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The Bargaining Triangle

Negotiations on Free Trade Agreements between the EU-
Mercosur and the United States-Mercosur

The Case of Brazil's Foreign Policy

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Abstract

Why has neither the EU nor the United States been able to conclude an agreement on free trade with Mercosur? Many factors have affected the negotiation process and its outcome, and one of them is the role of Brazil. The aim of this thesis is to describe and to explain which factors, based on different theoretical concepts that have influenced the Brazilian foreign policy towards the negotiations between the EU-Mercosur and the United States-Mercosur, and its outcome. To examine the research question, this thesis has used three different theoretical approaches that are associated with external and internal factors to the state. The realist perspective argues that the stalled negotiations between the EU-Mercosur and the United States-Mercosur originate from Brazil's aspirations of emerging as a regional power. An agreement on free trade with the EU or the United States would diminish Brazil's leverage in the region and in particular threaten its autonomy. On the contrary, the complex interdependence theory emphasizes that the stalled negotiations depends on Brazil's commitment to WTO negotiations and the contemporary failure of reaching consensus in the DDA. Last, the domestic oriented theory underlines that the FTA negotiations have ended in a situation with deadlock, due to disagreements over sectors in which the involved parties are lacking comparative advantages.

Key words: Brazil, Mercosur, EU, US, deadlock, foreign policy, free trade negotiation

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1 Introduction and Method

1.1 Field of Research

The idea of an economic regional integration in Latin America is not new. In fact, discussion and installment of a common market¹ in the region took place already in the early 1960s. Although various integration projects have been launched in Latin America it was not until mid- 1980s two major players, Argentina and Brazil, decided to form a common market of the Southern Cone. After several years and forms of economic co-operation Argentina and Brazil decided to sign the Treaty of Asunción in 1991, which also included Paraguay and Uruguay².

Today, Mercosur is considered to be the third largest trading pact in the world after the European Union, EU and North American Free Trade Agreement, NAFTA (Tollefson, 2002:291). Although the common market of the South has expanded its trading partners to include countries all over the world, the EU and the United States constitute Mercosur's major trading partners. Both the EU and the United States consider Mercosur to be a highly interesting project and for different reasons both parties want to be a part of the integration process in the Southern Cone. The EU and the United States share and promote the same aspiration to make Latin America a more productive and compatible region by strengthening democracy, foster market economy, regionalism and development, but divergence are shown in their ways on how to pursue and to achieve these political and economic goals. The United States launched the project of creating a Free Trade Area of the Americas, FTAA, in 1994. The FTAA involved negotiations with all the states of the hemispheric, with exception for Cuba. The deadline for the completion of the FTAA negotiations was set to be in 2005, and the implementation would follow in subsequent years (Smith, 2001:42ff). The progress of negotiations has, however, during the years been slow and

¹ Latin America Free Trade Association (LAFTA). The Treaty of Montevideo was at first signed by Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay. The agreement was later expanded to include Bolivia, Colombia, Ecuador and Venezuela before it was dissolved by the end of the decade. Examples of other integration project in the Latin American region that since the 1960s have been launched and re-launched are: Central American Common Market (CACM), created in 1961, Andean Pact, 1969 and Caribbean Community, 1973 (Carranza, 2000:41f).

² Member countries of Mercado Común del Sur, Mercosur, are Brazil, Argentina, Paraguay, Uruguay and Venezuela. Bolivia, Chile, Colombia, Ecuador and Peru are associate members.

transformed from a stage of success to a situation ended in deadlock. Simultaneously as the FTAA negotiations preceded, the European Council adopted a general policy proposal for a new partnership with Latin America. In 1995, the EU and Mercosur signed an Interregional Framework for Cooperation Agreement, EMIFCA, with objective of reaching an agreement on free trade. The EU initiated negotiations of a Free Trade Agreement, FTA³, in 1999. After several years of formal negotiations the parties did not manage to conclude an agreement with a fixed deadline in 2005. In November 2006 the negotiations were re-launched, but no significant process was made and the negotiations have ever since then been stalled (Commission, a).

Why has neither the EU nor the United States been able to conclude an agreement on free trade with Mercosur? Many factors have influenced the negotiation process and its outcome, and one of them is the role of Brazil. Within Mercosur, Brazil has as the largest country of the pact assumed a natural leadership role. For several decades, a dominating direction of the Brazilian foreign policy has been the aspiration of becoming internationally recognized as a "big country" in world affairs. The common market of the South plays a strong and strategic role in this foreign policy goal since a competitive trading pact increases Brazil's leverage and bargaining power at the international arena (Hurrell, 2005:103). As Mercosur's de facto spokes person, Brazil has for several reasons not been able to accept the final proposed FTA from the EU or the United States. The focus of examination therefore becomes on which factors within mainly the EU and the United States that have influenced the Brazilian foreign policy and strategies towards Mercosur and thereby the outcome of the negotiations. This leads us to the concrete research question of the thesis being:

1.1.1 Research Problem

How can the stalled⁴ negotiations on free trade agreements between the EU-Mercosur and the United States-Mercosur be explained from a Brazilian foreign policy perspective?

³ In the thesis the term Free Trade Agreement, FTA, will refer to liberalization of trade in goods and services on a reciprocal basis, with the objective to remove tariffs and import quotas for goods and market access restriction for services (Commission, b).

⁴ In this thesis the term stalled negotiations will reflect a situation of stalemate where negotiations are in deadlock.

1.2 Theoretical Framework

The theoretical framework introduces concepts to be used in analyzing the research question. The objective is to present factors, which offer explanations to the behavior and the position of Brazil, but also to identify and to analyze factors within mainly the EU and the United States, but also Mercosur that has affected the pursued Brazilian foreign policy towards the negotiations and its outcome.

The research problem is a complex issue and there is no shortage of theories on which factors that have influenced on the pursued policy. These factors can, however, be divided into two broad categories of explanations.

The first category of explanations deals with factors *external* to the state and relates to the international environment for explanations, that is, how actions outside the state can affect the possibilities for other states to pursue their most preferred foreign policy goal. This can for example be responses from actions of other powerful states, multinational corporations or international organizations, but also arises from domestic politics and events in a foreign country. In other words, the theories related to the external factors underline the importance of taking the influence of the systematic factors and external actors into consideration in analyzing how states behave towards each other (Beasley et al, 2001:8).

The second category relates to factors *internal* to the state, and focus on how domestic citizens, interest groups and government organizations within the system can be a source of states pursued foreign policy. In contrast to the external factors, the internally based theories underline that internal sources of foreign policy can greatly vary across states' depending on variations of the political system, cultures and leaders, even though they are facing the similar external conditions (ibid).

The thesis will make use of the two categories of explanation and examine the research question from three different theoretical angles that are associated with external and internal factors to the state. The two first theoretical approaches that will be used are the realist and the complex interdependence perspective. The realist perspective will focus on balance of power, external and internal balancing and balance of threat, whereas the complex interdependence will emphasize on cooperation, asymmetric interdependence and regional integration. The theoretical perspective related to internal factors will relate to domestic oriented theories and focus on the role of domestic and non-territorial interest groups, coalitions and the impact of political leaders.

1.3 Methodology and Material

The thesis is based on a theoretical-qualitative analysis with empirical data presented to describe how factors based on theoretical concepts and system of terminology can explain Brazil's foreign policy towards the negotiations on free

trade and its outcome. The idea is not to present and to compare, which of the three theories that offers the “best” insights into the understanding of the stalled negotiations. The purpose of the thesis is instead, based on the theoretical concept, to use the different theoretical perspectives explanatory power to identify and to explain the intentions and objectives of Brazil. This makes the mode of analysis to be deductive and of descriptive and explanatory type, in which relationships between the theoretical concepts and the strategies of Brazil's foreign policy will be established. As both negotiations were initiated by the EU and the United States, a major part of the analysis and discussions of the thesis are based on their actions and goals in the Southern Cone and the Latin American region⁵, and how Brazil has responded to their trade strategies.

In order to be able to describe and to explain the different theoretical perspectives a great variety of sources of information have been used in the thesis. The material presented constitutes of a number of primary and secondary sources. Primary sources, such as documents and reports from the European Commission and the Congress of the United States, on the subject free trade in general, and on the relation between the EU-Mercosur and the United States-Mercosur, in particular, constitute a major part of the study. The documents and reports also have been complemented with articles and analysis from a variety of newspapers. The second empirical material mainly consists of books and articles from different academic journals. The data presented derive from official reports of the European Union's official web page for the Directorate General Trade and External Relations of the European Commission, as well as from reports for member and committees of Congress, and the United States Department of Commerce. The data is also complemented with information from academic journals and news articles. If nothing else is mentioned, the presented trade statistics encompasses the four⁶original Mercosur members and the EU are represented by the EU25.

1.4 Delimitations

When examining the research question it is important to take the time frame into account. Both the EU and the United States have long traditions of relation with Mercosur members. The thesis, will, however, only focus on the time after the creation of Mercosur in 1991 and onwards. Moreover, an in-depth analysis of the technical chapters covering the different sectors of the agreements would complement and bring greater clarity to the factors influencing on the deadlock. However, due to limited resources and time constraints this is considered to go beyond the scope of the thesis.

