

# **BRAZIL AND THE FREE TRADE AREA OF THE AMERICAS (FTAA)**

**Gilberto Ribeiro (PHD)**

Centro de Estudios Económicos para America Latina

Av. 18 de Julio 108

Montevideo, Uruguay, CP 11600

[ribeiro@cecal.org](mailto:ribeiro@cecal.org)

## **Abstract**

This document discusses Brazil and the Free Trade Area of the Americas (FTAA). Since the FTAA is only a proposed agreement and trade apparatus at the moment, NAFTA is used as a working model and its influence on and benefit for Mexico and that country's economy. Various trade structures and associations are briefly examined relative to the potential impact of the FTAA for Brazil and South America. The benefits and the negatives of a potential FTAA are developed and several impediments to its further adoption in the region and by Brazil specifically are examined.

## INTRODUCTION

Brazil has long been a highly populated and growing nation within South America. However, it generally has not been recognized for its substantial positioning in the world market or its cultural strength among Latin American people. In the 1990s, however, Brazil began to be recognized as a significant inclusion in the world market because of its collaboration in creating the Mercosur agreement with other South American countries. As Mercosur began to be realized the United States offered the Free Trade Agreement of the Americas (FTAA) with the intention that it would have the same results for Brazil that NAFTA had for both Canada and Mexico. Yet, the leaders of Brazil believed by that time that they could demonstrate their independence from Western ideologies and form their own trade bloc with nations of a similar philosophy. Therefore, Mercosur was born.

Mercosur promised to be a tool that would allow countries within South America to have the economic strength to rival Western and European nations, as well as growing Asian markets. In Mercosur the founders sought to support one another, extend trading freedoms to one another and become a bloc that was desired to be traded with. By the late 1990s, however, it became evident that this was not in the immediate future for Mercosur, as the Brazilian economy tumbled and all of the member nations felt the impact of the decrease in the value of the Brazilian real.

As time elapsed tensions that had existed previous to the Mercosur agreement, as well as new clashes became evident. Consequently the trading bloc

continued to decrease in its ability to realize its intended future. Therefore, Venezuela was allowed to become a full member of the bloc in 2006. Once again Mercosur members asserted that the trading bloc would be successful, relying on the multi-million dollar strength of the Venezuelan economy and the word of its leader, Hugo Chavez. Yet, it was apparent that Chavez was not only concerned with trade in Mercosur, he was concerned with the political statements that could be made against the United States. Chavez not only publicly condemned the United States president, he made every effort to secure an alliance with Fidel Castro, a constant enemy of the United States for decades. The actions of Chavez did not ultimately have the affect on Mercosur in the manner that Brazil and the other member nations had visualized. Instead Chavez brought about even greater criticism and suspicions, especially in light of his open support of Iran.

At the current time Mercosur has made no progress in its efforts to become a significant trading bloc within the global community. Moreover, Mercosur has continued to experience a reduction in its economic stability and a constant unrest among its members. The recent summit of Mercosur, intended to address these issues, only identified plans for additional growth, which has historically been demonstrated as a negative approach to resolving the issues that impact Mercosur.

For countries such as Brazil, Mercosur was intended to alter the economic future of the nation, increase internal stability and begin a path toward a prosperous future. It is evident that in the current conditions experienced through Mercosur these visions will not be realized. However, the FTAA, modeled after the successful North American Free Trade

Agreement, provides a secure foundation for trade that is future focused and that has the ability of opening trading paths throughout the world.

## **BACKGROUND OF THE FTAA**

The Free Trade Area of the Americas (FTAA) was created following the implementation of the North American Free Trade Agreement (NAFTA) and was intended to bring free trade to all members of the global community. The chart below indicates the countries that are connected to the FTAA and the future of free trade.

### **Nations Participating in FTAA Process:**

Antigua, Argentina, Bahamas, Barbados, Belize, Bolivia, Barbuda, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint. Kitts and Nevis, Saint Lucia, Saint Vincent, Surinam, Trinidad & Tobago, USA, Uruguay and Venezuela.

The concept supporting the FTAA was initiated in 1994 at the Summit of the Americas in Miami, Florida ("Free Trade Area", 2006, sec. 1). The Summit included members of 34 countries that began negotiations related to free trade after it became apparent that while NAFTA was beneficial to some countries, it did not serve to open free trade to the entire global community. FTAA was intended to resolve that issue. The Summit participants believed that in FTAA there would eventually be trade between nations which was not restricted and that allowed every nation to participate. In order to achieve this goal

the members of the Summit created the Miami Summit Declaration of Principles, a plan that would allow for ministers or representatives of each nation to begin "taking a series of concrete initial steps to achieve the Free Trade Area of the Americas" ("Free Trade Area", 2006, sec. 1). Consequently these representatives set about making preparations for the FTAA, with meetings in Denver, Catagene, Belo Horizonte and San Jose, Costa Rica ("Free Trade Area", 2006, sec. 1). By the time of the last meeting of ministers in Costa Rica the ministers had paved the way for the Second Summit in 1998 that took place in Chile.

The Second Summit of the FTAA required negotiations between governments in order to ensure that the final agreement would take into consideration the needs and future of all nations. In order to achieve this goal the Summit members concluded that financial issues connected to each country, as well as population size had to be considered. Furthermore, the Summit members determined that specific objectives had to be met in creating the FTAA document. These goals included:

- Raising living standards of each population.
- Improving working conditions.
- Protecting the environment. ("Free Trade Area", 2006, sec. 1).

The Second Summit led to additional meetings of the nation's ministers in which the ministers developed policies toward trade, populations, negotiations within the markets, commercial exchange and customs ("Free trade Area", 2006, sec. 2). The development of these policies resulted in the first draft of the FTAA being written and publicly published, which was an

unforeseen step in the process. However, by publicly allowing the members of all nations to comprehend the FTAA in its entirety throughout the process the ministers believed that they would be capable of demonstrating their good will toward each nation and their ethical intentions in drafting the FTAA (“Free Trade Area”, 2006, sec. 2).

By 2002 the ministers also created the Hemispheric Cooperation Program (HCP) in which those countries that were economically disadvantaged would be taken into consideration in the free trade agreement and allowed the opportunity to fully participate in trade with other nations. This document was conceived because of the global concern that free trade would only benefit large multi-million dollar corporations and eventually cause the small business owner to leave the business community. This was because what was learned through NAFTA was that only those corporations that had the financial backing and economic base to advance in the technological and knowledge levels were capable of truly competing in the globalized market. Many companies that attempted to be part of that competition ended up having to either revert back to participating only in local markets or closing their businesses because of the extensive costs in competing globally. These businesses learned that with the opening of markets under free trade, the technology that had been unknown to some nations and the skills that had been acquired by people within some markets were exceedingly more advanced than had been previously understood. Therefore, when free trade commenced it became evident to many corporations that they had to invest extensively in their companies in order to become as technologically

advanced and skilled as other companies. Failing to accomplish this feat would mean that consumers would take their business elsewhere and that the companies would ultimately loose in the business competition anyway. The leaders connected with FTAA wanted to ensure that this was not the result of signing the free trade agreement and that small business owners would still have the opportunity to compete without running the risk of loosing their companies. The HCP was intended to support this intention. Additionally, the Directives for the Treatment of the Differences in the Levels of Development and Size of Economies allowed for added support of this approach to the FTAA and weaker businesses economically (“Free Trade Area”, 2006, sec. 3).

