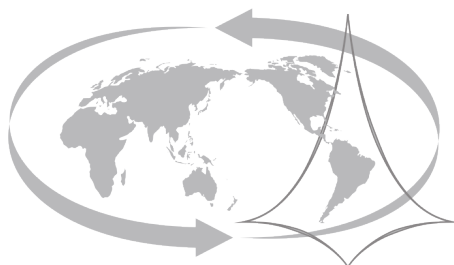


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# AUSTRAL

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## About the Journal

*AUSTRAL: Brazilian Journal of Strategy & International Relations* is an essentially academic vehicle, linked to the Brazilian Centre for Strategy and International Relations (NERINT) and to the International Strategic Studies Doctoral Program (PPGEEI) of the Faculty of Economics (FCE) of the Universidade Federal do Rio Grande do Sul (UFRGS). Its pluralist focus aims to contribute to the debate on the international political and economic order from the perspective of the developing countries.

The journal publishes original articles in English, Portuguese or Spanish about themes that lie in the vast area of Strategy and International Relations, with special interest in issues related to developing countries and the South-South relations, their security issues, the economic, political and diplomatic development of emerging nations and their relations with the traditional powers. The journal's target audience consists of researchers, specialists and postgraduate students of International Relations.

The journal will try, through its publication policy, to ensure that each volume has at least one author from each of the great southern continents (Asia, Latin America, Africa), in order to stimulate the debate and the diffusion of the knowledge produced in these regions. All of the contributions will be subjected to a scientific review.

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## EDITOR'S NOTE

Paulo Visentini<sup>1</sup>

After earning important international projection since the beginning of the 21<sup>st</sup> century, a good amount of Brazil's prestige degraded as a result of the political dispute that has been dragging since the reelection of President Dilma. The complex involvement in the process of institutions such as the legislative, the judiciary and the Federal Police in "Lava Jato Operation", which aims to fight corruption, reached multiple political sectors and reverberated in companies and in the declaim of GDP, creating an uncertain future.

The Brazilian's president removal, motivated by internal and external factors, is closely linked with end of the cycle of progressive regimens in Latin America. She changed President's Lula project, adopting conflicting policies that fragmented the presidential coalition and neither understood nor answered properly to the protests of 2013 and 2014. Furthermore, she sought her reelection, without a consensual left support, and was able to win by a narrow margin, which worsened Brazilian's society polarization. A heterogenic alliance, composed by both opposition and the own base of government support, now competes for the indication to the 2018's elections.

External factors as the impact of economic-financial crisis also contributed. The corruption accusations of Brazilian's internationalized companies worsened the situation even more. The opposition won in Argentina and Peru, while Bechelet's and Maduro's governments live difficult moments, especially with the crisis in Venezuela. The governments of Ecuador and Bolivia modified their projects of reform, and nowadays they are almost unrecognizable. Cuba resumed its relations with the United States. Therefore great part of the 9th edition of the Austral Journal is dedicated to South America, its crisis and the strategic disputes between the United States and China in the region.

Another theme addressed is Africa, in particular a dossier about the economic relations of Brazil and Angola, a nation that just completed forty

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years of independence. Several articles about the African continent close the 9th edition of *Austral*, that from now on will be composed by twelve articles.

In the case of Brazil, José Serra nomination ahead the Ministry of Foreign Affairs indicates both a shift and a reactivation of Brazilian diplomacy, that was on hold. Besides changing the discourse and style, there is a change of emphasis, focusing on a policy of economic results. The next two years and a half, will probably be a period of dispute over diplomacy that will only be defined after 2018.

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# PRESENTATION: SPECIAL DOSSIER ABOUT RELATIONS BETWEEN BRAZIL AND ANGOLA

Fabio Costa Morosini<sup>1</sup>

Michelle Ratton Sanchez Badin<sup>2</sup>

In this special dossier of Austral Journal, we present selected articles resulting from collective research coordinated by the Professors Michelle Ratton Sanchez Badin, from the Law School of Fundação Getulio Vargas, and Fabio Morosini, from the Graduate Program in International Strategic Studies at UFRGS, around two research projects: Empirical Evidence on Foreign Investment in Brazilian Regulatory Perspective: 2003-2014 (Universal Call Notice MCTI / CNPq / MEC / CAPES n. 43/2013) and New economic partners in Brazil and regulatory instruments in this respect: an empirical approach to the case of Angola (Notice FAPESP 2014 / 25776-4).

In November 2015 we celebrated forty years of diplomatic relations between Angola and Brazil. This celebration carries with it series of symbolic elements to the story of both countries and their bilateral relations, and also concrete results of the growing integration between countries. This special dossier focuses on economic relations between Angola and Brazil and some subjects that we have identified as most important to understand the particularities of the relations between the countries, in a context of South-South approaches.

We note that the economic diplomacy in relations between Angola and Brazil includes specific political, legal and economic instruments to this relationship, which are fed by both internal and external, public and private processes. Considering Angola and Brazil as Global South countries, parts of a movement of alignment and coordinated action in order to build spaces

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of common and strengthened exchange, there are peculiarities in these relations that need and deserve deeper analysis. In this sense, the dossier aims to stimulate the discussion of experts on the latest bilateral relations between Angola and Brazil.