⁵ The relationship between the United States-Mercosur must be analyzed beyond Mercosur to also include other areas of Latin America.

⁶ Argentina, Brazil, Paraguay and Uruguay

1.5 Disposition

The thesis is divided into six main chapters. This first chapter has explained the aim and purpose of the thesis, as well as a described the method and material used in the thesis. The second chapter concludes the theoretical framework used to analyze the research question. This chapter is divided into three sections, in which the realist, the complex interdependence and the domestic oriented theories are presented. In this chapter, a clear distinction between external and internal theories and factors to state is being made. Chapter three, four and five encompasses a realist, a complex interdependence and domestic oriented theories analysis of the research question based on the theoretical concepts presented in chapter 2. The study concludes with chapter six, in which empirical and theoretical arguments are summarized to explain the research question.

2 Theoretical Framework

2.1 External Factors in Foreign Policy

This and the following section will present the core pillars of the two main theoretical approaches that emphasize on the factors external to the state. Both the realist and the complex interdependence theory underline the importance of understanding how actions from other states or reactions from external conditions affect and influence a state to act in a certain way. The two perspectives also conclude that a state's pursued foreign policy is a result of a specific state's rank, status and relations to other states in the international system (Beasley et al, 2001:13). These theories differ however, in their assumptions whether a state's foreign policy is merely a reaction from external influences, or if there are other factors from the inside that in combination with the external factors influence on how states behave towards each other.

2.1.1 The Realist Theory

Realism, with its focus on the national interest, the balance of power, the power capabilities, and the external and internal balancing, the theory provides several explanations on why states react as they do in the international system. In general, in realist thinking, the international system is constituted by nation states, which are the major key actors of the system. The states exist in anarchy without any higher and overarching government able to enforce and dictate norms. Without any overarching authority to handle the relations in the international environment, the nation states must protect and look out for their own interests. For a realist, the national interest is defined in terms of power and as power is the mean to security there is in the international system a constant strive for states to acquire and safeguard its own security and power position. As a result, competition, distrust and conflicts arise among states and this will have strong effects on the states pursued foreign policy. Furthermore, a fundamental element of national interest is the independence of the state. If the state autonomy is threatened and no longer can be preserved, it is not possible for a state to continue function, since the mere existence of the state no longer exists (Beasley et al, 2001:8ff).

Within the idea of forming alliances, *the balance of power* theory is an essential element in the realist school. According to this theory, states will only

align in a manner that prevents any other states from developing preponderance of power. This behavior is considered to be essential as it will preserve the status quo in the anarchic system of states and avoid threats to states own independence (Nye, 1990a: 35, Nye, 2005:59ff). If a power, however, tends to grow too strong, the balance of power theory argues that there are mainly two ways to balance against it. The first way relates to *internal balancing*. In order to match up against the preponderance power, the internal balancing calls for states to build up its own capabilities through increasing its economic, military or political capabilities. If this unilateral strategy does not work, the second advised way is to undertake external balance. The *external balancing* entails a formation of a countervailing coalition. In line with these arguments it is important to stress that balancing is inherent in the system. Once the independence of a state is threatened by the predominance power, the remaining states will form an alliance to balance up against it (Spiegel et al, 2004:39ff).

The balance of power offers an important insight on how states will behave to prevent any other state from developing a preponderance of power. Its predictions, however, does not clarify whether states ally against the predominant power because of its mere existence or because the preponderance power assumes to pose a threat against them. Stephen M. Walt explores this gap by developing the theory of balance of power into a *balance of threat* theory. In Walt's theory, the core element is that states ally to balance against the threat rather than against the power alone (Walt, 1990:5). Walt argues that states will either form alliances with the weaker side to protect themselves from states that could pose a threat or to bandwagon with a stronger and a more threatening power. Next to a state's total resources in terms of population, military and industrial capability are factors such as geographic proximity and perceived intention of others considered to affect the level of threat that states may pose against each other. An interesting aspect which differentiates Walt's from several other scholars is the underling need to go beyond the distribution of power and power capabilities in order to understand states intention to balance against the preponderance power. Walt's argue that the more aggressive a state is, the more likely it is that other states will balance against it (ibid:17ff).

In addition to forming alliances there are some situations when *bandwagon* is more favorable. Bandwagon refers to alignment with the stronger and more threatening power. In general, weaker states are more likely to bandwagon than stronger states, because they are more vulnerable to pressure and have a more limited possibility to affect the balance in the system. Moreover, when the proximity of threat from great powers is near, weaker states may also choice to bandwagon with the preponderant power in order to avoid, among others, being attacked (Walt, 1990:29,173, 29, Spiegel et al, 2004:42). In general, bandwagon is, however, not common in the international politics, since the costs to bandwagon often exceeds the benefits. Bandwagon implies that a vulnerable state places both its trust and resources available to the threatening power. As an outcome the vulnerable state faces to loose a great amount its independence (Nye, 2005:64).

In general, a state will, however, hesitate to initiate cooperation and to form alliances with other states, as they fear that their ally partners might gain more than themselves out of the cooperation. Before entering into cooperation states must according to the realist school consider the *relative gains* that their ally parties might gain of their future cooperation. In other words, in relative terms, a state will only initiate cooperation if they will be able to obtain more benefits compared to their partners (Powell, 1993:209).

Taken together, the realist and neorealist school offers several important implications on how cooperation and balance of power in the international system can be achieved. The theory underlines that the pursued foreign policy of a state depends upon its power capabilities and the potential threat to it. A state with powerful capabilities will focus its foreign policy on maintaining its power position in the system by balance against other powerful states. States with less power capabilities will instead try to maximize their own power by forming alliances with one of the major powers in the system. Some states with less power capabilities might even try to play the major power off against the others in order to gain more influence in world affairs. For states with limited power capabilities it is hard to forge an independent foreign policy as they are constrained and dependent upon the major power in terms of, among others, security (Beasley et al, 2001:9f). However, if the independence of a state is threatened or violated by a dominating power, the remaining states will internally or externally form an alliance against it. In contrast to the balance of power, Walt argues that states ally to balance against the threats rather than the mere power itself. To balance a threat, states can either ally against the threatening power or to bandwagon with it. Both balancing and allying are important instruments for states in their foreign policy. To forge an independent foreign policy states can in different situations adopt the balancing or the bandwagon behavior depending on the different situations versus relative costs and benefits.

2.1.2 The Complex Interdependence Theory

As the complexity of actors and issues in world politics increases, the utility of military force decline and the financial and technological relationships advance, actors and states in different parts of the international system have come to affect and to develop an interdependent relationship with each other. A country's power position is no longer determined by its resources and capabilities. It depends instead on a country's ability to change the behavior of other states and to get other states to do what it wants (Nye, 1990:153f). In order to facilitate for the increased interdependence it is of great importance to support the creation of

international institutions, which has the objective to coordinate cooperation among states (Beasley et al, 2001:10ff).

In the classical book "Power and Interdependence" Joseph Nye and Robert Keohane presents a theory named *complex interdependence*⁷, which aims to analyze the increased interdependence between states. Before discussing the term, the concept interdependence needs to be defined. It simply means mutual dependence, and it refers to situations that are characterized by reciprocal effects⁸ among countries or actors in different parts of the world" (Keohane et al, 2001:7). If interdependence simply refers to a situation of mutual dependence, complex interdependence refers to situations in which multiple channels connect societies through informal or formal ties, that is, interstate, trans-governmental and transnational relations. This multiple channels of contact blur the distinction between domestic and international politics, because actors are no longer limited by national boundaries. The increased transactions among societies will affect groups differently, since it will impose costs for certain groups, whereas others will be offered opportunities and benefits. Second, complex interdependence refers to situations where there are no hierarchies among multiple issues in interstate relations. In contrast to the realist perspective, military and security issues not necessarily dominates the political agenda. Last, complex interdependence also refers to situations where the utility of military force is in decline and is no longer considered to be an effective instrument for achieving goals such as economic welfare (ibid:21ff, 271). Taken together, in a complex world the state's goals are likely to vary from one set of issues to another depending on the issue at stake and how the power between states is dispersed. Furthermore, the complex interdependence does not mean harmony. In most situations and events there exist *asymmetries* in a complex interdependence relationship. This opens up for opportunities to carry out sources of influence. For example, in an interdependent relationship between two states it is common that the less vulnerable state will gain power and influence, since it is not as sensitive to changes in the interdependent relationship (Nye, 1990:158). The asymmetric relations have strong influence on a state's policy behavior, since it can be used as a source to maximize power on particular issues. States that have a high level of economic wealth are affected by the actions of other states, but their position in the world economy gives them an opportunity to use the asymmetric relationship as a source of power in bargaining over or influencing on particular issues. In other words, the less dependent part in an interdependent relationship is less vulnerable for any change of interdependence and can thereby use its position or power as a mean to control resources or to affect decisions and outcomes. In contrast, poorer countries are more constrained in their foreign policy behavior as

⁷ The theory is an ideal type of international environment constructed to contrast realism, and a part of the classical liberal institutional school.