The FTAA was intended to be completed and implemented globally by the close of 2005. The ministers connected to the FTAA stated:

We, the Ministers, reaffirm our commitment to the successful conclusion of the FTAA negotiations by January 2005, with the ultimate goal of achieving an area of free trade and regional integration. The Ministers reaffirm their commitment to a comprehensive and balanced FTAA that will most effectively foster economic growth, the reduction of poverty, development, and integration through trade liberalization (“Free Trade Area”, 2006, sec. 4).

The ministers also concluded that there was a need for understanding that all issue pertaining to different nations could be addressed within the FTAA. In order to ensure that all countries were adequately

represented by the FTAA, therefore, the ministers called for nations to enter negotiations with the authors of the FTAA as a means of successfully addressing the concerns of national leaders and ensuring that all people were equally supported under the FTAA ("Free Trade Area", 2006, sec. 3). The ministers referred to these concerns as "rights and obligations" and they included a focus on such areas as agriculture, government procurement and property ("Free Trade Area", 2006, sec. 3). It was, however, stipulated that these negotiations would conclude in September of 2004 in order for the FTAA leaders to be capable of completing their mission in a timely manner.

By 2005, however, it had become painfully obvious that the deadline for passage of the FTAA would not be realized. This was because of several factors that centered on disagreements between national leaders and the "zone" that would represent the free trade countries connected to the agreement. According to Clendenning (2005) the FTAA lost the significance that it initially had when leaders such as President Luiz Inacio Lula da Silva of Brazil insisted that the FTAA would not support their national economic and population needs (para. 5). Da Silva further made it known that he believed that the United States was forcing other nations to conform to its trade policies and that it was more important for Brazil to strengthen its trading relationships with its "neighbors" than to consider trade beyond that realm, which was not beneficial to Brazil (Clendenning, 2005, para. 5). Clendenning (2005) stated that "involved in the issues that were connected to FTAA was the desire of the United States to have protection for American farmers, and Brazil's insistence on property rights" (para. 6). When it

became evident that Brazil and the other nations that supported it were not going to proceed with negotiations, Clendenning (2005) reported that the United States had plans to enter into individual trade agreements with other nations as a means of implementing FTAA and ignoring the lack of participation in free trade by Brazil and its counterparts in South America.

The opposition to the FTAA has not only existed in South American nations, but is evident in the United States as well. Jasper (2004) contends that the opposition exists because of the belief that the creators of the FTAA document have the intention of building an international plan that would override the governments and national independence of all nations under the umbrella of the FTAA (p. 21). Jasper (2004) states that the ministers of the FTAA have prepared plans that would allow the FTAA governing body to preside "over such issues as environment, labor, wages, health care, education, foreign aid, welfare, housing, taxation, investment, agriculture, narcotics control, immigration, border control, counter-terrorism" (p. 21). Essentially, this would mean that all elements of society in the countries that participate in FTAA would cease to be governed by their own constitutions and cultural beliefs, but rather would be subjected to the governance of an international board that would control the lives of people within each nation signing the FTAA agreement (Jasper, 2004, p. 21). Jasper (2004) voices his thoughts that the scope of the FTAA is challenged because it impacts the sovereignty of nations and the identity of populations that have struggled to create their own way of life and their own cultural independence (p. 21). If FTAA is ever implemented, it is believed, there will be a new rule within these nations that obliterates sovereignty

and provides for world domination by powers unknown (Jasper, 2004, p. 21).

Block (2003) stipulates, however, that the FTAA does not infringe upon the sovereignty of nations, it serves to protect them in respect to every element of life that may be connected to free trade and overcome possible barriers to an open market that may exist in the future (p. 501). Block (2003) believes that many of those that are in opposition to the FTAA are not realistically viewing the document and are casting what they have read aside because their views are not the dominant concerns of the FTAA (p. 501). Consequently some nations insist that the FTAA favors other nations, such as the United States, when in reality the FTAA favors no particular nation, rather a philosophy that people in each country must be protected (Block, 2003, p. 501). This is evident, according to Block (2003) when it is considered that if issues such as the environment are not protected under FTAA, trading countries may elect to take advantage of natural resources that are not their own, but that have no policies provided for in the international documentation (p. 501). Block (2003) states:

Much is at stake. Latin America is a veritable treasure trove of ecological bounty, though its marine and terrestrial ecosystems face a host of threats, including unsustainable harvesting practices and destructive land-use patterns, respectively. The potential impacts of free trade on these ecological assets have been inadequately studied as countries train their scarce research resources on predicting economic outcomes in specific sectors or product areas (p. 501).

Block (2003) continues with his argument in favor of the FTAA by contending that the global community is failing to comprehend the true expanse of knowledge, profit and sense of community that can be achieved through a widespread free trade document (p. 501). Those nations that do understand these benefits are consistently attempting to enter into trade agreements with other countries on a smaller scale and ensure that they take part in gaining some of these benefits. However, if free trade between all nations was possible, the agreements that blocked trade from some nations, while supporting others would be a thing of the past and all of society would be capable of knowing the expanse of the positive outcomes that would result (Block, 2003, p. 501). Block (2003) believes that to comprehend the possibilities associated with free trade success requires the individual to examine the history of NAFTA and the economic growth that has existed for the countries that have participated in that agreement (p. 501).

The conflicting beliefs associated with FTAA have continued to prevent the passage of the free trade agreement. Brazil's adamant opposition to the agreement has led other nations to cast aside the possibility of a global free trade policy and caused the citizens of many nations to question the validity of the agreement because of the belief that it will negatively impact populations. Yet, it is also evident that there are researchers and professionals that believe that the opposition to FTAA is unfounded and that the arguments against it have caused the FTAA to be taken out of context because of the desire of some leaders to control the scope of the agreement. It is contended, therefore, that an examination of available research will be capable of demonstrating

that the FTAA is a positive step in the process of free trade throughout the globe and that all nations, including Brazil, would benefit from the implementation of FTAA. In order to provide evidence that supports this theory an examination of Mexico in relation to the North American Free Trade Agreement will be conducted. Furthermore, a review of the literature pertaining to the key elements argued in relation to FTAA will be conducted. These elements will include:

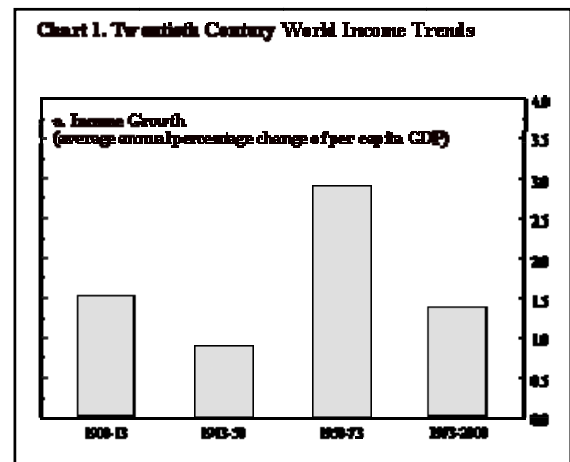
- Globalization.
- Economic History of the Americas.
- Trade Models.
- NAFTA goals.
- Factors Affecting Brazil.
- Arguments in Favor of FTAA.
- Arguments Opposing FTAA.