Diplomatic relations between the two countries, considering the recognition of Angola's independence by Brazil in 1975 as a landmark, had advanced in the last forty years, in cooperation plans and in the development of shared interests by both parts. Economic relations in this space are particularly important and are reflected in the coordination processes for the intensification of bilateral trade, investment flows and their forms of financing, which are the focus of this dossier.

# LATIN AMERICA'S SLOW PACE IN THE 21<sup>ST</sup> CENTURY

Amado Cervo<sup>1</sup>

## Introduction

The last decade of the 20<sup>th</sup> century was characterized by two deep changes in Latin American countries. The old developmental paradigm, worn out by inflation, economic stagnation and the exhaustion of State as a dominant economic actor, gave place to the neoliberal paradigm, embraced by Latin American elites and societies. With no institutional breakout, there were changes on the economic and political dimensions that, combined, constituted the change over the historical paradigm. By reaching the 21<sup>st</sup> century, the region is going through a new paradigmatic change: the exhaustion, after a decade, of the neoliberal dynamics, and the immersion into the search for another destiny.

The deep external forces had little influence as causal determinants of both transitions. The propelling factors of such changes must be searched, mainly, inside the region.

The transition towards neoliberalism, on the passage from the 1980's to the 1990's, suffered from a bigger external influence than the transition towards the 21<sup>st</sup> century. Inducing neoliberal ideas, the end of the Cold War, the crisis in communist and socialist models, the weakening of the State and the convergence of liberal ideas in rules and regimes all over the world – the so globalization phenomena – were important factors. Latin American embarked on this nearly systemic evolution. Global politics and diplomacy started to support new production processes for industry, international finances and services.

What destiny do Latin American and Caribbean countries seek in the 21<sup>st</sup> century, after neoliberal experiences? What are the propelling factors that

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can make them achieve it? What are the objectives, strategies and results? What are the rhythms verified in this movement?

In order to answer such problems, the path of interpretation and argument building, that is, methodology leads our view to the following observation fields: a) the nexus between regional and global conjuncture; b) the identification of permanent regional political and economic tendencies; c) the internal political and economic structural flaws; d) the slow pace character of Latin America in global comparative terms.

The conceptual and empirical basis in which the analysis will be built on dates back to our prior works and is complemented by the abundant research literature on the international relations of Latin America, and its great scholars that interpret it and are presented in the bibliography; the data, mainly statistics, are taken from bulletins, documents and reports regularly published by Latin American research institutes. Both the documents and our interpretations, prompt new cognition and new concepts, and, therefore, reflect the Latin American internationalist knowledge and thought.

## Latin American in the Global Order

Three remarkable institutions assembled researchers during the second decade of the 21<sup>st</sup> century to evaluate the evolution of Latin America. The Organization for Economic Co-operation and Development (OCDE), the Development Bank of Latin America (CAF) and the Economic Commission for Latin America and the Caribbean (ECLAC) sought, through their work, not only elaborate social, political and economic diagnosis, but also strategies for action that could have concrete results. They were worried, thus, with the regional pace.

Between 2003 and 2012, the region grew an average rate of 4% per year, despite the financial crisis of 2008-2009. In a certain extent, the region moved by itself, but its growth benefited from the expansion in world trade, along with a rise on the prices of its exporting goods. These two stimulating factors stopped to positively influence since then. The regional fate that was being catalyzed by such aspects and by the expansion in internal demand derived from social inclusion, sought refuge on its own hands in the second decade of the century. The response to this new situation was inadequate and Latin America entered a period of decline, with slow or stagnated pace, showing once again the scarcity or inexistence of internal factors for regional dynamics.

In what manner could Latin America have maintained its growth and

modernization rhythm by making use of its own capacities to gain strength? In which development strategies the failure resides? These questions will be considered in the following analysis.

First, we will point out other indicators. Between 2000 and 2011, according to data provided by the centers listed above, the commodities exports of Latin America grew from 40% to 60% of total. Prices and quantity grew together. The debauch of fortuitous money produced operational indolence: manufactures and capital goods imports, and local industry slowdown. Commodities were leaving the region, self-indulgence was installing into societies, under compliant and passive eyes of the rulers. One can ask: where the causality of such decline resides? From where do the structural factors that determine evolution act from? From the favorable an unfavorable factors from abroad, or from the strategic faults from within?

The Latin American people, not its governments, have answered. After the successful social programs produced their effects in the region, increasing welfare and diminishing inequalities everywhere, a new middle-class emerged and expressed itself in mass protests all around the subcontinent. People demanded that leftist governments they gave power to, provided to the society quality public services, jobs, modernization and expansion in industry and services productivity. It seems, however, that they shouted in vain, as policymakers maintained their empty politics<sup>2</sup>.