⁸ The reciprocal effects will involve costs. In fact, an interdependent relationship will always involve costs and benefits, since it interfere on a country's autonomy. It is however difficult to specify whether the benefits of increased interdependence will exceed the costs.

their economies are more dependent on their relationships with other states, as well as non-state actors such as multinational corporations, MNCs, and international organizations. In situations where the asymmetries of interdependence are strong Nye argues that a more dependent state could try to link or unlink different issues as a way to limit the costs for its vulnerability on particular issues. By expressing concern over an issue a small or weak state may overcome their relatively vulnerability in an asymmetric relationship. This strategy is called “*linking*”, and it means that states can try to create or prevent links with issues where they are considered to be more or less vulnerable than other states. The working principle is that states will try to avoid being controlled in areas of interdependence where they are considered to be weak, whereas they will try to control the interdependence in areas where they are relatively strong (Nye, 2005:202f). Furthermore, an interdependent relationship may constrain a foreign policy behavior since the fortunes of one state often is connected to the fortunes of another state. For example, if state A and B have signed a trade agreement, both states should have in their self interest to perform well and to pursue policies that benefit them both. In fact, a trade agreement is often considered to be a natural outgrowth of increasing interdependence and it can be used as a mean to lessen the asymmetry in relationships by letting states link their economy together. Cooperation in terms of trade agreements does, however, not necessarily have to be between individual states since cooperation also can be pursued between political and economic blocks. This block often refers to cooperation between countries located in a geographical area i.e. a region. By forming and sustaining a strong regional block the included member states in most of the cases will become more competitive and less vulnerable to fluctuations of the world market. Moreover, a strong political and economic block may increase their leverage at the international arena and gain a better bargaining position in the world affairs (Beasley et al, 2001:11). In other words, increased complex interdependence, asymmetric relationship and regional economic integration processes are central concepts in the complex interdependence theory. In contrast to the realist perspective, the theory considers that domestic and transnational actors such as MNCs, Non Governmental Organization (NGOs) and business groups also give important insight to what influences on the foreign policy of state.

2.2 Internal Factors in Foreign Policy

In contrast to the externally based theories, domestic oriented theories offer a greater diversity in their perspectives and in the sources of influence on a state's pursued foreign policy. Even though states are facing similar external conditions, the domestic oriented theories argue that a great variety across states foreign policy is to be expected, due to differences in leadership, political system and culture. Moreover, theories focused on internal sources of foreign policy argue that states not always act rationally in their behavior as they might make decisions

that does not benefit them in the world affairs, but that will satisfy their domestic goals of politics.

2.2.1 The Domestic Oriented Theory

The heart of domestic theories explanations of foreign policy derives from Putnam's so called "*two level games*". According to the two level games governmental leaders' foreign policy making can be explained by studying how the government simultaneously tries to cope with the influence of pressure from the national level such as public opinion, interest groups, and governmental organizations, at the same time as each individual government is trying to maximize and to satisfy the domestic pressure at the international level (Hagan, 1995:117, Putnam, 1988:435). The leading power must take all levels into consideration and try to satisfy the two games. The domestic theoretical approaches stresses that states are not unitary actors and they do not act with one voice in the international system. In fact, there are several domestic factors and voices which have great influence on a state's foreign policy (Beasley et al, 2001:8f).

One important internal factor concerns the attitudes⁹ of the public opinion towards different foreign policy issues. In general, it is difficult to make generalization about their attitudes and relationship with the government, since it is greatly diverse and may sometimes appear to be contradictory (Gerner, 1995:22). Some studies of public attitudes argue that it is hard for an average person to influence on foreign policy as it is not clear whether they have enough knowledge or interest over the particular issue at stake. Moreover, in domestic politics there always exists a risk that leaders might pursue their own preferences without considering the attitudes of the people. There are, however, several studies that emphasize a connection between the changes in public opinion and changes in pursued foreign policy. Reactions from the public on a particular issue can either constrain or facilitate for the action of the ruling government (Beasley et al, 200:14). A third group of studies stresses the need to distinguish between who is expressing their opinions, on what issue and in which situations is it pursued. In other words, in order to distinguish the public opinion's influence on the direction of foreign policy decision, it is important to study the three above mentioned studies (Holsti, 1995:261). This leads to the following questions; under what circumstances does the public opinion express its concern on a specific issue, or, in which situations will they undertake certain policy actions against the state? In general, the public opinion becomes involved and concerned when the topic has a direct impact on their way of living. People tend, however, to be more involved and take interest in foreign policy in times of conflicts, and the scope of

⁹ It is very difficult to make a generalization for all countries. Note public opinion in this study refers to Western countries.

public expression varies with the degree of necessity or threat in the specific situation (ibid:263).

The *interest groups*¹⁰ are also considered to be important sources of foreign policy decisions. In fact, it is more likely that leaders pay attention and respond to organized interest groups than to have the public opinion at large (Beasley et al, 2001:15). The interest groups are considered to be aggregated and mobilized opinions when the leader of the groups mobilize and draw lines for its members to lobby on particular issues (Holsti, 1995:265). For many interest groups the foreign policy process is no longer confined with territorial jurisdictions, instead groups can become involved and form coalitions with groups in other countries to lobby for or against different government policies. For example, the French farmers joined together with counterparts in other countries of Europe with ambitions to prevent modification of the Common Agriculture Policies, CAP. The success of the interest groups depends to a large extent on the characteristics of the interest groups, that is, their “*location*”, “*strength*” and “*intensity*”. The “*location*” concerns the groups’ proximity to the foreign policy process and how related it is with the leader itself. The “*strength*” refers to the groups’ resources and how it can be used to lobby for or against policies. The third characteristic “*intensity*” refers to what extent interest groups can challenge the government (Hagan, 1995:135). In general, it is easier for interest groups to influence on the policies if they have a close relationship with the government, if they control a great amount of political resources or if they pose a great challenge to the political system. Recently, there has been a significant increase in the creation of economic interest groups and in their capabilities to influence the outcome of foreign policy decision. Economic groups have a big interest in a state’s foreign relations as they either seek to facilitate for their business abroad or to protect their home markets against foreign competitors. The economic importance of these groups has given them a strong bargaining position and it is not unusual that they use their power to lobby or press the leading government on a concerned issue. For example, to affect trade negotiations, the business communities in the EU often run organized economic forums to conduct seminars and workshops in parallel with the official negotiations. Furthermore, many MNCs have divisions or departments devoted to foreign policy making, which aim to establish contact and to interact with other states (Pope, 1995:142).

In the case of forming regional trade agreements, Gene M. Grossman and Elhanan Helpman, argue that a country’s decision is greatly influenced by, among others, different interest groups and the governments’ concern over the economic welfare of their people. A free trade agreement will have distributional consequences for domestic groups and it will create winners versus losers, who unavoidably will become supporters’ or detractors’ of the agreement. According to Grossman and Helpman, the interest groups who will benefit the most and who has the strongest political capability also be the ones who influence most on the

¹⁰ Due to the difficulties to make generalization of the attitudes of the public opinion this thesis will only focus on the impact of the interest groups in the chapters of analysis.

decision. Moreover, in line with Grossman and Helpman's argument the government has a better chance for establishing a free trade agreement by excluding the most sensitive industries from the agreement. The exclusion will thereby increase the domestic support from the groups that would be adversely affected by an agreement on free trade (Mansfield et al, 1999:603).

Last, but not least, is the influence of the *political leader* itself. Few limitations are placed on presidential power in foreign policy and the leader can choose the role whether to become active or passive (Tollefson, 2001:292). The pursued leadership style varies from state to state. In general, leaders tend to have greater potential for shaping foreign policy when the issue at stake have effects on their legitimacy and power, or when the current problem may pose a crisis for the regime, or when it opens up for opportunities for the leader to dominate others or when a issue or situation is salient to the leader (Kaarbo et al, 1998: 244).

Taken together, domestic oriented theories demonstrate that by exclusively focusing on the policies of nation states one will neglect the important impact of the internal factors as a source in the foreign policy making. The domestic oriented approaches offer a wide set of factors internal to the state that can be a source to influence its behavior in international relations. Besides the leader itself, interest groups, either domestic or transnational, is considered to be important sources of foreign policy decision.

3 Realist Analysis

This chapter encompasses a realist analysis and it aims to explain Brazil's pursued foreign policy towards the negotiations on free trade between the EU-Mercosur and the United States-Mercosur, and its outcome. The structure of the analysis is based on the realist theoretical elements presented in chapter 2, section 2.1.1.

3.1 Analysis of the Brazilian Foreign Policy on the FTA Negotiations and its Outcome

3.1.1 A "Power Maximizing State"

As the largest country in South America Brazil has ever since the post-Cold War era had a desire to achieve recognition as a “natural leader” of the Western Hemisphere and as a “big country” in world affairs. Even though Brazil does not belong to one of the major powers in the world it has managed to keep its foreign policy relatively independent since the early 1950s. The source of Brazil’s interdependent foreign policy originates mainly from its soft power capabilities such as territory, population and economic size¹¹. These geographical strengths have offered Brazil great opportunities to assert influence on both the international and regional arena (Soares et al, 2006, 21). In terms of its geopolitical power, Brazil has also been recognized as the natural leader of the region and as a leader of the common market of the South (Klom, 2003:79). Besides its abundant geographical power capabilities, Brazil is considered to be a middle power at the international arena. A middle power is defined as a state that holds power capabilities, but that is not considered to be a global power (Beasley et al, 2001:10). To acquire and safeguard its own security and power position in world politics and in the region Brazil therefore has pursued a foreign policy, which encompasses balance of power strategies as well as balance of threat.