## GLOBALIZATION

Globalization is often described as the economic model for the 21st century. Many analysts who describe it employ the concept of integration with several key words such as culture, economy, infrastructure, and the free market (Globalization, 2005). Culture is viewed as an integral element of globalization because globalization tends to blur delineations between cultural groups. Economy is significant to the realm of globalization because globalization appears to create a separation of classes that support the wealthy within society and ignore those that are impoverished. Infrastructures are an important aspect of globalization because the mechanisms of communication, transportation, and knowledge support it. Furthermore, infrastructure encompasses the technological scope of society and business that continue to advance in vast

degrees throughout the global community. In a broader sense, Friedman (2000) proposes that globalization is more than a simple integration of international functionality, but rather a completely new geo-political paradigm in the way that the Cold War was a geo-political paradigm governing, to some degree, all decisions: political, economic, and social (sec. 1).

To some theorists globalization is concerned primarily with the economic conditions of nations. According to the International Monetary Fund globalization in this respect has been a continual fact since the beginning of trade between nations, or for hundreds of years ("Globalization Threat", 2002, sec. 2). In the twentieth century the income growth of populations demonstrates the world income trends. These trends coincide with eras of prosperous global trade and display evidence that when trade was high, income levels increased as well.



Retrieved from the International Monetary Fund,  
<http://www.imf.org/external/np/exr/ib/2000/041200.htm#chart1a>

According to the International Monetary Fund the beginning of the twentieth century was plagued by war and

nations refused to conduct international trade. Therefore, the primary means of trade became local or national, with international trade generally coming to a halt (“Globalization Threat”, 2002, sec. 3). As a result of this lack of trade the income levels of populations decreased significantly. Yet, by the 1950s income levels increased as trade on an international basis continued to become more common. By the 1970s the continuing wars that plagued nations also impacted the economic growth of the population, remaining instrumental in the declining economic prosperity of people throughout one generation.

The changing growth of the economy impacted the social order as well. The International Monetary Fund states that when there was evidence of widespread growth those that were positively impacted by this growth were those that were least in need of financial prosperity (“Globalization Threats”, 2002, sec. 3). Additionally, those that were in need of financial gain in each country fell further behind in class and become more impoverished than ever before. This state has a great deal to do with the inclusion of data from developing countries in relation to the economic conditions of nations. Since the 1970s, for example, there are many nations that were once considered Third World countries that have altered their financial conditions altogether. This is particularly true of Asian countries. However, in other nations the gap between prosperity and poverty has increased. The IMF contends that this is because of four specific factors. These factors include:

- **Trade:** Some nations have trade that has allowed them to become more competitive in the world market. Other nations have

suffered because the main source of trade that they have traditionally produced has declined in demand throughout the globe. This is especially true in relation to Third World nations that produce food products.

- **Capital Movements:** Capital movements are comprised of the flow of capital within nations, between nations and among investors in business. Because of the continual changes in the global community capital movements have also changed. For example, investors that existed primarily in some industries have changed their investing practices and migrated toward emerging industries in some cases. Furthermore, the issues that have impacted some nations in certain periods of time have altered the capital movement within countries and national abilities to conduct trade with other nations.
- **Movement of People:** The twentieth century has seen a change in population in regard to the migration of workers to more prosperous nations, as well as the outsourcing of work to countries that have become hubs of economic growth because of the lower cost of conducting business in these regions. With the constant movement of populations across the globe there has been difficulty in determining the exact economic condition of nations or how the migration of people to other locations will impact each country over time.
- **Knowledge and Technology Spread:** As globalization has

occurred there has been a continuous exchange of knowledge and technology. This exchange has impacted all major industries in the manner that production occurs, technology influences delivery of service and methods that are used in business operation.

It is evident, therefore, that the economic conditions that have occurred because of globalization have also impacted the social conditions that are realized by all societies. However, these two factors cannot be fully understood without comprehending the political elements that are present with the existence of globalization.

Politics influence globalization through each nation demanding to maintain sovereignty and the political beliefs that have founded the country. The IMF concludes that what many political entities fail to realize is that this sovereignty is only threatened when there are internal national issues that affect the national stability ("Globalization Threats", 2002, sec. 6). Furthermore, the manner in which a nation is capable of controlling its economic conditions and the restraints or freedoms placed on business will alter the positive outcomes possible in a globalized society. Politicians, however, have a tendency to believe that it is because of globalization that their nations suffer from financial strain, when it generally other factors that are unique to a particular country that are the cause of economic distress ("Globalization Threats", 2002, sec. 6).

In the current political climate surrounding the FTAA

politics is playing a significant role in placing blame on the FTAA itself, as well as on other political factions for the

failure of free trade to assist in a nation's economic prosperity. However, when it is considered that outside sources in a free trade society are traditionally not the cause of financial loss or devastation, these political arguments cannot be supported, as the evidence indicates.

## **ECONOMIC HISTORY IN SOUTH AMERICA:**

### **Brazil in the Twentieth and Twenty First Centuries**

The economic interaction of the West with Central and South America extends back to the colonial period following the regions discovery by European explorers in the 14 and 1500s. Since then, the economic history of Central and South America has been one of exploitation by and independence from European markets. While considerable economic interaction still occurs between these former colonies and their European founders, such as Brazil and Portugal, Central and South America have progressively sought to achieve economic independence and solvency based on their own development models. It should be noted, however, that the historical background of countries such as Brazil differs economically from other Latin American countries, such as Mexico. This is because of the nation's interaction with other societies and the geographic placement of the nation in relation to its neighboring countries.

Levine (1999) states that Brazil "had always been linked to international conditions" through royalty, the gold rush and foreign investment (p. 86). In the early part of the twentieth century, however, there was a disruption of trade, which included the difficulty for Brazil of receiving manufacturing tools required for

industrial operations. While Brazil had relied on France and England for economic support, these countries could no longer provide assistance to the nation and the United States minimally attempted to aid Brazil with capital investments (Levine, 1999, p. 85). This period of financial hardship did not last long, nevertheless, because industrialization throughout Brazil continued to expand, leading to the “most rapid economic growth in Brazilian history” (Levine, 1999, p. 85). Brazil, Argentina and Chile had increased the prices of their exports significantly for “agricultural and mineral exports”, with Brazil realizing a surge in its income from coffee (Levine, 1999, p. 85). As this occurred, investments in other Brazilian goods increased, although the wages paid to labor in the nation plunged. This was because of a constant immigration to Brazil by workers, which was supported by the Brazilian upper class. At the time women and immigrants were the preferred laborers because this societal groups were willing to accept wages that were far below the average wage, allowing for the profits of Brazil’s wealthy to climb. Yet, the issue of wages and working conditions became a continuing battle for Brazil, as unions attempted to be organized and the wealthy quickly moved to disband would-be unions through violent retaliation (Levine, 1999, p. 87). There was a definite separation between the wealthy and the poor at this time in the nation, with the wealthy repeatedly widening the gap between the have and have-nots and the hierarchy of the nation supporting the methods of control over the poor through violence as necessary in order to maintain economic stability (Levine, 1999, p. 85).

By 1917 Brazil elected to “declare war on Imperial Germany and join the Entente

powers” (Levine, 1999, p. 91). Levine (1999) states that this action was intended to increase the “stature” of Brazil through the nation’s support of allied countries with supplies that were greatly needed. According to Levine (1999) the move of Brazil to align itself with allied forces was essentially a method of competing with Argentina, a nation that had become increasingly wealthy and that had consistently received support from England (p. 91).

