, the emergence of international economic blocs, and the launching of the “Enterprise for the Americas Initiative (EAI) by U.S. President Bush in June 1990. Yet, I focused on the more critical influence of domestic factors such as the elite-wide political consensus in favor of Latin American integration, the leading agency role played by the president in formulating the integration project in the Southern Cone as an instrument for the competitive integration of Brazil into the world economy, the continuing relevance of the Foreign Office in shaping Brazil’s integration policies, and the peculiar mix of neoliberal and developmentalist ideas that molded the overall political thinking of the government.

Finally, in this chapter, I compared the processes and decisions through which Mexico and Brazil defined their policies for NAFTA and Mercosur, respectively. This comparative analysis showed that in both countries the changing structure of the international political economy provoked a re-interpretation of core national interests (i.e., economic development and autonomy), the adoption of new economic strategies, and the consequent definition of new foreign economic policies to configure the country’s insertion into the world economy in order to primarily ensure economic growth and also preserve international autonomy. These were key processes and forces that drove the definition of new regional integration policies.

The presidents and the reduced group of governmental actors working within the institutional structure dedicated to foreign policymaking played a decisive role in each country’s decision to enter a regional integration agreement (i.e., NAFTA and Mercosur). The contrast between the clear predominance of neoliberal ideas in Mexico and the prevalence of a more ambivalent mix of neoliberal and developmentalist ideas in Brazil largely explain the different views that policymakers developed on national interests, strategies of economic development, and policies of regional integration. These ultimately
determined the different integration paths chosen by Mexico and Brazil.

Lessons for the Literature and the Discipline

The evidence from my research of the Mexican and Brazilian foreign policymaking processes and decisions points to the importance of powerful decisionmakers within the executive as pivotal political actors whose preferences are critical in determining regional integration outcomes. Leaders choose the economic development strategy that establishes how they want to configure the country’s relations with the world economy, which is a major factor influencing regional integration decisions. In turn, top decisionmakers’s interpretation of core national interests is an important variable shaping the choice of development strategy. Finally, leading policymakers’ political and economic ideas are a crucial intervening factor because they provide the lens through which national interests are interpreted, economic strategies are chosen, and specific integration policies are decided upon.

My study brings attention to the role of strategies for economic development, a causal factor that has been relatively overlooked by the literature in connection with the sources of regionalism. Inasmuch as economic strategies determine the relationship that a country wants to establish with the international economy (Gereffi and Wyman 1990), they largely shape the design of foreign economic policies that a government adopts, including regional integration policies. Thus, I contribute to account for the relationship between the political economy of economic development and processes that determine foreign policy preferences, two issue areas that often appear disconnected in scholarly studies.

In addition, I show why and how domestic foreign policymaking processes are critical to understand the mechanisms through which national economies connect with the structure of the international political economy. As noted by Hill (2003), “[f]oreign policy is at the hinge of domestic politics and international relations” (2003, 23). Thus, while policymakers’ choice of economic strategy shapes a country’s relationship with the world economy, foreign
policy processes ultimately define such relationships via specific policies.

Also, my investigation relates to the sources of variation in foreign policy decisions. In this regard, I offer a distinctive explanation for the divergent path taken by the integration policies of Mexico and Brazil, two countries that shared similar national attributes and confronted analogous international challenges. In this account, I relate national interests, strategies of economic development, and regional integration policies in a causal sequence.

The executive (i.e., the presidency) a collective actor whose behavior is shaped by the institutional structure of foreign policymaking, constitutes the vital link that activates the decision chain. The definitions required along the decision-making sequence depend on the president’s leadership style, the actual distribution of political power within the decision-making group, the interests that motivated its members and the kinds of ideas and approaches that were prevalent among them. In this manner, I suggest a causal mechanism that relates broad national interests to final foreign policy decisions and helps to explain the source of variation in foreign policy outcomes.

My work validates various claims made by different theoretical approaches. Changes in the structure of the international political economy precipitated domestic processes that led to new policies in favor of regional integration (Waltz 1979; Keohane and Nye 1989; Gilpin 2001; Grieco 1997; Garrett 1992; Sandholtz and Zysman 1989; Moravcsik 1998; Moravcsik and Schimmelfennig 2009). Political elites in both Mexico and Brazil reacted to these changes by reconsidering their interests and roles (Sandholtz and Zysman 1989; Gilpin 2001).