Since 2009, the GDP growth of the Latin America and Caribbean region, according to data from ECLAC, shows a serious decline tendency in global comparative terms. While global growth reached a level of 2,4% in 2013 and 2,6% in 2014, in this last year the region grew only 1,1%, its smallest rate since 2009. This low regional dynamism owes to the scarcity of adequate strategies, mainly in the biggest countries of the region, such as Brazil, Argentina, Venezuela and Mexico. During the second term of Dilma Rousseff's government, Brazil took the reins of Latin American decline, followed by Venezuela in its structural crisis (Cervo and Lessa 2014). In South America, the fall on international trade during the second decade reached a rate of -2,7%. This decline was due to the scarcity of strategies destined to overcome regional dependency over raw materials exports, even when prices were low on global markets. Cause and effect of this lack of strategy, the inflow of Foreign Direct Investment (FDI), powerful propellant of improvements in the manufacturing, services and raw materials sectors, creating jobs and income for the population, also positions Latin America and the Caribbean in a bad global situation: global FDI growth of 11%, and regional growth of 2,5% in

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2 *Perspectivas Económicas de América Latina 2014*. Report produced from an association between OCDE, CAF and CEPAL.

2013 (Cepal 2015).

Following the tendency of empty politics, the one in which the State does nearly nothing, the Brazilian free falling disastrously impacts over the region, due to its economic stature. Three indicators characterize this decline. After registering a maximum growth of 7,5% in 2010, the negative GDP growth of -3,8% in 2015, the lowest index since the 90's, according to statistics from the *Instituto Brasileiro de Geografia e Estatística* (IBGE), and a mass of over nine million unemployed in 2016, according to IBGE as well, put the country in the second worst economic position in the region, followed only by Venezuela. Furthermore, a drop of 14,1% in investment in 2015 is verified. The shock of such indicators over public opinion, that is, over business persons and both foreign and national investors, over consumers and even over small enterprisers, considering that the GDP is mostly a reflection of production and consumption of industrial goods, destroys the confidence on the State. Added to it, the State is hurt by an unprecedented corruption scandal involving its company, Petrobras. The economic conjuncture deteriorates over the last three decades, according to newspaper *Valor Econômico*, without any perspective that the rulers would promote a reorientation of its development strategy. Neighboring countries look astonished towards the one who should serve as the example and to carry regional growth, but is engulfed by an economic, political and moral crisis<sup>3</sup>.

## Permanent Regional Trends

The Latin American identity constitutes a complex phenomenon, over which scholars rarely dare to write. In this text, we prefer to identify common elements to Latin American nations, which, in a certain concrete and straightforward way, compose the regional identity. Such elements correspond to historical trends. We isolate four tendencies in the 21<sup>st</sup> century, as elements that constitute a regional identity profile, since they express durable social phenomena, supposedly derived from a communitarian nature. They are: democracy, social concern, peace zone and integration. These are components that certainly enrich the regional identity profile, giving it, in global comparative terms, a privileged spot. They are not perfect or pure elements, but have predominant features, considering the regional dimension. The impacts of this identity profile over regional relations, as over the international insertion of the region and each nation separated, highlights even more the

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3 *Valor Econômico*, São Paulo, Edition from march 4th, 2016. This edition describes the profile of the Brazilian conjunctural economic crisis.

Latin American singularity in comparative terms. This impact over international relations constitutes our analytical focus, and not necessarily the essence of each of the components cited above.

Democracy, understood as the governments that result from a legitimate and popular will manifested through an electoral process, expands itself since the 1980s. During prior decades, authoritarian regimes, military or not, disputed power with democratic regimes. The 1990s liberalism stimulated regime purification, with a victory for democracy. Hence, during the 21<sup>st</sup> century, democracy will be the Latin American political regime, a permanent trend.

The concern with social issues, that is, a concern over a more equalitarian distribution of welfare factors as possible, which other regions such as the European Welfare States implemented in an exemplar manner and unprecedented intensity, also became a permanent regional trend in Latin America. With the agonizing phase of authoritarian regimes during the 1980s, social concern was not flared up, despite the flourishing of democracy. As an empirical proof, the last decade of the 20<sup>th</sup> century saw the emergency of neoliberalism, closest to the individual, its freedom of action and promotion. Thus, the social factor was far from the agendas of policymakers and social leaderships, as was the case during the period of dispute between democratic and authoritarian forces.

Public opinion realized it was not worth keeping this individual valorizing tendency over social concerns in the transition from the 20<sup>th</sup> to the 21<sup>st</sup> century. Through vote, public administrators were substituted for others with different ideological matrixes, with both democratic and social concerns on an equal status. State action strategy substantially changed, a phenomenon that many scholars called the rise of leftist governments. Two trends conjugate, therefore, to compose the Latin American identity profile: democracy and social concern.

The record of leftist governments' ascension over the welfare of Latin American societies varies from Latin American nations to nations. Through many ways, and by distinct strategies, leftist rulers had in mind the distribution of wealth and welfare. Regionally, we can observe a generalization of social programs, matching the spread of the politicization of social concerns. To finance them, nations extracted natural resources such as oil, gas, minerals and others; extracted budgetary resources; and varied its extraction methods of resources. All of them, however, exhibited their social programs. Some combined their programs with the promotion of education and development, others did not and simply exhibited distributive measures, with no conditions, leaning to promote collective indolence. Others even combined

such programs to the maintenance of leftist parties or rulers in power. It is up to the scholar to analyze national experiences and evaluate the immense diversity of results from such initiatives during the 21<sup>st</sup> century. Anyway, as it happened during the transition from neoliberal to leftist administrations on the turn of the century, in 2015 one could notice the return of conservative parties and rulers to power. Would it be a popular electoral critic to the bad conduction of social programs? From the way it looks, democracy was connected to the positive or addicted performance of political regimes. Now with demands that required from power not only the redistribution of wealth, but also an adequate performance towards technological progress, public service improvement, jobs, education and health. Ultimately, social demands that had a complex and slow paced development, seen only in a faraway horizon.