Between 1922 and 1927 the country experienced political and economic unrest, which culminated in the civilians within the country rebelling against societal norms that had placed the vast majority of the population in extreme poverty. By 1927 such revolts were banned by law and there were national policies against communism in the nation. The uprising of the people only became more intense after Getulio Dornelles Vargas became provisional president in 1930. Vargas believed that by eliminating surplus stocks of coffee prices could be increased and the economic conditions that were affecting many within Brazil could be alleviated (Levine, 1999, p. 100). Eventually the unrest within the nation became so extensive, however, that Vargas made himself the nation’s dictator and prevented the existence of political opposition to his governmental control. By the onset of World War II that the financial conditions were again enhanced because of Brazil’s consistent relationship with the United States and the latter country’s need for Brazilian products to support the war effort. In 1945, however, a “military coup d’etat...forced Vargas to resign” (“History”, n.d.).

In the following decade the social unrest because of economic strife related to the poor continued. Juscelino

Kubitschek had been elected president and under his control of the government there appeared to be hope that the economic future of the country would grow. Juscelino Kubitschek had developed an economic plan that included \$150 million in bank loans from the United States and a new capital in the nation, Brasilia ("History", n.d.). According to Levine (1999), Kubitschek wanted to ensure that the nation was capable of growth without foreign investment, that was a significant factor in industry at the time (p. 123). Kubitschek also intended to create a democratic government within Brazil, believing that this would alter the plight of the poor and strengthen Brazil internally. However, by the time that Kubitschek left office Brazil was impacted by "foreign debt and labor unrest" that indicated that his plans had not resulted in the outcomes that he had intended (Levine, 1999, p. 123).

The dire financial concerns of Brazil in relation to its impoverished population, foreign investment and national debt continued throughout the 1960s and 1970s with the government relaxing its control over the population and then increasing it through military leadership in an effort to find a model of government that would be effective in changing the economic challenges that existed (Levine, 1999, p. 125). Despite changes in government ideologies and political reforms there was nothing that appeared to alter the issues that were ongoing throughout the nation ("History", n.d.). It should be noted, however, that the economic prosperity of Brazil in relation to the wealthy had not been hindered throughout this course in history, demonstrating that Brazil was a nation in consistent economic conflict between social classes and that internal

unrest remained the nation's most significant issue.

By the 1990s the economic conditions that were negatively impacting Brazil appeared to be changing, as Fernando Henrique Cardoso took the presidential office. Despite the extensive political corruption that was believed to have occurred under Cardoso, Brazil "joined Argentina, Paraguay, and Uruguay in the formation of the Southern Cone Common Market (MERCOSUR)" ("History", n.d.). Additionally, Cardoso worked to create policies on land ownership, rights of Natives and "infrastructure" projects aimed at altering the economic conditions of the people ("History", n.d.).

It was during the 1990s that Brazil's government began to become involved in other forms of trade, primarily because of the low natural resources that supplied energy to the country. The need for energy in Brazil and Chile caused North American and European countries to invest in natural gas pipelines that were to create an energy "network" in Latin America (Energy", 1995, sec. 1). Yet, the investors were not restricted to these nations, as Argentina, Peru and Bolivia were "rich in natural gas" and stood to profit immensely from the energy trade ("Energy", 1995, sec. 1). The energy trade, however, became complicated when each of the nations involved began to demand certain conditions related to the trade. This included the insistence of the Bolivian government that all interested bidders desiring to provide needed services in the project have a "net worth of \$500 million" ("Energy", 1995, sec. 1).

This project alone demonstrates that each country within the scope of the energy crisis was affected in varying ways. Chile and Brazil, for example, were struggling to provide the energy needs of

their nation, while Bolivia was rich with natural energy and stood to profit extensively from its dispersment to other nations. Additionally, Bolivia began making demands on the energy market and those that wanted to participate in trade. This evidence supports the contention of the IMF that free trade is impacted by both the issues that pertain exclusively to nations and the factors that affect trade itself. In this case it was not the desire for free trade to occur or the need for free trade that was negatively impacting the situation, it was the conditions and issues associated with the trade that affected the process of trade. Additionally, the trade issues that existed through energy express the continued dilemmas that plague nations under the Mercursor agreement, with constant disagreements and struggling for power being evident.

The issue of energy in relation to Brazil became apparent again in 2001 when Cardoso and Chavez, Brazilian and Venezuelan leaders, sought to create a “high voltage power line” between Venezuela and Brazil (Easton, 2001, para. 1). The theory behind the project was that trading energy resources between the two countries would assist the Brazilian people with their energy needs and provide additional income for Venezuela. However, neither of the national leaders made an attempt to discuss the issue with environmentalists in the region of the indigenous people that lived in the areas where the power line was being constructed. This led to significant social rebellion against the project and the destruction of the power line on at least two separate occasions. Easton (2001) stated:

Indigenous leaders say the government acted illegally when it not only failed to

consult them about the \$400m project's environmental and social impact but subjected opponents to physical threats and violence (para. 5).

Furthermore, Levine (1999) states that this project would have devastated the ecosystem of Brazil, providing evidence that the government was not considering the environment, but rather the financial gain that would result is the project had been successful (p. 169).

*The conditions surrounding this agreement between the leaders of Brazil and the Venezuelan government indicate that Brazil has faced continued difficulties in relation to free trade that are unique to the nation. These difficulties have continuously impacted the economic stability of the country and have challenged the Brazilian people throughout history to attempt to find leadership that can provide an answer to its tattered economic state. Therefore, while the Brazilian government may state that FTAA intends to strip the nation of its sovereignty, the data of the IMF is supported by the research that indicates that internal issues have consistently impacted Brazil and that under Brazil's current trade agreement the internal strife of the country has not been decreased.*

## TRADE MODELS

### NAFTA.

The North American Free Trade Agreement (NAFTA) has been a successful contractual agreement between the nations of Mexico, the United States

and Canada. NAFTA has been instrumental in creating an open trade between these countries that increases societal relations and allows for increased profits for industry. The results to date of the NAFTA agreement on the three nations is demonstrated in the chart below.

| United States   | Mexico  | Canada   |
|---|---|--|
| 38% economic growth                                     | 30% economic growth   | 30.9% economic growth  |
| U.S. exports to Mexico: \$46.5 billion                  | Mexican exports to the U.S.: \$138 billion                    | Canada's overall exports to partnering nations increased by 104% |
| U.S. exports to Canada: \$87.8 billion                  | Mexican exports to Canada: \$8.7 billion                      | Productivity increase: 23%                                       |
| Productivity increase: 28%                              | Productivity increase: 55%                                    | Export trades due to NAFTA increase by over 87%                  |
| Income gains and tax cuts valued at \$930 per household | Wages in export companies rose 37%                            | Foreign Direct Investment increased 36%                          |
|   | Agricultural trade rise 125% from Mexico to the United States |  |

Information retrieved from United States Trade Representative,  
[http://www.ustr.gov/Document\\_Library/Fact\\_Sheets/2004/NAFTA\\_A\\_Decade\\_of\\_Success.html](http://www.ustr.gov/Document_Library/Fact_Sheets/2004/NAFTA_A_Decade_of_Success.html)

As demonstrated, all three of the NAFTA nations have seen a profit increase in various sectors because of the free trade agreement that was implemented. It is because of these vast benefits that NAFTA has been viewed as a model trade agreement for other countries that have considered a pact with other countries. While other trade agreements have been implemented between nations, no other free trade agreement has the proven record that is associated with NAFTA.