¹¹ Brazil has the largest population in Latin America with approximately 188 million people. Geographically represents Brazil 48 per cent of the South American landmass and is the fifth-largest state in the world. Economically, has Brazil enjoyed a robust economic growth for several years and its economy is the ninth largest in the world (Tollefson, 2002:284, CIA fact book).

3.1.2 Threat of American Unilateralism in the Western Hemisphere

Although Brazil is not facing a overarching threat or claim on its territory or pure existence as a nation state, the Brazilian aspirations as a regional leader is accompanied by fear of American unilateralism in the region. Historically, the Latin American region has been under strong influence of the United States in terms of, among others, power, economy and culture. As time passed by, the American influence and control over the region has diminished. The Americans have, however, aspirations on re-gaining its predominance and at a Latin American Summit in 1994 the United States officially launched its ambition for creating the so called FTAA. The FTAA, which are based on bilateral free trade agreements with each individual country in the region, were predicted to "stretch from Alaska to Argentina". The deadline for concluding the separate agreements with all 34 American states, with exception for Cuba, was by the end of year 2005 (Smith, 2001:44f). During years, the FTAA negotiations have transformed from a relative success to effectively stalled talks in 2003.

An FTAA would replace the already existing agreements, and it would be implemented through rules and legislation rather than through supranational institutions. As a result of not building the common market on intergovernmental institutions, the FTAA should be moved forward through summitry and rounds of regular ministerial across the hemispheric. In terms of development and growth, the FTAA would take the approach one-size-fits-all across the concerned states (Vervaele, 2005:389). This approach would to a large extent favor the largest country of the FTAA as it would allow the United States to determine the pace of the hemispheric integration. Furthermore, as the biggest country, the United States, would have the opportunity to act as the "hub" and the Latin American countries would be the "spokes" (Grugel, 2004:609f, Santander, 2002:495). As the "hub" the United States would control the governance agenda as well as to ensure that the regional economic regime is following a structure in line with the United State's interests and preferences (Phillips, 2005:3).

The United State's aspiration of re-creating its preeminence in Latin American is however hindered by Brazil's desire for hegemony in the region. The realist perspective would argue that the main explanation for the stalled FTAA negotiations between the United States-Mercosur is that Brazil perceives the United States intentions to pose a threat to Brazils ambition and leadership role in the region. From a Brazilian perspective an FTAA would offer the United States predominance in the region and Brazil therefore must balance the preponderance power. In order to forge an independent foreign policy Brazil has used different strategies. The first strategy relates to the balance of threat. According to the theory, states ally to balance against the threat rather than against the power alone (Walt, 1990:5). This can either be done by adding up power of other states or by bandwagoning with a stronger and a more threatening power. By taking the lead in Mercosur and by forming alliances with weaker states in the region through

linking and establishment of other economic integration projects in Latin America¹², Brazil is trying to keep the United States intention and presence out. In fact, sub-regional and regional pacts have created major problems for the United States and the State Department of the United States has described Mercosur as a threat to hemispheric integration (Grugel, 2004:611f, Carranza, 2000:124). The second strategy used is to align with global players such as the EU. The Brazilian strategy to align with the EU originates from balance of power theory. As states exist in a highly competitive environment they must use what means necessary to survive. According to the realist school of thought, Brazil has by utilizing its power capabilities been able to keep the United States out of the region, but in order to maximize its power Brazil must align with one of the major powers in the system. In fact, the realist school would emphasize that the Brazilian balancing strategy is a mean to increase its leverage, to hinder the American presence, but also an instrument for consolidating its leadership position.

3.1.3 Balance of Power

Since 1995, the EU and Mercosur have an established strategic partnership and the EU has supported the regional process of Mercosur since its early start. The two regions initiated their talks to bring the sides together shortly after the creation of Mercosur. Their partnership aimed to reach a strategic, political and economic agreement that not only fostered economic growth and enhanced the two side's economic competitiveness, but also supported and developed democracy, respect of the human rights and the rule of law in the Latin American region (Saraiva, 2004:7, de Vasconcelos, 2003:34). The EU and Mercosur began their negotiations towards an EU-Mercosur agreement on free trade in April 2000 (Commission, c). In contrast to the FTAA, an EU-Mercosur agreement on free trade would go beyond the pure trade issues to also embrace a wide range of social and developmental issues (Grugel, 2004:612). Furthermore, an agreement between the EU-Mercosur would be mediated by supranational regional institutions and the EU would offer strong support for sub-regional integration within Latin America. In fact, a common element in the Union's foreign policy and external relations is to share the EU's own integration process and experience with countries that are interested. Unlike the United States, the EU favors to negotiate with a group of countries rather than pursuing bilateral talks. This depends mainly on the EU's region-to-region¹³ approach as well as it pushes the

¹² For example, South American Free Trade Agreement, SAFTA

¹³ It can be understood as interregionalism. The research field of interregionalism is, however, still in its early stages of development and there is therefore no clear consensus in the conceptualization. The concept used in this thesis will however signify a process of interaction whereby two distinct and formally organized regions interact with each other (Söderbaum et al, 2005:258). The interaction involves not only political and economic partnership, but also agreements that go beyond pure trade strategies.

Mercosur members to stay together during the ongoing FTA talks. For the EU an alignment with Mercosur is not only a mean to mitigate the United States power in world politics, but also a way for the Union to reaffirm its role as a global actor and to conquer new markets (Grugel, 2004:622, Saraiva, 2004:4f). Although the EU is not perceived as a threat to the region, the EU and Mercosur has not been able to conclude an agreement on free trade. In general, an agreement with the EU would be better off for Brazil, since the Union does not pose a threat to the region and as it leaves more advantages due to the difference in the EU and the United States pursued trade strategies. However, from a realist perspective a trade agreement with the EU would strongly interfere on Brazil's autonomy and national interest, because of the European ambitions to agree on more than just trade. An agreement with the EU would, among others, encompass co-operation over a wide range of policy issues such as environment, development aid, international crime and rule of law. According to the realist school states value their independence above everything else. States' autonomy is a fundamental goal and if it can not be preserved it is not possible for a state to function as there no longer will be a state.

Besides forming alliances with a major power such as the EU to balance up against the United States, Brazil is fostering regional co-operation with whole South America through the creation of SAFTA¹⁴ (Phillips, 2000:288). The alignment is a balance strategy and response to external threats or challenges. A strong and integrated SAFTA would increase the bargaining power of its constituent members, improving the balance of power vis-à-vis larger actors and increase their influence in the international system (Carranza, 2000:85). In a well functioning SAFTA Brazil would become the hub of South America and the trade pact would reflect and confirm Brazil's regional leadership role (Smith, 2001:51). Mercosur have already concluded FTA with Colombia, Ecuador, Venezuela and Peru and thereby created a commercial base for SAFTA to its existing agreements with Chile and Bolivia (U.S. Department of State: Brazil.).

3.1.4 Internal Challenges within Mercosur

Besides balancing strategies and perceptions of threat there are other variables, such as diminished cooperation within Mercosur, which have affected on the foreign policy Brazil pursued during the FTA talks and the outcome of the negotiations with the EU and the United States.

During the first years, the co-operation in the Southern Cone went smoothly and the perceptions of success mainly stemmed from the unexpected increase in levels of intraregional trade (Mera, 2005:109). In the past years, pessimism has however enveloped the prospects for Mercosur and a further deeper sub-regional integration is uncertain. From a realist perspective the sources of friction within

¹⁴ SAFTA will only cover goods, and not services or labor (Smith, 2001:51).

Mercosur originates from fear among its constituent members. The member countries mainly fear that an increased cooperation within in the block will interfere on their autonomy in domestic policy making. Furthermore, there is a hesitation among the member states to deepen the cooperation since they fear that the other members might gain more than themselves out of it. According to the realist school of thought, states must consider before entering cooperation the relative gains that their ally partner might benefit from their forthcoming cooperation. A well-established regional economic integration is costly and it would be reasonable to argue that Brazil as the leader of the block should, among others, carry the bulk of costs for a further economic integration. Brazil, however, has shown difficulties with bearing the costs as well as with giving up some parts of its national interest to supra national entities (ibid:130). The major explanations are the fear of diminished sovereignty and that other countries may benefit more on cooperation. Despite the fact that Mercosur plays a strategic role in the Brazilian foreign policy, the block remains characterized as an incomplete free trade area and an imperfect customs union with low degree of institutionalization.