If the reader assumes that democracy and social concerns were interconnected and produced concrete positive results for social inclusion of Latin American people, but also disturbed the development process, seen as the technological progress, the companies' modernization and the economic growth, she or he will be thinking the same as the author of this present analysis does. Indeed, the way that Latin America chose to manage its democracy and social concerns prepared the region for a mischievous result, the slow pace.

Let us follow, however, the two remaining components of the regional identity: peace zone and integration. These two other parameters are also intertwined, following the example of democracy and social concern, with which they connect in a core level. Regional and national identities, may philosophers allow us to state, constitute a complex social phenomena composed of interdependent variables. Thus, our four variables conjugate.

The creation of the South and Latin American peace zones is based on a long and solid path, opened by the historical tradition of pacifism that prevailed in the region since the independencies of the 20<sup>th</sup> century. This pacifist spirit, well shown by Simon Bolívar, to guide the international relations of the region, historically imposes itself, despite occasional wars during the formation of national States and definition of borders period. This spirit flourishes in 1967, time of the signing of the Tlatelolco Treaty, ratified by the thirty three nations of Latin America and the Caribbean. Through it, even before the United Nations' Treaty of Non-proliferation, from 1970, the region banned the manufacturing and use of nuclear weapons. Afterwards, through diplomatic efforts, especially from Brazil, they became active proponents of the global treaty inside the United Nations and its Disarmament Committee. Not satisfied with the global guarantees established by the UN, Brazil and Argentina submitted since 1991 its nuclear programs to inspection of both



the International Atomic Energy Agency (IAEA) and the Argentina-Brazil Accountability and Nuclear Material Control Agency. The two countries advanced greatly through nuclear technology research and intended to secure its exclusive pacific use.

It is important to go deeper in the nexus between peace zone and the phenomena of integration. The integration process started in the 1980s and adopted the purpose of reinforcing and institutionalizing the peace zone, not only in the material and human appearance, but also in the regional political intelligence. At a first level, the process advanced throughout South America, since Mexico chose to integrate itself with the North. As an important mark of this evolution, we have the Constitutive Treaty of the Union of South American Nations (UNASUR), in Brasília, 2008, which entered into force in 2011. With an organizational structure presided by two superior councils, a Council of Heads of State and a Council of Foreign Ministers, UNASUR counts, among its most relevant administrative organs, with the South American Defense Council. From it, derives the Center for Strategic Studies, installed in Buenos Aires in 2011, with the purpose of formulating and regionalizing a South American security doctrine. Following, in 2015, the South American Defense School started its activities, with its headquarters in Quito, and under the command of International Relations professor from Brasília University, Antônio Jorge Ramalho da Rocha. Its goal consists in forming Defense civilian and military personnel experts, based on the South American doctrine cited above, which has a focus on the concept of peace zone, yet to be consolidated in both regional relations and local foreign policies.

The building of this peace zone, established at a first moment, as we saw, in South America, returned to its Latin American and Caribbean foundations, that history suggested. During the Havana Summit of 2014, the thirty three member countries of the Community of Latin American and Caribbean Nations (CELAC), created the Peace Zone of Latin America and the Caribbean. The original spirit that floated above the regional political intelligence conducted the summit to more clear decisions, that establish the sketch and the reach of the peace zone: the region remains without nuclear weapons, eliminates the external intervention in other States internal affairs, consolidates the regional pacific resolution of controversies and last, but no least, prohibits war. This is an essentially opposite formula in comparison to the geopolitical orientation and behavior of the North Atlantic Treaty Organization (NATO). So incisive was this original peaceful spirit that CELAC was created in 2010 as an alternative to the Organization of American States (OAS), in which the United States exerted its influence and rejected the principles of the peace zone. Furthermore, the peace zone of Latin America, mainly

through Brazilian efforts, extends itself towards the South Atlantic. In 1986, a United Nations Resolution established the Peace and Cooperation Area of the South Atlantic, soon to be formed by 24 countries that coast that ocean, at the margins of Africa and South America. Regular ministerial meetings, nowadays with annual frequency, revitalized the organization and guard this area, with the main objective of expanding this Latin American peace zone and maintaining external military presence out of this region.

In this sense, the peace zone idea consolidates as an historical trend, both in mind and practice. This trend emerges from the coexistence of different ethnic and cultural aspects and carries a strong civilizational force. The third component stands, therefore, as the star in the Latin American identity. Its link with democracy is established, in South America, first in 2009, through the forbiddance of the use of force as a conflict solution method, and through the establishment of a mutual trust mechanism in matters of defense and security; later, in 2010, through the Additional Protocol to the Constitutive Treaty of 2008, firmed in a rapid reaction move after the crisis in Honduras and Ecuador. Thus, the Democratic Clause of the UNASUR was born. It was activated in some cases, its most relevant action was in Venezuela, since 2014, used to preserve the results of democratic elections threatened by the so-called Bolivarian government.