CAFTA-DR or the The Central America-Dominican Republic-United States Free Trade Agreement is a trade agreement between the U.S., Costa Rica,

El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic, signed into law in the United States in 2005. To date it has been approved in all participating nations except Costa Rica ("U.S.-CAFTA", 2007). The United States Export Portal states:

In addition to tariff reduction, CAFTA-DR provides new market access for U.S. consumer and industrial products and agricultural products. It also provides unprecedented access to government procurement in the partner countries, liberalizes the services sectors protects U.S. investments in the region, and strengthens protections

for U.S. patents, trademarks, and trade secrets. The Agreement covers customs facilitation and provides benefits to small and medium-sized exporters. Provisions are also included that address government transparency and corruption, worker rights, protection of the environment, trade capacity building, and dispute settlement ("U.S.-CAFTA, 2007).

This trade agreement is considered at this time to be the second largest foundation for trade in the world, outside of the export agreement between the United States and Mexico ("U.S.-CAFTA", 2007). Although there has been hesitation from some of the countries to participate in this trade agreement, the future of CAFTA appears to be strong and promising for each country that participates in the free trade that has been established in the document.

Mercosur is a regional trade agreement developed by Brazil, Argentina, Uruguay, and Paraguay as a method to develop the emerging markets among Latin American countries without the domination and influence of larger developed nations such as the United States. Mercosur has not been as effective as it could have been because of the collapse of the Argentine economy beginning in 1999 (Baer, 2001). However, using Mercosur as a foundation, the members of the free trade alliance believe that in the future they will be capable of developing their own economy, such as is evident within the European Union. This, they believe, will occur through the strength of Mercosur.

Another regional trade agreement, AFTA or the Andean Free Trade Agreement, has never been ratified by any party but was intended to be comprised of Columbia, Peru, Ecuador, and Bolivia.

Therefore, while NAFTA has been successful some of the other regional trade agreements have seen limited success because of their equally limited scale.

### ***NAFTA Goals***

Of the free trade agreements in existence today NAFTA appears to be the most successful because of its proven benefits to each member nation. Murphy (2004) pointed out that NAFTA was ground-breaking both for its visionary approach to expanded trade relationships and for its unique integration into the signatory countries' sovereignty (para.34).

Given NAFTA's decided benefit across the North American continent in terms of free trade and the economic benefits that accompany this open door policy, it is important to detail some of the precise methods in which the relevant economies have benefited. Murphy (2004) contends further that, although some degree of national sovereignty must be subjugated to free-trade agreements such as NAFTA, NAFTA is but a definitive extension of globalization and has only increased transnational cash flows between the participating economies (Murphy, 2004).

### ***Effects on Mexico: Macroeconomic Considerations.***

Mexico's economy is a study in contrast. It recently attained a \$1.067 trillion GDP and a 30% growth rate through 2005 (Mexico, 2006). While trade with both the US and Canada has effectively tripled over the last decade following its ratification of NAFTA, Mexico's per capita income is only a quarter of the United States' per capita income and shows no inclination to

increase substantially over the next decade. Mexico's economy is divided largely between 3.8% agriculture, 25.9% industry, and 70.2% services with more than 40m in its large labor force (Mexico, 2006). With more than 40% of its population living below internationally recognized poverty lines, Mexico's economy is problematic at best because of the impact that free trade has on the nation overall and the lack of growth it provides for the average citizen. Yet, considering its ever expanding trade relationships and its growing economic activity, Mexico faces a real opportunity to enter the market at a time when growth prospects are strong in the mid to long-term. This could mean a significant change in the opportunities that are available for the Mexican citizens, dependent on the political environment of the nation, which has historically been volatile.

### **Political**

Mexico's political environment is infamous for its corruption and somewhat dubious election processes. It is currently experiencing considerable internal strife over its most recent Presidential elections in which the conservative candidate, Felipe Calderon, was accused by the challenger, Manuel Obrador, of election and voting fraud (Fraud, 2006). Yet, such political strife has a long precedent in Mexico. It was only in 2000 that a candidate from outside the dominant Institutional Revolutionary Party or the PRI, which ruled Mexico since its independence from Spain in 1810 existed (Mexico, 2006). Mexico operates under a federal republic system of government and the country is divided into 31 states. The current President is Felipe Calderon as of December of 2006. The Mexican

governmental structure is not dissimilar to the United State's system in that it maintains three distinct divisions of government: an executive, a legislative, and a judicial branch (Mexico, 2006). Additionally, its legislature is a bi-cameral organization separated into a National Congress and a Senate. Mexico has numerous political parties dominated by the PRI, has various unions and special interests, and is a member of the World Trade Organization (WTO) as well as the North American Free Trade Association (NAFTA).

### **Labor**

The Mexican population exceeds 107 million people, with a vast labor force that has historically been struggling for higher wages, acceptable working conditions and worker rights. Only two months after the new president took office the labor unions, peasant leagues, indigenous organizations and political parties have voiced their unrest with labor conditions in the nation by protesting in the thousands ("Massive", 2007, sec. 1). In the nation there are in excess of 150 labor organizations, each representing different groups or concerns within society in relation to employment. The most significant issue for these factions is the economic stability of the labor force, which is in a constant state of change. An example of this exists in the millions of youth that are entering the job market. It is estimated that only 3 in 10 of these potential workers will be able to locate adequate employment in the nation and that the remainder of this population will be forced to develop an income by alternative means ("Massive", 2007, sec. 4). This creates a significant dilemma for government officials, who must act in order to remain in power and to discover

methods that will resolve the labor issues that continue to rise. It is evident that in the case of Mexico, the government has not taken full advantage of the employment opportunities that could be developed through NAFTA as a means of meeting job need within the nation. Yet, there are other factors that inhibit many Mexican officials from increasing free trade, to include environmental concerns.

### **Environment.**

The risk to Mexico's environment exists because of lax regulations protecting the nation's resources. The environment is further affected by industries, political factions and residential areas that all have a stake in where and how industry will operate. Where there are more wealthy populations the citizens have the ability to fight for environmental issues. However, in locations where there is a large population of poor, this is not the case. Therefore, since the majority of the nation exists in poverty, the environment is a constant concern for the people that call Mexico home. Finco and Hepner (1999) state

Assumptions about vulnerability...must take into account entirely different cultural factors on the Mexican side of the border (para. 1).

In other words, the regulatory requirements for industry that exist in the United States and elsewhere do not necessarily apply to Mexico and it is for this reason that NAFTA and the growing interest in industry in the nation is impacting the environment to such a significant degree.

It is apparent that the environment, political entities and labor have an important impact on the success that is felt

by Mexico because of the North American Free Trade Agreement. Despite the issues that internally plague the nation, however, it is also evident that Mexico has benefited to a great extent because of the free trade that exists with the United States and Canada. If it were possible for the Mexican government to develop a plan of action that would alleviate the issues that are consistently preventing the nation from discovering all of the benefits of NAFTA, Mexico could potentially be one of the most prosperous countries in the 21st century, as is evidence by the growth rate of the nation.

### **Brazil: Mercosur.**

Mercosur originally found a basis for existence in 1986 with "economic cooperation between Argentina and Brazil" ("EU", 2007, sec. 1). Through this relationship the two countries believed that they could create a "common market and customs union" that would benefit the citizenry ("EU", 2007, sec. 1). The Treaty of Asuncion was the first document that established the intent of these nations. The Treaty of Ouro Preto of 1994 then renewed this relationship and began a "transition phase" of the agreement between the countries that supported the foundation of the modern Mercosur agreement. Mercosur is the free trade agreement between Brazil, Argentina, Uruguay, and Paraguay, which formally accepted Venezuela into its membership in July of 2006. Chile and Bolivia became associate members in 1996, with a "political Mersocur" being established ("EU", 2007, sec. 1). Other associate members of Mersocur include Peru, Colombia and Ecuador. With the election of new presidents in both Brazil and

Argentina in 2003 the political strength of Mercosur as an independent trading market grew. This was because the political influence that these leaders carried into Mercosur allowed the formation of a dispute settlement court and the expansion of its membership.