In the case of Mexico, growing economic interdependence with the United States was a powerful incentive (Haas 1958; Deutsch et al.1957; Keohane and Nye 1989; Garrett 1992; Moravcsik 1998). The dynamic of bilateral relations that ensued between Mexico and the United States on the one hand and between Brazil and Argentina on the other, which
facilitated their road towards economic integration, lends support to the process of transactions and interactions through which Adler and Barnett (1998) explain the emergence of security communities. Brazil’s pursuit of bilateral integration with Argentina in the mid-1980s fits Gilpin’s (2001) claim that regional integration is often a response to competitive international threats, where partners form defensive regional alliances.

Mexico’s example illustrates how powerful socio-economic actors [i.e., MEXUS, the binational coalition of Mexican and U.S. corporations] can influence national preference formation favorable to economic integration (Sandholtz and Zysman 1989; Milner 1997; Moravcsik 1998). The crafting of Mercosur validates Garrett’s (1992) argument that the preferences of stronger states often prevail in the institutional design of regional agreements. Mexico’s and Brazil’s contrasting reactions to the foreign economic policies of the United States resonate with Grieco’s (1999) use of the asymmetries-of-interdependence concept to explain Japan’s and Germany’s divergent behavior towards regional integration at the end of the Cold War.

The important role played by the institutional structure of foreign policymaking in both Mexico and Brazil confirms the relevance of Milner’s (1997) claim that the makeup of the “institutional structure of power sharing” is one of the keys to understand the dynamics of state policymaking. It also validates the importance of studying the institutional setting of group decision-making and bureaucratic politics according to the approaches developed by Allison (1971) and Halperin and Clapp (2006). The agency role played by the chief executives of both countries in the definition of regional integration confirms the emphasis that approaches to foreign policy decision-making place on the study of individual decision-makers (Snyder et al. 2002; George 1969; Stein 1994; Jervis 1976; Herman et al. 2001). The processes through which Mexican and Brazilian policymakers came to redefine the national interests of their countries and adopted strategies of economic development in light of
changing international conditions substantiates McNamara’s (1998) argument that policymakers learn from policy failures, adopt new paradigms, and emulate successful experiences.
List of Interviews

All interviews were conducted in person by the author, unless otherwise indicated.

I. Brazil


Albuquerque, J. A Guilhon. Research Professor in the Center for Research in International Relations (NUPRI) at the University of São Paulo. São Paulo, June 17, 2010.


Barbosa, Rubens A. Senior Director of Albright Stonebridge Group. Former career diplomat. Brazilian Ambassador to the United States (1999-2004). Ambassador to the United Kingdom (1994-1999). Served as: Secretary for International Affairs at the Ministry of Finance; Brazilian Permanent Representative to the Latin American Integration Association (LAIA); Under Secretary-General for Regional Integration, Trade and Economic Affairs in the Ministry of Foreign Relations; and Coordinator of the Brazilian Section of Mercosur, the Southern Cone Common Market. Written questionnaire by author, Rio de Janeiro, June 26, 2010.

Baumann, Renato. Professor in the Economics Department of the University of Brasília (UnB). Director of the Brazilian Office of the Economic Commission for Latin America and the Caribbean (ECLAC). Telephone interview by author, Brasília, July 14, 2010.


Cervo, Amado Luiz. Professor in the International Relations Institute (IREL) at the
University of Brasília (UnB), and at Rio Branco Institute, Ministry of External Relations. Brasília, July 14, 2010.


**Fleischer, David Verge.** Professor in the Political Science Institute (IPOL) at the University of Brasília (UnB). Brasília, July 5, 2010.

**Gregory, Denise.** Executive Director of the Brazilian Center for International Relations (CEBRI). Jointly with Ambassador Botafogo Gonçalves. Written questionnaire by author, Rio de Janeiro, December 23, 2010.

**Iglecias, Wagner Tadeu.** Professor in the School of Arts, Sciences and Humanities at the University of São Paulo. São Paulo, June 23, 2010.


**Mancuso, Wagner Pralon.** Professor in the School of Arts, Sciences and Humanities at the University of São Paulo. São Paulo, June 21, 2010.


**Onuki, Janina.** Professor in the International Relations Institute (IRI) and in the Center for the Study of International Negotiations (CAENI) at the University of São Paulo. São Paulo, June 6, 2010.