The fourth and last component of the Latin American and Caribbean identity, which, according to the interpretation of the present analysis, is composed by permanent historical trends, is integration. In a more perceivable way than the peace zone, this component expands and diminishes like the breathing of a human being. Indeed, the peace zone penetrates in the regional body and impregnates it with better domination than integration. They are two trends, we could say, with different levels of depth.

Since the chronological marks of integrations were indicated above, it is important to proceed with a balance of conceptions and results that define the nature of integration as one of the tendencies.

In the 1950s, an approach between the presidents of Brazil and Argentina conceived a first sketch of integration by starting with the two biggest countries of South America (Vidigal 2001). The military regimes that spread through South America, in the following decades, gave this process forms that some analysts consider deformed, despite the regional permanence of the integration idea. It was necessary to wait for redemocratization in the subcontinent, in the 1980s, to watch the return of integration with new breath, as a mental product with operational reach. The presidents of Argentina and Brazil, Raúl Alfonsín and José Sarney, around 1985, conceived an audacious integration process, starting with the two countries. With an emphasis in

economy, this project aimed for a development strategy that would be able to lead both States into a systemic maturity: through it, these nations could elevate productivity and implement trade between them, modernize the entrepreneurship, enhance technological innovation and, in sum, reach a status of advanced development.

The Argentinian-Brazilian project conceived in the 1980s suffered a detour of its path. At the 1990s, during the neoliberal period, that affected both the economy and politics of Latin America, the integration process changed its orientation from economic modernization to commercial integration. Certainly, it raised regional trade and even inaugurated a new kind of commerce. Even though it inspired, in a certain way, a similar project in the North, with the Amazonic Cooperation Treaty of 1978, the Argentinian-Brazilian project did not contribute to reinforce productivity and innovation in technology, as Sarney and Alfonsín expected. This happened even though, Brazil endured a rapprochement with Venezuela, as if the Southern Cone experience could be repeated in the North, giving integration a safer dimension.

In the 21<sup>st</sup> century, South American integration takes a boost through the creation of the South American Infrastructure Integration Initiative (IIR-SA), in 2000, and as seen above, with the creation of UNASUR. The idea of economic modernization reemerges, however, with two new barriers for integration. Customary barriers disturb operationalization, especially after the governments of Nestor and Cristina Kirchner in Argentina, which conducted the country back to the age of developmental policies, promoting economic introspection, protectionism and nationalization, culminating with international isolationism. On the other hand, Latin America takes the path of dispersion and will restrict the reach of integration to the political and security dimensions. Several development models, some more liberal, some more nationalistic or introspective, some more open to external capital and enterprises, are sided with distinct international insertion models, some that promote interdependency and globalization, and finally some that isolate the nation. The Common Market of the South (MERCOSUR), installed in 1991, stands as the propelling spring of integration, towards the creation of UNASUR. Nevertheless, other organizations unite countries in different blocks, such as the Andean Community, The Pacific Alliance, the Bolivarian Alliance for the People of Our America (*ALBA*), the Central America Common Market and the entrance of Mexico into the North American Free Trade Agreement. CELAC, which comprises the whole subcontinent, displays little economic expression.

Summarizing, the Latin American integration process keeps the historical trend alive, leaving however few results with capacity to propel a modern type of development, choosing to follow the path of traditional advanced

economies and the Chinese economy nowadays. The countries of the region do not launch themselves into a systemic competition level, as was expected by prior administrations. The biggest regional economy, Brazil faces barriers in its neighborhood, derived from the frustration of IIRSA and of economic introspection. Considered as the embryo of integration, precisely due to its economic focus, IIRSA was received with enthusiasm when of its creation in 2000. Since 2011, according to the Institute of Applied Economic Research (IPEA), it converts itself into a forum of debate around physical integration. It stops recognizing its operational failure after a decade, during which very few regional projects were conceived, to move for a political discourse orientation, now under the scope of the Commission of Planning (COSIPLAN). This planning council of UNASUR exhibits, in 2014, a total of 580 projects that sum up to 161,4 billion dollars. Until 2014, according to IPEA, IIRSA may have concluded only around 17% of its projects, corresponding to around 12% of the estimated investment value. More recent data from the Institute for the Integration of Latin America and the Caribbean (INTAL) inform that in 2015, there were 593 projects in COSIPLAN's agenda, corresponding to 182 billion dollars. Until then, 115 projects were concluded. The regional and national infrastructural deficit, with rare exceptions, keeps showing fundamental problems<sup>4</sup>.

In 2015, according to data from the Brazilian National Industry Confederation, this country renounced around 1,5 billion dollars in exports to its neighbors, as a result of regional transportation precariousness. Stuck inside MERCOSUL rules, furthermore, Brazil does not seek markets through free trade agreements with other regions, satisfied with his neighbors. Its capitals and enterprises, however, take a different path, looking for markets outside this area since 2006, when economic introspection started to raise concerns. Brazil promotes, thus, the internationalization of the national economy as the great strategic innovation introduced in the 21<sup>st</sup> century.

We conclude: the biggest, and almost unique, concrete result of the Latin American and Caribbean process of integration is the political understanding, a certainly valuable good, that makes the regional identity star shines even brighter, the peace zone; under the economic and development dimension, the blockades for integration are such that extend even further the slow pace of the region.