The purpose of the Mercosur agreement was for the countries involved to form their own trading alliance as a means of responding to the trading strengths of the United States and the European Union. The countries, therefore, desired independence in their trading efforts, as well as development of their own power within the global market. The intent of the agreement was also to create:

- 100% elimination of all internal tariffs and non-tariff barriers.
- Implement common external tariffs.
- Harmonize sectoral policies among member countries.
- Utilize trade creation versus trade diversion. (“Critical”, n.d., sec. 1).

Venezuela’s membership expanded the market to approximately 250 million people with more than \$1 trillion worth of combined output (Oppenheimer, 2006). This was because of two primary factors. Venezuela has been the “fifth largest oil producing country in the region” and a significant distributor of natural gas (“Venezuela”, 2005; Harman, 2006, para. 13). Therefore, the inclusion of Venezuela into Mercosur promised to be a tremendous boost to the future of the nations that took part in the agreement. Although there were many governmental and political factions that believed that Venezuelan involvement in Mercosur would adversely affect the trade pact,

Brazilian leaders felt that they had made enough progress with trade in relation to the European Union (EU) that controversy would not be an issue. However, The involvement of Venezuela has created tensions between the members of Mercosur and other nations, as well as tensions among Mercosur members themselves.

Within Mercosur there is a concern that Venezuelan President Hugo Chavez has exceeded his authority within the Mercosur by instigating tensions between the United States and Venezuela, which reflects on the Mercosur members as well. In 2007 Chavez reportedly stated:

President Bush should be tried for 'war crimes' in relation to the Iraq war. He showed further disdain for Mr. Bush, saying he was unfit to manage 'even a Little League baseball team' (Romero, 2007, sec. 1).

These comments were in response to Bush’ concern for Chavez’ control of Venezuela and the leader’s support of Iran. At a time when the Iraq war and tensions between the U.S. and Iran are such a significant concern to the United States, however, Chavez elected to publicly voice his contempt for the United States and its President, regardless of the affects that such actions would have on Mercosur. Chavez then continued to comment, stating that President Bush was believed by Chavez to be “the devil” himself (Romero, 2007, sec. 1).

These statements and the sentiment that has been apparent behind them have not stopped the United States from continuing with a push to negotiate a trade agreement with Brazil, Uruguay, Colombia and Guatemala, as well as strengthen its trade

alliance with Mexico (“Only”, 2007). Early this year President Bush will travel and meet with leaders from each of these countries, with Chavez now proclaiming that he will make the same visits in March. Of Bush’s visit, Argentinean officials stated that they had no control over Chavez and his methods of operation. Yet, they further proclaimed that Chavez did not prevent them from acting on their own either (“Only”, 2007).

To increase the tensions that have been caused by Chavez, the Venezuelan President met with Fidel Castro of Cuba in 2006 to begin negotiations related to trade with Castro’s country. Castro hailed this opportunity as a means to prevent the impact of U.S. embargos against Cuba and respond to the actions taken by the United States in a retaliatory manner (Hearn, 2006, p. A05). Chavez supports Castro’s beliefs and feels that by gaining Cuba as an ally in trade he will be capable of power within the free trade market that will ultimately devastate the United States and prevent the nation’s control over Latin American countries (Hearn, 2006, p. A05). However, Hearn (2006) states that this blatant action on the part of Chavez is quickly becoming a concern of Brazil (p. A05). This is because while the intent of Mercosur was to bring about economic independence for Latin American countries, it was not to create a situation in which trading partners were warring against one another and building international tensions that would destroy any progress that was made (Hearn, 2006, p. A05). Therefore, Hearn (2006) contends that ultimately the only recourse for Brazil may be to either withdraw from Mercosur or attempt to force Chavez from his position (p. A05).

The issues surrounding the Mercosur agreement are not exclusive to Chavez,

however. Since the inception of Mercosur the participating countries have witnessed changes in their economy that have had the opposite affects that were intended through their free trade agreement. In 2006 Brazilian President Luiz Inacio Lula da Silva pleased with Mercosur nations for “patience...in difficult times” (“Brazilian”, 2006). These difficult times are centered on issues such as the environment. Uruguay allowed companies within its nation to construct paper mills along the border of Uruguay and Argentina. However, Argentinean officials believe that this construction will cause mass pollution and contaminate the waterways permanently (“Brazilian”, 2006). According to Lula da Silva these issues were in existence prior to the signing of the Mercosur agreement and they are still affecting the member’s ability to negotiate successfully.

Yet, Uruguay and Paraguay both are beginning to suggest that Brazil and Argentina are making decisions in relation to Mercosur that benefit only these larger nations, while ignoring the needs of the smaller nation members (“Brazilian”, 2006). The Brazilian president believes that these types of disagreements within Mercosur are the ones that require “patience” because not all members are likely to experience growth at the same rate, or with the same magnitude (“Brazilian”, 2006).

The Brazilian president not only has concerns related to disagreements between Mercosur nations, the value of the Brazilian real is also in question. Prior to the inclusion of Venezuela in the Mercosur agreement, Brazil was the largest of the trading partners within the Mercosur nations. Brazil presented an economy from its gross domestic product (GDP) “twice the size” of other member nations

(“Real”, 2006). However, in 1999 the value of the Brazilian real dropped by 40%, impacting all of the Mercosur nations negatively. Southwestern Economics states:

The drop in Brazil's prices as a result of its devaluation had widespread impact on the other economies. Argentina, the region's largest beef producer, is now importing beef from Brazil and Uruguay's exports of textiles, wools, and grains to Brazil have dropped by 20 percent. Argentina is claiming that Brazilian steel producers are dumping steel in their country. Brazil's Mercosur partners have asked Brazil for concessions on some trading issues, something Brazil is reluctant to do (“Real”, 2006).

Perhaps the most devastating of the issues that affect countries in the Mercosur bloc is evident in Uruguay. After the devaluation of the Brazilian real Uruguay was impacted through:

- 17% decrease in the GDP.
- Per capita GDP reduction from \$6,800 to \$3,500.
- Severe drought.
- Conflicts with Argentina.
- Increased national debt.
- Banking crisis/closing of banks.
- Lack of budget discipline.
- Falling tax revenues.
- Devaluation of the peso. (Amy, 2006).

Although the Brazilian real first began impacting the members of the Mercosur in the later 1990s, the affects that were realized by Uruguay have continued. The only assistance that Uruguay has had

during this financial strife was provided by “international banking institutions” and the United States, exceeding \$4 billion (Amy, 2006). Although this assistance aided the country with its financial debt, it was not successful in altering the increase in Uruguay’s poverty rate to 15%, or its increase in citizen immigration to other nations, such as the United States.

It is believed that the issues facing Uruguay at this time will be altered when transportation through Uruguay is constructed, as Uruguay sits amidst the center of the Mercosur countries and is considered a “gateway” for all transportation needs of these nations (Amy, 2006). Yet, until such time as this occurs the financial hardships that plague Uruguay will continue and a resolution to their concerns will require collaboration on the part of all Mercosur members.