3.2 Conclusive Statements

Based on the pursued Brazilian foreign policy, the realist perspective offers various explanations to why the talks on FTA between the EU-Mercosur and the United States-Mercosur have ended in a situation with deadlock. The realist analysis explains that the major reason behind stalled FTA negotiations between the United States-Mercosur is Brazil's concern that an FTAA would endanger Brazil's desire for hegemony in Latin America. In order to counterbalance the threat the United States is posing and to preserve the Brazilian national interest, Brazil are forming alliances with weaker states within the region and with global powers such as the EU. By supporting the creation of, among others, SAFTA, Brazil is adding up the power of other states in the region in order to gain more leverage and to keep the United States out.

The formed alliance with the EU is considered to be of great importance for Brazil as it improves Brazil's power position. Despite the fact that an FTA with the EU would to a large extent differ from an agreement with the United States, Brazil have chosen not to conclude any agreement with the EU. Based on realist assumptions it depends on the fact that an agreement with the EU would intervene on Brazil's sovereignty and in particular threaten its autonomy as an FTA with the EU would go beyond the pure trade agenda to also embrace a wide range of social and developmental issues.

Other variables which are considered to be affecting Brazil's behavior towards the outcome of the stalled negotiations are the internal limitations within the common market of the South. The realist analysis also offers explanations to why Mercosur remains as an incomplete free trade area with a low degree of institutionalization and what the sources of fiction within the blocks originate from.

4 Complex Interdependence Analysis

This chapter has most of the same structure in terms of theory and empirical material as chapter 3. Based on the complex interdependence theory this chapter aims to explain and to analyze the stalled FTA talks between the EU-Mercosur and the United States-Mercosur.

4.1 Analysis of the Brazilian Foreign Policy on FTA Negotiations and its Outcome

4.1.1 A Regional Power

The rise of globalization and the complexity of actors and issues in world politics have shaped Brazil's foreign policy and its position in world affairs. The strong promotion of regionalism in the Southern Cone is often portrayed as Brazil's response to globalization, and it represents one of the most crucial components of its foreign policy (Hurrell, 2005: 74f, de Vasconcelos, 2003:38). In fact, Mercosur plays a strategic role in Brazil's external relations as it not only contributes to increased trade, but also works as an instrument for Brazil to promote and to defend its objectives at the international arena (Mera, 2005:139). With the creation of Mercosur, Brazil has been able to form a strong political and economic entity that not only enhances Brazil's national leverage in the world, but also facilitates for Brazil to gain a better bargaining position in world politics. Today, Brazil explicitly has expressed its willingness to be recognized as a "big country" in world affairs, and to become considered as a consensual leader in Latin America. As a regional power Brazil have shown its intention to expand responsibilities in regional politics, which, among others, encompasses the desire to create a South-to-South trade, the founding of the Group of 20, the active pursuing of trade negotiations both on bilateral and multilateral basis, and the deepening and strengthening of Mercosur (Hornbeck, 2006:1ff, Soares et al, 2006:21).

4.1.2 Trade Relations

During the last 15 years the trade volume between the EU-Mercosur has rapidly increased, from EUR 19 billion in 1990 to EUR 51 billion in 2005. A agreement on free trade between the EU-Mercosur would be considered to be the first agreement between two regions, and the most far-reaching agreement in the world, covering more than 680 million people (Commission, d:30). There exist however great asymmetries in terms of trade diversification between the regions. In 2006, the EU share in world trade in goods accounted for 17.1% and trade in services for 26% (2006), whereas Mercosur world trade in total only accounted for 1.3% (intraregional trade excluded). (Commission, e). Out of the 1.3% of world trade accounted Brazil approximately for 0.9% (Hornbeck, 2006:8). The EU is Mercosur's main trading partners and represents more than 23% of Mercosur's external trade, meanwhile Mercosur accounts approximately for 2.3% of the EU's external trade. In 2004, the major export commodities from Mercosur to the EU consisted of agricultural products (53%), machinery and transport equipment (6%), and chemical products (3%) (Commission, d:30ff). Within Mercosur, Brazil represents the EU's main trading partner. In 2005, trade with the EU represented 26% of Brazil's total external trade, and 1.8% of EU's external trade. The main commodities of EU imports from Brazil consisted of agricultural products¹⁵ (40%) and manufactured products (33%), whereas the main components of EU exports to Brazil consisted of manufactured products (88%), and only 6.8% of primary products (Commission, f).

Data on the United States – Mercosur trade relations show a similar pattern as the trade relations between the EU-Mercosur. In 2006, the United States share in the world trade in goods represented 16%, and trade in services accounted for 18.4% (Commission, e). The total trade with Mercosur members represented 2% of the United States external trade. If the import of Venezuelan oil takes account, the total trade with Mercosur “5” constitutes 3.5% of the United States total trade. The major export commodities from Mercosur to the United States are components for machinery and vehicles, agricultural products and oil since Venezuela became a member country of Mercosur. From the United State to Mercosur, the major products are capital intensive such as mechanical and electrical machinery, vehicles, aircraft, medical equipment and pharmaceuticals (Hornbeck, 2007a: summary). In line with the EU, Brazil is the United States major trading partner in Latin America. The United States are considered to be Brazil's largest single-country trading partner. Approximately 20% of Brazil's exports flows to the United States (Hornbeck, 2006:9f).

¹⁵ Brazil is the world's largest producer of sugar cane, oranges and coffee. It is considered to be the second largest producer of soybean, beef, poultry and corn (Hornbeck, 2006:8).

4.1.3 Trade Strategies

Although trade data indicates that the EU's and the United States' trade relations with Mercosur show a similar pattern the two economic entities are using different trade strategies to pursue trade with Mercosur (Wehner, 2005:5). Characteristic for the EU-Mercosur agreement is that it is based on interregionalism. This means that a signed agreement with the EU would for Mercosur not only mean greater opportunities to export its primary and manufactured products, but also a commitment from the European side to economic development. Based on the European region-to-region approach, the EU is committed to, among others, promote human rights, good governance, poverty alleviation, democracy, civil society participation, environment protection, development and aid assistance (Santander, 2002:495, de Vasconcelos, 2003:34). For example, at present the EU is being the largest source of overseas development assistance to Mercosur. For the period 2000-2006, a total amount of EUR 250 million were given for financing economic cooperation and development aid (Commission, d:31). It would be wrong to say that the United States does not provide Mercosur members with aid, but it is not as convicted as the EU to developmental issues in their trade strategies. A dominating approach in the United States' policies is instead "trade not aid". This strategy is built on the conviction that trade will enhance development as greater trade flow will attract more foreign direct investments, FDI's, and thereby also promote development (Wehner, 2005:40). Compared to the European region-to-region approach another major distinctive characteristic of the United States trade strategies is that they pursue negotiations on bilateral basis. The idea behind bilateral negotiations is that it is not only reducing the bargaining power of weaker part, but that it is also putting pressure on states to sign an agreement if their major trading partners already signed one (Aggarwal, 14 July 2007). By holding the FTAA negotiations bilaterally, the United States is limiting other possible regional projects to grow strong in the region (Phillips, 2000:288). In the case of Mercosur, the bilateral negotiations may harm the entity itself and Brazil's aspiration to become regional leader as the bilateral trade strategies are encouraging countries to act unilaterally (de Vasconcelos, 2003:41). Although Brazil is the biggest country of Latin America it is still dependent upon its member countries in Mercosur, especially Argentina. If Argentina would enter a bilateral trade agreement with the United States, the future of Mercosur's would probably drift away to the point of irrelevance (de Souza, 2003:181). In fact, the United States has offered Argentina to negotiate an FTA on bilateral basis after the financial crisis in the region (Santander, 2002:494). Recently, Uruguay signed a bilateral trade and investment framework agreement with the United States, due to their disappointments over Brazil's leading role in the Southern Cone (The Economist). Taken together, American trade strategies make it problematic for Brazil to expand Mercosur further and it create problems to hold the region and member countries together.

The complex interdependence theory would emphasize that the great asymmetries among the bargaining triangle have provided the negotiating process with important political implications for Brazil's leadership role in the region. The

European region-to-region approach is closely linked to the theory, since it, among others, pursue co-operation through multiple issues and areas, and as it makes commitments to also support developmental issues. Increased economic interdependence with the EU is of great interest for Brazil, as strong interdependence between the EU- Mercosur would help Brazil to maximize their leverage, and to counterbalance the asymmetry between Latin American and the United States. In fact, an agreement with the EU would increase Brazil's bargaining power in a future FTAA discussion. Based on economic interdependence the theory would also argue that an agreement with the United States would be favorable for Brazil, but the American political goals behind the trade strategies provides with explanations to why Brazil have chosen to not precede the negotiations.