**Pio da Costa Filho, Carlos Roberto.** Professor in the International Relations Institute (IREL) at the University of Brasília (UnB), and at the Rio Branco Institute, Ministry of Foreign Relations. Brasília, July 7, 2010.


**Saavedra Rosar, Soraya.** Executive Director of the International Negotiations Unit at the National Confederation of Industry (CNI). Brasília, July 7, 2010.


**Vaz, Alcides Costa.** Professor at the International Relations Institute (IREL) of the University of Brasília (UnB). Brasília, July 7, 2010.


**Vidigal, Carlos Eduardo.** Professor in the History Department at the University of Brasilia (UnB). Brasília, July 16, 2010.

**Vigevani, Tullo.** Professor of Political Science and International Relations at the State University of São Paulo (Unesp). Researcher at the Center for the Study of Contemporaneous Culture (Cedec), and at the National Institute of Science and Technology for the Study of the United States (INCT-INEU). São Paulo, June 22, 2010.

**II. Mexico**

All interviews took place in Mexico City, unless otherwise noted.

**Anaya Pons, Ramon.** Former Deputy Director General for Central America and the Latin American Integration Association (LAIA), Ministry of Economy. October 29, 2010.

**Anguiano Roch, Eugenio.** Research Professor at the Center for Economic Research and Teaching (CIDE). Former Ambassador to Costa Rica, People’s Republic of China, Argentina, Austria, Brazil, and Permanent Representative of Mexico to the United Nations (Vienna). Served as Chief Director for Economic Affairs at the Mexican Foreign Office. November 8, 2010.


**Baker Pineda, Juan Carlos.** Director General for Evaluation and Monitoring of Negotiations, Ministry of Economy. October 22, 2010.

**Cordera Campos, Rolando.** Professor Emeritus in the Faculty of Economics at the Universidad Nacional Autónoma de México (UNAM). Coordinator of the University
Program on Development Studies. Weekly columnist for the newspaper La Jornada. President of the Pereyra Foundation, A.C. Director of the magazine Configuraciones. November 23, 2011.


**De la Mora Sanchez, Luz Maria.** Director and founder of LMM Consulting. Professor at the Center for Economic Research and Teaching (CIDE). Former Unit Chief of Economic Relations and International Cooperation at the Mexican Foreign Office. Served as Unit Chief of Coordination of International Negotiations at the Ministry of Economy. Worked as Mexico’s Alternate Representative to the Latin American Integration Association (LAIA), and was member of the Mexican negotiating team for NAFTA in the automotive sector. October 25, 2010

**Dussel Peters, Enrique.** Professor in the Post-graduate Studies Division of the Economics Faculty at the National Autonomous University of Mexico (UNAM). November 18, 2010


**Fuentes Berain, Rossana.** Editorial Vice President of Grupo Editorial Expansión. Worked as: Editorial Director at El Universal; Deputy Director of Special Affairs and Investigation at Reforma; Business section editor at El Financiero; and Notimex correspondent in Nueva York. November 9, 2010.

**Garrido Noguera, Celso.** Professor in the Economics Department at the Autonomous Metropolitan University (UAM), Campus Azcapotzalco, Mexico City. October 28, 2010.

**Jasso Torres, Humberto.** General Director of the National Chamber of the Sugar and Alcohol Industries (CNIAA). Former Director of International Negotiations at the Ministry of Economy. October 27, 2010.

**López-Córdova, José Ernesto.** Senior Country Economist for Mexico at the Inter-American Development Bank (IDB). October 20, 2010.

**Márquez Manquero, Adela Isela.** Coordinator of Advisors at the Undersecretariat of Foreign Trade, Ministry of Economy. October 21, 2010.


**Pellicer, Olga.** Research Professor at the Autonomous Technological Institute of Mexico (ITAM). Served as: Alternate Ambassador to the United Nations (New York); ambassador to
Austria; ambassador to Greece; and Permanent Representative to the International Organizations headquartered in Vienna among other diplomatic positions. October 26, 2010.


**Villarreal Arrambide, René Patricio.** Economist. Former Deputy Minister at the Ministry of Commerce and Industrial Development (SECOFI), and at the Ministry of Energy, Mining and Parastatal Industry (SEMIP). Telephone interview, November 9, 2010.

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