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4 INTAL. *Conexión Intal*, Report, March 4th, 2016. See IPEA publications in references.

## Waiting for Innovation

In the 21<sup>st</sup> century, Latin American countries lack strategies of development promotion in proper intensity to raise and sustain the region at an advanced systemic level. For sure, relevant achievements have been reached by the leftist governments, as the prior paragraph shows, but a long path is still showing itself in the horizon. In addition to the regional political knowledge, legacy of deep historical breath that resulted from the biggest integration, the 21<sup>st</sup> century watched the generalization of the social inclusion programs. The reduction of the social inequalities, understood as an ethical requirement, boosted the sustainable development, as ECLAC has showed. On the other hand, economy, politics and environment represent connected variables, as revealed by the type of development linked to regional politics since the Rio+20 Conference of 2012. With effect, without management competence, the gains in the social area of this aggregate may not perpetuate, and even compromise a sustainable development (Cepal 2015b).

The social inequalities have decreased, without extinguishing, however, poverty. A new middle class has emerged everywhere. Still, the inequalities between nations had not modified itself in the same degree of the inequalities inside national societies. All of that, in a curious way, demands political and economic innovation, that, if absent, could make the region lose the economic benefits of social inclusion and stand on the edge of regression. Even more, it could have its rhythm impeded, as happened and was registered above, at around 2015. When will Latin America reach the systemic maturity, which other regions and nations have already obtained whereas relating to the welfare of the people?

Let us examine Latin America shortages under the aspects of political and economic innovation. We will examine, therefore, progress obstruction forces.

First, comes to mind the widespread lack of confidence of society in the State. Without the motivation of the State, which points or induces movement opportunities for progress of agents as capital and companies in the country and abroad, creating optimistic expectations, modernization, increasing wealth, technological innovation, in short, a higher level income citizens does not advance at an appropriate pace and scope. This new behavior of the State as a long run trend that wins the trust of society because it exerts a logistic function to support their leaders and the realization of their expectations, the concept that we call a logistics State, was the condition for the advanced nations to achieve the welfare level and economic and social maturity. The leftist governments of Latin American envisioned this new State conduct par-

adigm, however, some important countries have undermined the new State functionality with addictions that gradually destroyed confidence. The return to the old developmentalism as a result of poor management, seems to have contaminated the political intelligence of governments and destroyed the confidence of the forces of society in the State. Upon the return of protectionism, centralized decision-making, increased bureaucratization, renationalization of companies and other similar action strategies in their effects, some governments drove away domestic and foreign investment. This took place in Venezuela, Argentina, Bolivia, Ecuador and elsewhere in its own dosage and patterns. It occurred in Brazil since the rise of Dilma Rousseff to power in 2011, when the country goes into decline, and no longer was seen as an emerging country by domestic and international assessments. Investments in production decreased, unemployment reached eleven million citizens and economic growth turned negative, with a drop in GDP of -3.8% in 2015, only ahead of the Bolivarian Venezuela of Nicolas Maduro, the successor to Hugo Chavez. In these countries, where the conduct of the leaders was addicted to old habits, the logistic State was restricted in its function of establishing trust between the parties, the State and society. In the Andean countries and Mexico, where governments did not go back to the practices of the developmentist paradigm, for instance, did not adopt the retrograde neodevelopmentalism, the adverse economic and social effects were smaller.

Therefore, the expected policy innovation in Latin America resides in the dialogue between State and society, capable of restoring the needed confidence to power the forces of development.

Second, Latin America lacks economic innovation. In the 1990s, neoliberalism somewhat fixed addictions accumulated by the historical paradigm of development, whose strategies had promoted the development with good efficiency by two impulses: the external, made of capital, companies and technologies coming from the outside, targeted primarily for industrialization and services; and the internal supported by State companies operating primarily in the areas of infrastructure and basic inputs, such as mining and energy. Privatizations of the 1990s represented a paradigmatic rupture, but were conducted based on a strategic error: the strong core of national economies was sold to foreign enterprises, and nations abdicated or gave up the best of the best of the economy.

Latin America has immense natural wealth, corresponding to its mineral and agricultural resources. The agricultural enterprise developed on its own and raised the sector's productivity to the most advanced technological level in global systemic terms. On the other hand, mining companies compete with this progress of the farming industry. Overall, the national

character of these enterprises is maintained. However, the export of primary products became a constant temptation of indolent and poor governments of both social and prospective vision. Instead of planning and guiding business for the industrial exploitation of these resources, the only way to promote the employment, income and welfare of the urban masses, as well as technological development, governments with their indolence accentuate the overall relative decline of the region (Unasur 2014).

Indeed, in the 21<sup>st</sup> century, the left promoted a better distribution of income in society, increased consumption and the emergence of a significant middle class. The contemporary strategic mistake has two aspects: the lack of a policy of technological innovation in order to restore and strengthen the core business of the nation and the breakdown of trust between State and society that scared off domestic and foreign investment. The phenomenon of internationalization of Latin American economies, that is, the outward expansion of domestic companies, seemed to induce the driving ability of modernization in the early twenty-first century by incorporating the national enterprise technological progress that the interconnection in global production chains require. Few countries have taken advantage of the inclusion of their companies in global value chains to promote the progress of their industries. This subtle element that is the driver of modernization, however, seems to be lost. Therefore, the internationalization of Latin American companies in an autonomous movement reached a point of no return, due to the domestic obstacles that remain, such as lack of confidence in the State, in the bureaucracy, a heavy tax load, infrastructure failure and the lack of an innovation policy coordinated between State and society.