4.1.4 Multilateral Trade Talks and the Doha Development Round

In the discussion of stalled negotiations a very important factor, which have had great influence on the trade talks between the EU-Mercosur and the United States-Mercosur is the development of the so called Doha Development Agenda, DDA. The Doha round is a part of multilateral trade negotiations within the international organization the World Trade Organization, WTO. Through time, the multilateral trade negotiations have ended with mutual agreements, but at the WTO's fourth Ministerial Conference in Doha Qatar in 2001, followed with Ministerial Conference in Cancun in Mexico in 2003, the multilateral trade negotiations ended in deadlock. This depends mainly on the strong disagreements between the developed and developing countries on agricultural subsidies, industrial goods and services and NAMA¹⁶. The main objective of Doha is to encompass further trade liberalization and new rule-making, underpinned by commitments to bring developing countries more closely into the international trade agenda and to strengthen trade related assistance to developing countries (Commission, g). A central element in Brazil's foreign policy is its strong support for creation of international institutions such as the WTO, as it offers political space and prospects for Brazil to build coalitions with other countries. But also as it provides Brazil with opportunities to influence and to exert pressure on issues that goes in line with their interests, and their commitments to other developing countries. In fact, Brazil views the WTO as a preferred alternative for achieving the Brazilian trade policy goals (Hornbeck, 2007a: summary). In the DDA negotiations, Brazil has together with other major developing countries chosen to represent the broad developing country coalition, G20¹⁷. The main objective of G20 is to push the developed countries to fulfill their commitments to give greater access for

¹⁶ Market access for non-agricultural products.

¹⁷ The forum was established in August 2003 in connection with the Cancun Meeting. The G20 addresses specific issues regarding export subsidies, trade-distorting domestic support and market access for developing countries' products (Maag, 2005:2f).

agricultural trade. Today, the DDA negotiations are standing in a crucial and decisive phase, and it is of great importance to conclude the round by the end of the year. If not, the round might be put on ice and negotiations further stalled until at least year 2010. This depends mainly on the political developments in WTO members, among others, the presidential election in United States (2008) and constitute of the new European Commission (2009). In order to conclude the round by the end of the year, Brazil has together with the EU, the United States and India created the so called G4 group, with the aim to find convergence on issues such as agricultural policy, industrial goods and services and NAMA. If the G4 can narrow the gap and agree on a platform it might be possible to go for a conclusion of the round by the end of the 2007.

Although the EU and the United States in comparison with Brazil holds a high level of economic wealth, the complex interdependence theory argues that in some situations where the asymmetries of interdependence are strong it is possible to diminish it by using the linking strategy. Brazil may not be powerful enough to take the lead in world affairs, but by being committed to represent the developing countries through G20 and G4 in the DDA, Brazil has been able to form a strong stance against the EU and the United States and it forces them to make concessions in round of multilateral trade negotiations. The coalition of G20 and G4 offers opportunities for Brazil to exert pressure on the developed countries on issues that goes in line with Brazil's national interests and foreign policy goals. By expressing their concern over the resistance to cut agriculture subsidies and the comparative advantage the EU and the United States holds in manufacture and services sectors have Brazil been able to lessen the vulnerability in their asymmetric relationship. Today, the outcome of the round depends mainly on the process of the G4 talks. The objective of the thesis is not to discuss the impact of a concluded versus non-concluded DDA, but it is clear that whatever the outcome of the multilateral talks will be will have spillover effects on the relationship between EU-Mercosur and the United States-Mercosur. In fact, according to international trade specialists it is unlikely that any bilateral negotiations will be taken forward between the EU-Mercosur and the United States-Mercosur as long as the sensitive issues in the DDA remains unsolved (Aggarwal, 14 July 2007).

4.1.5 Impact of Interest Groups¹⁸

The complex interdependence theory illustrates how the increased interdependence between states has opened up for multiple channels of contact and increased transaction among societies and business groups across national borders to influence and to affect specific issues of a states pursued foreign

¹⁸ Both the complex interdependence theory and domestic oriented theory offer explanations on how interest groups have influenced on states pursued foreign policy. I find next chapter as more suitable to discuss and to analyze the impact of interest groups, and I will therefore in this section only briefly describe the role of export oriented versus protectionist in the negotiations.

policy. An agreement on free trade would create economic gains and losses, which will be distributed unequally among the different interest groups in the society. As such, interest groups and MNCs both in the EU, the United States and in Mercosur, have attempted to influence the course of the negotiations to protect their own interests (Faust, 2004:41ff). Based on comparative advantage reasoning, interest groups within the agro-industry in the EU and the United States have demonstrated strong resistances against an agreement on trade with Mercosur, whereas the business industry have favored and supported the negotiations. On the other hand, in Mercosur farmers have pushed for an FTA in order to open up the European and American markets for Latin American agricultural commodities, meanwhile the services sectors have shown strong opposition and lobbied the government against and FTA. By creating coalitions, organizing conferences and lobby pro or against an agreement, the interest groups in the EU, the United States and Mercosur successfully have been able to affect the politicians in the outcome of the final proposal of the negotiations. A show stopper in the negotiations has been disagreements between the EU-Mercosur and the United States-Mercosur over the agricultural tariffs and subsidies. An opening of the European and American agricultural market would be a major goal for traders and farmers in Mercosur. For example, in 2005 agricultural products from Mercosur accounted for more than 50% of all external trade to the EU. As a spoke person for the region Brazil has not been able or willing to accept the EU or the United States final negotiations proposal, and as a response Brazil has shown great unease on lifting services and manufacturing tariffs. According to Brazil, Mercosur will not open up their markets any further, if any improvements are not made for greater access for external markets for agricultural commodities produced inside Mercosur.

4.1.6 Influential Variables

Finally, the following two variables are considered to have had great influence on Brazil's behavior and position towards agreements on free trade. First, it is important to take the timing of the negotiations into consideration. From 1999 to 2001, during the negotiation rounds of FTAs, the members of Mercosur were hit by serious financial crisis. The Brazilian currency underwent devaluation, which in turn, had large negative impact on the other countries in the region (Klom, 2003:364). The Argentina economy went through state of shock, which created social unrest and human suffering in the country. The shock effects of the crisis also reached Uruguay and the Uruguayan economy were also close to crash. Second, Mercosur is often described as an incomplete custom union, which lacks supra-institutional mechanisms to solve internal problems. The low degree of institutionalization has contributed to several trade conflicts and political disputes

between the countries of the block, especially between Brazil and Argentina¹⁹. This internal crisis has in turn raised doubts within the block whether it is possible to create a deeper integration in the economic, political and institutional field (Saraiva, 2005:12).

4.2 Conclusive Statements

By analyzing Brazil's foreign policy perspective through the complex interdependence theory this section has described several factors, which offers explanations to the lack of progress in the FTA negotiations. These factors partly has been fuelled by the Brazilian aspiration of becoming a regional leader and to be recognized as a "big country" in world affairs, divergence in pursued trade strategies by the EU and the United States, influence of free trade oriented vis-à-vis protectionist interest groups, disagreements over sensitive sectors such as agro-industry, services and manufacture sectors, development of the DDA round as well as internal and economic crisis within Mercosur.

The complex interdependence theory explains that Mercosur for political and economic reasons plays a strategic role in Brazil's external relations. By taking the lead as a consensual leader in Latin America, Brazil has been able to hinder the United States pre-eminence in the region. The theory also illustrates that an agreement based on economic rationale with the EU and the United States tends to be more favorable for Brazil than vice-versa, but following the comparative advantage of Mercosur members and the reluctance of the EU and the United States to reform its agricultural policy a deal suddenly appears to be less beneficial for the common market of the Southern Cone. The agriculture issue has been the show stopper in both negotiations, and also shown to be a major factor to the disagreements in the DDA. The complex interdependence theory also explains that whether interest groups within the EU, the United States or Mercosur lobby for or against an FTA depends to a large extent on their comparative advantages.

19 For example, Argentina has protected its domestic production from some Brazilian imports through special safeguard mechanisms. Brazil, on the other hand, practiced a system of trade and investment incentive, which adversely affects the Argentinean industry (Maag, 2005:5).

5 Domestic Oriented Analysis

The third and last theoretical perspective will have similar structure and use of empirical material as the two earlier chapters. It will focus on identifying internal factors, in the EU, the United States and Mercosur members that can describe and explain Brazil's pursued foreign policy when it comes to the stalled negotiations.

5.1 Analysis of the Brazilian Foreign Policy on the FTA Negotiations and its Outcome

5.1.1 Impact of Interest Groups

According to the domestic oriented theory, the negotiation on free trade raises great concern among interest groups as an agreement gives economic welfare effects. The theory states that positive and negative economic effects arise from an agreement on trade and these effects will become distributed unequally among groups in the society. In order to influence the course of the negotiations, interest groups will lobby in line with their preferences and demands. Groups and industries that may benefit from preferential treatment and access to new markets have clear initiatives for favoring and supporting their governments to establish an agreement on free trade. Meanwhile, groups that may experience great losses from a signed agreement, will most likely lobby against it (Mera, 2005:114). These differences in terms of interest among the non-state actors have evidently affected the direction of the pursued policies and the outcome of the negotiations.

Having said this, in terms of trade, increased market access through trade liberalization is expected to benefit those sectors in which respective country/region has comparative advantages (Faust, 2004:48). In the negotiations between the EU-Mercosur and the United States-Mercosur export oriented business groups versus protectionist farmer associations have showed a great interest to affect and exert political pressure on states pursued foreign policies. In line with the comparative advantage theory, international competitive European and American business industries is considered to be better off if an agreement with Mercosur members is to be signed. An agreement would imply further trade liberalization, better market access and increase in investment and exports from Europe and the United States to the Southern Cone. By contrast an agreement will be costly for the European and American agro-industrial sector since Mercosur

members are highly competitive in this sector (ibid: 42,51). The same reasoning holds for Mercosur countries, but vice versa.