The possibility of this occurring seems unlikely, however, following the most recent summit meeting of the Mercosur members (“Mercosur Summit”, 2007) . According to the member nations the summit identified and discussed issues pertaining to assistance to other nations, the need for Mercosur to consider participation by all Latin American countries, regardless of their geographic location and the increase in developing nations participating as Mercosur partners in the bloc (“Mercosur Summit”, 2007) . Yet, the economic troubles and the conflict between those nations that is already evident were not discussed and a vision of how the Mercosur members intended to alter the future of these nations remains unclear.

Since 1991 Mercosur has been in continued negotiations with the European Union (EU) to form a free trade agreement. However, the main obstacle in signing the agreement appears to be

because of the agricultural concerns that exist in both nations (“Eyes”, 2006). The European Union desires to protect its own farming community by placing restrictions on the amount of imports that it will allow, while the Mercosur members want unlimited trade available to them in order to alter their financial crisis. Brazil has been the primary country that has prevented the signing of a free trade agreement with the EU, as Brazil is also consistently looking to the FTAA and the United States as an alternative trading partner in relation to agriculture. It is believed that because Brazilian members have had the opportunity to sign either the

FTA with the EU or the FTAA with the United States on several occasions, but has not, that Brazil is attempting to force leaders of both countries to make concessions that will allow for greater profit for the members of Mercosur (“Eyes”, 2006). However, because both the EU and the United States have strict policies protecting agricultural workers in their respective nations, there is little chance that this will occur.

It is evident that the issues with Mercosur are numerous. The chart below summarizes the positive and negative factors connected to the Mercosur trading bloc at the present time.

| Positive Factors  | Negative Factors  |
|---|---|
| <p>According to the trading partners Mercosur should prevent dominant nations from affecting trade with Latin American countries.</p> <p>Mercosur promises the possibility of economic stability for its member countries.</p> <p>Mercosur promises the possibility of internal national stability for citizens.</p> <p>Mercosur members believed that with the inclusion of Venezuela as a trading partner Mercosur would be a stronger trading bloc.</p> <p>Brazil believed that by insistence upon freer agricultural policies between the EU and the US that Mercosur would ultimately benefit.</p> | <p>Dominant nations, as defined by Mercosur, continue to operate trading partnerships with success, regardless of Mercosur’s existence.</p> <p>To date all of the member countries, with the exception of Venezuela, have had moderate to severe financial difficulties.</p> <p>To date member countries are experiencing horrific economic conditions and an increase in poverty rates, as well as labor issues.</p> <p>The inclusion of Venezuela in the Mercosur membership continues to impact the stability of Mercosur throughout the globe.</p> <p>Neither the EU or the US intends to change its regulations protecting agricultural interests in their nations.</p> <p>Mercosur is considered a failure by many within the economic, trading and global community.</p> |

The chart summary indicates that the issues associated with Mercosur at the present time are extensive. Furthermore, it is evident that all of the positive factors that could be evident in the free trade agreement are based on possibilities, not on actual results. This leads to the realization that at this time countries such as Brazil must alter their plans for trade and that the most effective manner in accomplishing this is to reconsider aligning the trading bloc with the FTAA.

## Future of the FTAA

The future of the FTAA is highly in doubt. Latin America's recent resurgence of socialist leaning governments, led by Venezuela's Chavez, has meant that there is less interest in creating such a multi-lateral trading bloc led by the U.S.

For Brazil, the FTAA is problematic as well. With Bolivia recently coming under socialist leadership and nationalizing its petroleum industry, Brazil is under added pressure to avoid further bilateral or multi-lateral trade relationships with the United States.

However, the future of the FTAA can be altered through a realistic understanding of the issues that are plaguing Mercosur and a focus on the intentions of Mercosur members countries when the trading bloc initially began.

## Roadblocks to Progress.

Politically, the primary roadblock against the FTAA gaining wider acceptance in the region is Venezuela's active denunciation of it. However, there are considerable internal barriers to its acceptance within Brazil as well.

Most economists believe the wider FTAA holds more promise for the South American member states than does the regional Mercosur or similar agreements that may result. The FTAA would expand the potential markets for industry competitors throughout South America allowing for greater leverage of comparative advantage. However, other analysts believe that the FTAA ultimately benefits the largest member states and leaves the smaller member countries with no obvious benefit (Oppenheimer, 2006). This last criticism has been directed at both the FTAA and regional agreements

and seems to be an issue related to any trade agreement regardless of context. In fact, the issue with control of the larger nations over the less prosperous ones has already become an issue in the Mercosur bloc.

While most analysts presumed that Lula da Silva would embrace the FTAA concept more following his re-election, if successful, the opposite has been true. Lula has prioritized Mercosur and openly stated that establishing greater regional relationships with other South American countries is his priority currently (Oppenheimer). However, the changing issues that are affecting Mercosur at this time are causing Da Silva to realize that some of the alliances that have been formed are detrimental to the existence of the trading bloc.

With Brazil's withdrawal of support, the FTAA holds little chance of regional acceptance beyond the support of some of the region's smaller markets. Additionally, the Bush administration's recent loss of the support of Congress virtually assures that the FTAA will go nowhere for at least the next two to three years. Yet, Hirst (2004) contends that this viewpoint may change if certain considerations are made in relation to alliances between Brazil and the United States (p. 75). According to Hirst (2004) the United States is equally responsible for the tensions that have existed between Brazil and the U.S. because of the inability of United States officials to recognize Brazil as a strength within the globe (p. 75). In the past the significance of countries such as China, India and Mexico have consistently been apparent in relation to trade. However, although Brazil has one of the largest populations and has been economically strong, the U.S. has failed to acknowledge the country as instrumental in the future of

world trade. Hirst (2004) suggests that it was not until Brazil ventured out on its own to form Mercosur that attention was finally given to any extent to the nation (p. 75). By this time, however, Brazil had developed its own independent nature and perspective of detaching itself from Western ideals. Therefore, Hirst (2004) suggests that the future of FTAA is quite dependent on how the United States embraces Brazil at this point in time and recognizes it as an important factor in the globalized market (p. 75). Additionally, it is believed that if the United States were to gain support from Brazil the other nations in South America that have become members or associate members of Mercosur would likely reconsider their position in relation to the FTAA as well.

### **Macroeconomic**

During the late 1960s a stable of new reform-minded individuals came to wield a substantial amount of financial and economic influence in the government of Brazil. These individuals, led by the new Finance Minister, Delfim Neto, instituted some economic reforms that appeared to lead Brazil in the right direction to capitalize on its economic strengths and to reduce the massive inflationary pressures that had plagued it during the modern era (Robock, 1975). However, because of continued political instability and international pricing pressures on the overall economy, Brazil was not able to curb its runaway inflation for any appreciable amount of time. This economic profile is important because it is difficult to upgrade and expand a country's infrastructure with a view to economic growth if inflationary pressures act to curb foreign direct investment as well as internal investment. Currently Brazil's economy revolves around extensive

agricultural development, a growing industrial base, and preservation of its remaining rain forests. Brazil is South America's leading economy and has a huge labor pool that has allowed it to compete internationally as a manufacturing base as its infrastructural development improves. By the new millennium Brazil had fallen several places in the ranking of the world's biggest economies coming in two places behind one of its main emerging market rivals, China (Baer, 2001, p.129). This fall has been due to a sluggish average GDP growth over the last few years that coincided with a fall in the value of the real. However, the improved growth picture for 2006 could boost its ranking. Brazil fell several places in the country ranking in the World Economic Forum's Global Competitiveness Report 1999-2000 because of high interest rates, heavy corporate tax burdens and a private-sector that is replete with difficulties regarding financing and private funding (Baer, 2001, p.141).