Then, the expected economic innovation in Latin America is based on the creation or the strengthening of the core of national core through technological shock with the mutual support and collaboration amongst State and society.

## **The slow pace: trade, investment, growth**

Inefficient leaders often tend to externalize the evils of internal management. This approach is well rooted in Latin America, and the governmental option to resort to the financial and economic crisis of the developed world, or other external difficulties, in order to explain the decline of the growth rate, employment, consumption and investment is common. In fact, as we saw above, evils are located on internal factors: public management of poor technical quality, failure of the economy itself, the distance between State

and society, the lack of technological innovation, neglected industrialization, integration without economic results. In the era of global interdependence, external factors have impacts. However, in the case of Latin American slow pace, they only have a slight role. Regional rate is blocked by the decline or stagnation of some nations, without being offset by the good performance or the dynamic leadership of others. Mainly, the slowness is due to the absence of a national or regional business hub, operating in a systemic technological level, so as to produce an impact in regional developmental. While this condition persists, the region will not catch up with advanced economies in terms of income, welfare, gender and level of life for citizens.

Analysts of Latin American institutions such as CAF, IDB, UNASUR, ECLAC and INTAL provide accurate and valuable data that support interpretations on an objective bases. The reader can check this on the regular publications of such institutions. A dispersive and insufficient development locks Latin America in recent decades. The region loses comparative global relevance, far from the dynamics, for example, of the Asian emerging nations. Institutional crises that show an erratic behavior of large and small States, technological backwardness in industry and services, prevailing primary economic structure and lack of savings and investment themselves contribute to curb the pace of growth. It is up to the reader to conclude, on the exposed reality, if the main causation of the slow pace of the Latin American and Caribbean growth is concentrated in the State, mismanaged, lacking appropriate strategies, or, as often leaders repeat in coercive external factors (Sánchez-Mais 2015, Crespi et al. 2014, Novelo 2014).

Three indicators - trade, investment and growth - express the concept of Latin America slow pace in the 21<sup>st</sup> century. They are strongly present from the second decade of the century onwards, when the downward trend in foreign trade, in investment volumes and rates of economic growth can be observed.

During the first decade of this century, Latin America and the Caribbean increased their exports in volume and value, an increase that was not only seen in exports out of the area, but also in intra-regional trade. The average annual growth rate of exports was, for years, roughly around 15%, therefore above the average growth of world trade, close to 11%. Regional exports, moreover, settled on average slightly higher than the exports out of the area, peaking between 2004 and 2008<sup>5</sup>.

However, transport costs not only hurt Brazilian exports, fact revealed

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5 See *Carta Intal: Comércio intrassul-americano: padrão exportador e fluxos intraindustriais*, nov. 2013. See *Monitor de Comércio e Integração do BID*, 2015.



in the document of the National Confederation of Industry of Brazil. They are linked to the precarious regional infrastructure and therefore may represent the biggest obstacle for Latin America and the Caribbean exports, according to studies presented at the Integration & Trade Journal, published in 2014. When a sharp economic downturn is observed in the world, especially in China during the second decade of the century it is not surprising that studies made known by the IDB's trade and Integration Monitor show worrying statistics on the development of foreign trade in the region, whose basket is composed mainly of commodities. In 2012, exports would have increased only 1.2%; fall of -0.2% in 2013. In 2014 the fall in exports of goods from Latin America and the Caribbean corresponds to -2.8%; -2.7 Latin America. The factors that explain this decline are internal and external: concentration in commodities, falling demand and export volume as well as in international prices (Giordano 2015)<sup>6</sup>.

Latin American and Caribbean export commodities in larger scale out of area and import machinery and equipment, as well as industrial products of mass consumption. But the intra-zone trade has a better quality profile since, without excluding commodities, it is composed by a greater extent of manufactured goods. Automobiles, textiles, plastics and chemicals are important in intra-zone flows. The weak link of these flows with products originated from the penetration in global supply chains, the so-called two-way trade, appears as another negative factor to qualify regional trade, although in this context such factor is less present in the intraregional trade than in the out of the area one

Nevertheless, foreign trade is directly linked to the economic growth of countries, therefore its rate was mainly linked to South America high growth rate during the first decade, when Brazilian growth figured as a propeller of regional growth, also linked to the expansion in the trade of manufactured goods. According to INTAL, Latin American economies maintain a close relation of dependence, linked to two aspects of foreign trade, external and intrazone. During the first decade, in a positive way; and, during the second decade, in a negative manner, worsening after 2014 onwards, due to the global environment. The balance of foreign trade relates to revenues, so it affects the budget of the nations; it also affects investment amounts, job creation, and, finally, economic growth.