Contacts with the civil society recently have grown stronger and a common element in the negotiation processes has been to invite members of civil society to present their views and concerns on the agreement. The aim behind holding regular meetings on trade issues with the civil society is to develop a confident relationship and to exchange information on concerned issues and topics (Commission, h). In Mercosur, the Fórum Consultivo Econômico e Social (Economic and Social Consultative Forum), in the EU, the European Commission (Directorate General Trade), and in the United States or in particular related to the FTAA, the Committee of Government Representatives on the Participation of Civil Society, are responsible for inviting and holding open contact with the civil society to participate in matters related to the trade negotiations (Marconini, 2005:7f). By exchanging interests and concerns on different sectors of the society the officials aim to ensure that interest groups concerns are taken into consideration.

5.1.2 Export-Oriented Business Groups

Recently, for most of the interest groups, whether they are export-oriented or protectionist groups, it is becoming more common that they pursue their values and interest across borders. A non-state actor is no longer restricted to territorial border and can by forming coalitions with groups in other countries lobby, for or against, different government policies. The role of transnational actors has increased significantly and it is clear that they have played a direct role in the negotiations. During the rounds of EU-Mercosur the business oriented groups in especially Europe struggled hard for an interregional liberalization. In fact, in order to push for trade liberalization business groups within the EU and Mercosur created the so called Mercosur - European Union Business Forum, MEBF, in 1999. The MEBF have in parallel with the official negotiations sessions organized their own business meetings and conferences. The forum has, among others, put political pressure on the negotiations by presenting a joint agenda from the business community from both sides of the Atlantic (Torrelli, 2003:6). This so called, "room-next-door", procedure is an instrument, which is becoming common among interest groups to undertake often before, during and after the negotiations (Marconini, 2005:10). Similar actions have been undertaken by Brazilian Business Coalition, CEB and Confederação Nacional da Indústria, CNI, which coordinates issues in the field of industry, agriculture and services (Hira, 2002:8ff). Moreover, also in the American business society strong support for an FTAA can be found in business such as Americas Business Forum, in the U.S. Chamber of Commerce Association of American Chambers of Commerce in Latin America (AACCLA) and the National Foreign Trade Council, NFTC, which all heavily have lobbied for an agreement, since it would allow them to further integrate their production strategies in new markets.

In terms of investment, Europe account for more than 50% of all FDI to the region (Grugel, 2004:614). The inflow of European investments significantly increased until 2001 when it made up for more than EUR 120 billion. However, as a result of the economic crisis in Mercosur in 2002 the investment stock decreased to EUR 70 billion, and it was not until 2004 that investments again started to increase to the Southern Cone (Commission, d:30). The United States MNCs remains after the EU, the second main investor to the common market of the South. The stock of American FDI to Brazil was \$33.3 billion in 2004 (Hornbeck, 2006:13). An agreement on free trade would imply that further liberalization takes place in the region. Thus, European and American industries have a strong interest in the Southern Cone. It is becoming more common that business groups are trying to become a part of the governance structure in order to further exert pressure on the policy process. The economic groups either seek to facilitate for their business abroad or to protect their home markets against foreign competitors. The MNCs play a major role for the home countries economies and it is not unusual that they use their power to lobby or press the leading government on a concerned issue.

5.1.3 Protectionist Interest Groups

Interest groups that have shown strong resistance against an FTA between the EU-Mercosur and the United States- Mercosur can notably be found in agro-industry sector. As this group relies on protection from respective countries/region, the agro-industry sector has strongly lobbied against the agreements on free trade. In contrast, the farmers in Mercosur have pushed for FTAs to open up the European and American markets for Latin American agricultural commodities. By creating coalitions and lobby against an agreement the farmers in the EU and the United States successful have been able to affect the politicians in the outcome of the final proposal for the negotiations. For example, during the whole negotiation process with Mercosur, the European Farmers Federation ,COPA, have together with national farmers association strongly lobbied against an agreement based on the argument that a deal would create great losses for the agriculture sector and that it would endanger the pending reform of CAP. (Faust, 2004:51). The EU proposed in their last proposal that an agreement between the EU-Mercosur would have a gradual liberalization period over ten years, and cover 100% of industrial trade, and 90% of agricultural trade (Klom, 2003:363). Excluded from the proposal were several important Latin American export agricultural commodities. Furthermore, as the EU remains committed to the forthcoming CAP reform, the European proposal did not foresee any cuts in subsidies or reduction in protectionism in the agricultural sector. In addition, Mercosur proposed in their last proposal a gradual liberalization process of ten years with coverage of 86% of the manufactured goods and 100% of the agricultural products (Santander, 2002:498). Since Mercosur's main export commodities to Europe are agricultural products Brazil, could not accept the European refusal to cut farm subsidies. The

disagreements over the sensitive agriculture issues are seen as the main explanation to why an agreement between the EU-Mercosur never has been reached. Besides, the EU's unwillingness to cut agricultural subsidies, Mercosur have shown great unease on lifting services and manufacturing tariffs²⁰. Thus, based on the comparative advantages reasoning services sectors in Mercosur have shown a strong opposition against an FTA, meanwhile the agricultural sector has pushed for a deal as it would be more preferential for their products (Klom, 2003:368). An opening of the European and American agricultural market would be a major goal for traders and farmers in Mercosur. For example agro-industry groups such as National Confederation of Agriculture, CNA, strongly supported the agreements on free trade with the EU and the United States. For 2005 agricultural products from Mercosur accounted for more than 50% of all external trade to the EU.

The disagreements over the sensitive agriculture issue also have been one of the determinate factors in the stalled FTAA negotiations. The United States has chosen to exclude agriculture, market access and anti-dumping measure from the negotiations agenda, which instead should be dealt in the WTO. By excluding one of the most sensitive issues from the agreement the United States intended to gain domestic support from the farmers, which adversely would be affected by an agreement with Mercosur. Furthermore, the EU and the United States are also committed to conclude agreements in non-goods areas such as liberalization of investment and services, intellectual property rights and government procurement (Hornbeck, 2007:3). In comparison with Mercosur members, the EU and the United States are far more competitive in these non-goods areas. As Mercosur's de facto spoke person, Brazil has not been able or willing to accept the EU or the United States offer, and have therefore refused to engage in talks or to open up their market any further, unless the EU or the United States, concedes to give greater access for external markets for agricultural commodities produced inside Mercosur (Hornbeck, 2006:12).

5.1.4 Consensual Leadership Style

Another factor which gives explanations to what have influenced on Brazil's position in the outcome of the negotiations is the actual leader itself. Few limitations are placed on presidential power in foreign policy, which makes it possible for the president to choose whether he/she should assume an active or passive role (Tollefson, 2001: 292). In Brazil, President Fernando Henrique Cardoso (1995-2002) and his predecessor President Luiz Ignacio Lula da Silva (2003-2006, 2006-2011) are both considered to have taken a great active foreign policy role, and to have brought maturity to the Brazilian foreign policy without

²⁰ Brazil holds a relatively high tariff structure on industrial goods. Its average tariff on industrial goods is for example three times higher than of the United States (Hornbeck, 2006:19).

giving up its autonomy. This is, among others, reflected in their ambitions to consolidate its leadership in the region and to search for prominence. To become a regional power and a leader for the Southern Cone, President Fernando Henrique Cardoso predicted that Brazil must assume a more active presence in South America and to develop its leadership role in the region. During Cardoso's time as president the Brazilian foreign policy became re-shaped and a new style of leadership based on consensus, corporation and inclusion was adopted (Borges, 2006:23). Today, this new leadership strategy is pursued by Lula and it aims to frame Latin America as a distinct region, to strengthen Brazil's relations with other Latin American countries as well as to view Brazil as a consensual leader in South America. Under Lula's administration Brazil has shown clear intention of wanting to expand its responsibility. Brazil has, among others, pursued important foreign policy goals such as to keep peace in the region, to support democracy, to build up South to South cooperation, to endorse multilateralism and last, but not least to strengthen and deepen Mercosur (Soares et al, 2006:21). In line with the EU's aspiration of pursuing trade which goes beyond the traditional trade agenda Lula consider foreign trade as an essential instrument for both social and economic development (Maag, 2005:2). Brazil can however not accept the European and American proposal on free trade as they believe it would endanger their aspirations on being a consensual leader and thereby undermine one of the most crucial components of its foreign policy, namely Mercosur.