### **Political**

Brazil's political environment has been one of upheaval and turmoil as well as stability. This periodic instability has led to difficulty in achieving a unified strategy for economic growth founded on a sound infrastructure that would support the degree of foreign investment and trade that Brazil requires in order to fully capitalize on its massive labor market and its unique relationship with Europe and Asia as well as its geographic proximity to the United States (Baer, 2001, pp.2-14).

### **Labor**

Brazil's labor force is comprised of 53% of workers in the services sector,

25% in industry and 23% in agriculture (“Labor”, 2006). There is currently an estimated 7% unemployment rate and there are three primary labor unions that focus on the needs of all Brazilian workers.

These unions include Workers' Unitary Central, the Workers' General Confederation (CGT), and the Forca Sindical (FS) (“Labor”, 2006). Although labor laws in Brazil have been inacted by the government, in the year 2000 alone there were over 84 labor strikes, a number that continues to grow as the years pass. The primary concern for workers in Brazil is wages, with many in the nation living at or below the poverty line. This issue also reflects the constant concerns by citizens in the nation for higher wages and better working conditions, as is evidenced by the issues facing Mexico at this time.

### **Environment**

Because of Brazil's massive population, currently at 188m and growing, the environment in the country has suffered greatly from over-development. In particular, Brazil's rainforest which comprises most of the Amazon River basin is under constant threat from slash and burn destruction and ongoing agricultural uses for its freshwater supplies have removed vital water resources for the rainforest as well. This factor connected to Brazil mirrors the issues that exist within Mexico because of a lack of national regulations that protect the environment from unwanted destruction. Since this type of devastation has existed throughout the history of the nation, instituting new policies that all people will abide by at this time is difficult to accomplish.

The internal issues facing Brazil are comparable to those currently existing in

the nation of Mexico. Labor concerns of the populations, environmental issues that are plaguing society, political unrest and the national economy all are reflected in the facts associated with Brazil and Mexico. However, because of trade that has been possible through NAFTA the issues that face Mexico at this time have the potential for change, if the political factions within the nation will begin to alter the conditions that face the people through the economic increase evident within NAFTA. Brazil, on the other hand, does not have the same economic growth potential because of the consistent issues that not only affect Brazil's internal integrity, but because of the external pressures that block the economic prosperity of the future.

### **CONCLUSION**

Jaguaribe and Vasconcelos (2003) contend that Brazil is in a position that leads its future to be determined by both internal and external factors (p. 210). These two factors are first influenced by the need for modernization in its social political and international relations. Jaguaribe and Vasconcelos (2003) suggest that the current methods of functioning within Brazil are viewed as “backwards” in many modern economies and it will not be until Brazil begins to adopt some of the diplomacy that is seen throughout these nations that it will be considered a major contender in the global marketplace (p. 210). Jaguaribe and Vasconcelos (2003) believe that this is true of most of the nations participating in Mercosur, but that do not have the potential of Brazil in the coming years (p. 210). Yet, Jaguaribe and Vasconcelos (2003) also believe that in order for Brazil to have a long lasting future within the global economy the

changes in regard to modernization need to occur immediately and when this takes place Brazil will be capable of functioning with various trading partners in enhance its future, regardless of the actions that are taken elsewhere within Mercosur (p. 210). Change at this juncture is significant because as Brazil considers trade, modernization and its future, the world continues to evolve. If Brazil does not institute change now, the ability of the nation to catch up to further developments in technology, ideology and trade will be lost. Furthermore, it is important for Brazilian leaders to realize that all nations that succeed within the world are capitalistic societies and that this is a fact that Mercosur and its partnering nations will not change (Jaguaribe & Vasconcelos, 2003, p. 210). This is not to suggest that Brazil must loose its cultural identity of its political or social beliefs, but rather that it must learn to function in trade with nations that are not constructed under Brazilian ideas and with Brazilian philosophy. In addition to the capitalistic perspective that is dominant in the world, there are also advancements in technology and economic growth that exist in all nations. Regardless of the strength or weakness of any nation in the global market, this will continue to be the case and cannot be controlled by other nations, however wealthy they may be. What will change, however, is the manner in which trade is conducted and in which technology serves humanity. Jaguaribe and Vasconcelos (2003) suggest that while Brazil is struggling to move all trading partners into one form of operation the growth in economic stability and technological advance is occurring around the nation and Brazil is missing an opportunity to learn from these realities and change toward a successful future (p. 210). Yet, Jaguaribe and Vasconcelos

(2003) contend that Brazil must begin change with internal revitalization throughout its civilization and in the mindset of its people and that through a complete focus on the goals of the nation Brazil will be capable of reaching its intended objective or becoming a major trading partner across the globe (p. 210). Jaguaribe and Vasconcelos (2003) State:

As Brazil's international importance grows, and as she is led to take a larger part in the solution of global issues (as well as in the maintenance of peace and security), the demands will increase for the redefinition of certain principles of the diplomatic action. These principles, while keeping their essence, will have to be updated in light of the evolution of international relations. Those demands are already present in the preventive action proposals, in the temptation to use military force with low risks due to the evolution in technology, in the assertion of certain universal values, which should be respected world-wide, and in the pressure from public diplomacy and the media to take decisive action (p. 210).

However, "decisive action" cannot occur when there is complete unrest internally and externally within the nation of Brazil. It is evident from the research that a significant portion of the unrest that exists for this nation, as well as for all nations within Mercosur, is the instability of the free trade pact that was intended to alter the lives of millions for the better. The instability exists because of the issues that have plagued these nations previous to Mercosur and because of its existence. However, these issues also exist because of the insistence that each nation be focused upon for its cultural and economic participation, which is slowly being eroded in light of the political concerns that are developing in Mercosur. Political

concerns have caused member countries to dispute one another, face economic hardships and endure endless condemnation because the original intent of Mercosur is not being realized. Nevertheless, because these political concerns continue to escalate it is doubtful that Mercosur will be capable of overcoming their significance and return to a trading bloc that supports all members with integrity and a concern for unilateral success.

While the Mercosur members have the opportunity of signing a free trade agreement with the European Union, it is evident that the difficulties that exist within Mercosur at this time will not lead to a positive resolution of the issues that need to be addressed in connection with trade. This is because Mercosur members are not united in their goals or resolved as to their intent in the outcomes of trade. Furthermore, some nations are not as focused on trade as they are on making political statements that may lead Mercosur members in a direction that they had not intended on in the beginning – worldwide conflict.

Mexico was once considered a nation that had no hope of change, with its political upheaval, labor issues and poverty rate. Yet, Mexico's involvement in NAFTA has laid a path for the country to overcome internal strife and change the course of the nation for the future, if leaders will recognize the opportunities that exist. The FTAA offers that same possibility to Brazil and all nations connected to Mercosur, when political barriers do not prevent members from making decisions that will change the lives of citizens and begin a new age of growth in national economies. As the research indicates, because the FTAA is based on the model of NAFTA, success for Brazil

and other nations is almost assured. Therefore, due to the failure and instability of Mercosur, the successful record connected to NAFTA and the opportunity that exists through FTAA it is apparent that Brazil and all nations associated with Mercosur should reconsider their trading alliances and enter the FTAA trading bloc.

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