5.2 Conclusive Statements

This section has described several factors internal to the state that gives great insight to the lack of progress in the FTA negotiations. The domestic oriented theory stresses that the negotiating parties are trying to satisfy the two level of Putnam's game. The involved states must cope with the pressure from the domestic groups simultaneously as each individual government is trying to maximize and to satisfy the domestic pressure at the international level. The domestic oriented theory emphasize that the interest groups and the actual leader of a country to a large extent affect on the pursued policy. In terms of interest groups, the theory underlines some factors that are important to take into consideration in analyzing how the interest groups have influenced on the pursued policies in the negotiation talks. First, in general interest groups become involved and concerned when issues have direct impact on their way of living. In order to protect their own interests' supporter versus detractor of the agreement within the EU, the United States and Mercosur will with different means try influence the course of the negotiations. Second, it is more likely that leader pays attention to groups, which has a high degree of organization. To gain a better bargaining position and to influence on the trade negotiations interest groups both from business and agro-industry have organized themselves in non territorial coalitions and held workshops and seminars in parallel with the trade talks. At regular basis,

the civil society has had meetings with government officials with the objective to exchange information on matters relating to trade negotiations. Another factor to take into consideration is the amount of political and economic resources interest groups possess. By holding important resources such as financial, interest groups are able to use their capabilities when they lobby or press the leading government on a concerned issue. Although in general economic business groups in comparison with agro-industry groups tends to hold a stronger bargaining position against their governments have the agriculture sector within the EU and the United States managed to influence their governments in preventing liberalization of agriculture commodities in the agreements. At the same time, the business industry within Mercosur has managed to protect their markets by successfully lobbying their governments to not lower the tariffs on industrial goods. With aspirations of becoming considered as a consensual leader of Latin America and being a spoke person for many developing countries Brazil can not accept the European and American offer. The repugnance from all involved parties to modify their offer on the showstopper issue has led to a situation ended with deadlock.

6 Concluding Remarks

6.1 Comparison of External and Internal Factors to the State

A strengthened Mercosur would enhance Brazil's position in relation to the rest of Americas, Europe and the world. However, after several years of formal negotiations Mercosur is not close to sign an FTA with the EU or the United States. To explain the lack of progress, the focus of this thesis has been to analyze how factors within the EU, the United States and Mercosur have influenced on the pursued Brazilian foreign policy. The thesis have used three different theoretical approaches to analyze these factors and to identify different explanations on how the stalled negotiations on free trade can be explained from a Brazilian foreign policy perspective. This chapter summarizes and compares the main influential factors each theoretical approach presents.

The realist perspective explains that the Brazilian aspiration of emerging as a regional power in South America has clear implications in the EU-Mercosur and the United States-Mercosur relationship. The willingness from the American side to re-gain their predominance in Latin America does not correspondence with Brazil's goals and aspirations for the region. If the United States re-gains control of Latin America, Brazil's leverage and power will diminish, but on the contrary, if Brazil manages to keep the presence of the United States out, it will preferably increase its power and influence both within and beyond Mercosur. In fact, Mercosur consider the United States to be a threat to its strategic interests in the region, and based on this perception, an agreement on free trade with United States is not considered to be an option for Brazil. To hinder the United States for entering in the region, Brazil has formed alliances with weaker states within South America and with global powers such as the EU. Although an established relationship between the EU-Mercosur would enhance and promote Brazil's position in the world, no agreement has been signed. This reasoning is based on the fear that agreement with the EU strongly would interfere, diminish and in particular threaten Brazil's autonomy. The realist school of thought also emphasizes that challenges within Mercosur, such as friction and conflicts among the constitute members, have affected Brazil's position towards the negotiations with the EU and the United States. From a realist point of view, the internal limitations derives mainly from the prudence among Mercosur members that a deep integration with high degree of institutionalization also would imply diminished sovereignty and losses of relative gains. In general, all Mercosur

members demonstrate difficulties with giving up some parts of its national interest to supra national entities, although a strong Mercosur greatly would expand the power and create an influential block with leverage in the hemisphere and at the international level.

In line with the realist perspective, the complex interdependence theory underlines that an FTA with the EU or the United States would have political implications for Brazil's leadership role in the region. The EU and the United States share and promote the same aspiration to make Latin America, among others, a more productive and compatible region by strengthening democracy, regionalism and development, but differences are to behold in their ways on how to pursue and achieve these goals. For example, the Americans pursue a "trade not aid" policy, as they share the conviction that trade will also enhance development as a greater trade flow will attract new investments and thereby also promote development. On the contrary, the European trade strategy is committed to encompass trade as well as developmental issues. In fact, a strong commitment in the European trade strategy is to develop Mercosur as a regional project further and to achieve development of Mercosur members. Another distinctive difference in the EU and the United States trade strategies are demonstrated in the format of negotiations. In the case of Mercosur, the United States prefer to pursue trade negotiations on bilateral basis, meanwhile, the EU is committed to negotiate with the whole region of the Southern Cone. For example to exert pressure on Brazil, the United States are offering individual members and potential members of Mercosur agreements on free trade. The United States are aware that Brazil needs the support of Mercosur members and its associates to pursue its goals in the region. The bilateral trade negotiations creates problem for Mercosur to stay together, and thereby also endanger Brazil's aspirations for the region. The complex interdependence theory therefore argues that Brazil can not sign an agreement with the United States. The political goals behind the American trade strategies are too harmful for Brazil's ambition to increase its leverage and power at the regional and international arena. On the contrary, based on pursued trade strategies, the complex interdependence theory has difficulties to explain the stalled negotiations between the EU-Mercosur. In fact, the European ambitions to establish relations beyond trade and to deepen the institutionalization process of Mercosur would only enhance Brazil's position in Mercosur.

In terms of trade, the EU and the United States, constitutes Mercosur's largest trading partners and major FDI investors. An agreement on free trade would imply strengthen commercial and economic ties, and assistance to reduce the existing economic asymmetry among the concerned parties. Based on trade statistics, Mercosur is far more dependent upon trade with the European and American markets, than the opposite. This has created a favorable bargaining position for the EU and the United States during the negotiation processes, but as the complex interdependence theory points out it is possible for the more dependent state to lessen the asymmetric interdependence through the linking strategy. By representing the developing countries in WTO through, among others, G20 and G4, Brazil has used their concern over the agriculture issue to overcome their relatively vulnerability in the asymmetric relationship. In the

DDA, Brazil has together with India, established a strong stance against the EU and the United States and by refusing to accept the developed countries offer on agro-industry and to reduce their own tariffs in area of services and manufactures, Brazil has put the EU and the United States in a very difficult situation. Without any progress in the multilateral talks, it is unlikely in the nearest future that any bilateral or regional negotiations will be taken forward between the EU-Mercosur and the United States-Mercosur. Thus, the complex interdependence theory emphasize that Brazil's commitment to WTO negotiations and the contemporary failure of reaching consensus in the DDA, are considered as major explanatory factors to why the negotiations have ended in a situation with deadlock. Moreover, the theory underline that influential variable such as financial and internal crisis within Mercosur has played a significant role for Brazil's behavior in the negotiations on free trade. In the long run, the low degree of institutionalization and the incomplete custom union might have serious consequences for Brazil's prospects to deepen the integration process in the Southern Cone.

A factor that has been in common in both negotiation processes and its outcome between the EU-Mercosur and the United States-Mercosur is the impact and the influence of interest groups. By lobbying and pressing the governments on issues in line with their particular concerns, protectionist sectors over export oriented sectors have influenced on the course of the negotiations. The complex interdependence and domestic oriented theories emphasizes that both FTA negotiations have ended in a situation with deadlock due to disagreements over sectors in which the involved parties are lacking comparative advantages. According to the complex interdependence and domestic oriented theories, the deadlock depends to a large extent on influential lobbying from farmers and traders with agriculture commodities in the EU and the United States, and business industries groups in Mercosur. If an FTA between the EU-Mercosur and the United States-Mercosur would imply liberalization of trade in goods and trade in services, the agriculture commodities produced in Mercosur would pose a threat to the agro-industry in the EU and the United States, whereas the manufacture and services sectors in Europe and the United States would pose a threat towards the industries within Mercosur. The EU and the United States have wished to exclude the sensitive agriculture issue from the regional and bilateral talks, to instead find preferable solutions in the multilateral talks. Brazil has, however, resisted enhanced trade liberalization with the EU and the United States, since their proposals of liberalization does not sufficiently meet the needs and goals of Brazil and their prospects within and beyond Mercosur.

To conclude, although the trade talks between the EU-Mercosur and the United States-Mercosur are currently stalled, both sides have shown perceptions that the negotiations will at some stage be resumed. Without making predictions on when and on what sectors to be dealt with in those agreements, one can with certainty state that whatever the outcome of the DDA round will be, it will have great impact on the future trade agreements.

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Definition: FTA

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8 List of Abbreviations

AACCLA	Association of American Chambers of Commerce in Latin America
CACM	Central American Common Market
CAN	National Confederation of Agriculture
CAP	Common Agriculture Policies
CEB	Brazilian Business Coalition
CNI	Confederação Nacional da Indústria
COPA	European Farmers Federation
DDA	Doha Development Agenda
EMIFCA	Interregional Framework for Cooperation Agreement
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
LAFTA	Latin American Free Trade Association
MEBF	Mercosur European Union Business Forum
MERCOSUR	Mercado Común del Sur
MNC	Multinational corporation
NAFTA	North American Free Trade Agreement
NAMA	Market access for non-agricultural products
NFTC	National Foreign Trade Council
NGO	Non Governmental Organization
SAFTA	South American Free Trade Agreement
WTO	World Trade Organization