In the specialized literature, it is a common sense criticism to point out to the fact that Latin America, especially the members of Mercosur, do not act to open up foreign markets for its exports. The global economic inter-

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<sup>6</sup> See also from BID: *Monitor de comercio e integración* 2015.

dependence, which is also called economic globalization, is consolidated as an irreversible trend in the 21<sup>st</sup> century. Trade, finance, capital flow, business moving, global supply chains are intertwined in the globalization phenomenon. Its biggest boost comes from emerging countries. The most dynamic among them grouped in the bloc of BRICS - Brazil, Russia, India, China and South Africa - with the clear aim to influence the international order and modify its rules and regimes. Getting behind, advanced nations that ruled the previous order, are showing defensive instinct of their interests, and they got back together, aiming to expand economic spaces that could add old markets: the European Union, the agreement between the United States and the European Union, Japan's adherence to this block of advanced countries. The competition between emerging and developed nations is established as, in turn, the BRICS reacts requiring more power over international bodies that set the rules in the field of finance and trade.

A first modification is established within the international trade. Created in order to establish its rules, which together define the international trade regime, the World Trade Organization-WTO, because of the presence of the BRICS, fails to fulfill its original function in the 21<sup>st</sup> century. Advanced countries, under the initiative and leadership of the United States, opened another path, in such a way that the international trade regime would not be established anymore on global scale within the WTO. Perhaps, from regional scales, global scale would be achieved. At the end of this competition, by 2015, one can come to the conclusion that the international trade regime, for instance, its rules in a prevailing scale, is going to be defined by regional free trade agreements. The new regime must be the subject of much attention from all nations, especially in emerging and developing countries, for regional trade agreements do not only establish rules or trade facilitations, but regulate investments, loans, business movement and political decisions. Regional trade agreements tend to bound productive investment and economic growth.

When Mexico looked up for the North, adhering to NAFTA, when the Andean countries created their trade bloc in order to open its trade to the Pacific and other markets, they aimed to adapt to such a change in the international economy. Meanwhile, the Brazilian government suffers criticism from business leaders to keep the country out of this modification of the international order, without opening new markets and without benefiting from the creation of new and large areas of free trade. Mercosur rules prevent it from monitoring the evolution of trade and certainly explain in large measure the brutal fall of their productive investment and economic growth, around 2015. Therefore, there was an internal impact on unemployment that reached beyond eleven million workers, income, consumption and welfare. This led

to external impacts on the neighborhood where these same economic and social indicators declined. Indeed, as the 21<sup>st</sup> century advances, Latin America growth is lagging behind: 4% between 2003 and 2008, just over 1% in 2014. This is due to regional reasons that increase the distance from global markets till the structural failure the economy that insists on keeping itself primary, when demand and commodity prices tend to fall (Mellado 2015).

This picture does not change with the rise of China on international trade. Indeed, it was the Chinese economic dynamism and demand for primary products that established the trade connection with Latin America, and with that came the tendency to replace the United States as the main trading partner of Latin American countries. With greater difficulty than previously occurred in the relationship with the United States, these countries are successful in replacing the Chinese strategy to export manufactured goods to Latin America and the Caribbean by the investment strategy: instead of exporting, Chinese companies are encouraged to produce in the region and invest, particularly in improving regional economic infrastructure (Ray et al. 2015).

## Conclusion

Latin America and the Caribbean are entering the second decade of the 21<sup>st</sup> century in a slow pace. The main evidence of this fact are the fall of foreign trade, investment and economic growth as direct consequences of rising unemployment, the fall in consumption and industrial production, income and citizen social welfare. Even if leaders appeal to external causalities to explain the economic and social decline, the prevailing factors that determine it were located within the region. The slow pace of Latin America and the Caribbean towards full development is determined in the 21<sup>st</sup> century by a sum of three main causalities, which in part have been acting for decades.

A first causality of the slow pace is the lack of trust between State and society. In the early 21<sup>st</sup> century, the State played a new role in Latin America, similar to the one that the State historically exercised in advanced countries: point or induce opportunities for capital and companies to achieve their specific goals and to achieve their interests, producing goods and services, generating employment and income and raising the welfare of the people. With the advance of the century, poor public management harmed this new feature of the State in Latin America and caused the breakdown of trust between State and society, leading to the retraction of economic forces and the overall decline, we call the slow pace. In the region, this breach of trust resulted, with the advance of the XXI century, in a serious political and institutional crisis,

high tax burden, the swelling of the State, the bureaucracy, the behavioral deviance of leftist leaders who turned to perpetuate the party in power and the absence of appropriate strategies to promote development.

A second causality of the slow pace lies in the lack of innovation. Without a coordinated action between State and society, technological innovation necessary to increase the level of economic productivity to systemic productivity level is locked. Both the region and the nation, though in form and intensity varied, lack technological innovation strategies. Therefore they remain prey to the prevailing primary character of their economies, forever in development, and away from the global systemic maturity.

A third cause resides in the truncated integration process. This process contributed, of course, for the construction of a regional peace zone, which includes the South Atlantic. The Latin American peace zone is the shining star in the heaven of the world, a unique and exemplary preciousness. However, the Latin American and Caribbean process of integration, aimed in the first decade of the century to improve regional infrastructure, especially in South America, lost efficiency, in such a way that the shortage of both regional and national infrastructure remains a barrier to development and modernization. Furthermore, the integration process lost, along its way, the technological innovation strategy originally conceived by their mentors.

## DOCUMENTATION

Publications of regional research institutions used to obtain statistical data that underlie the interpretation. Main institutions:

Brazilian central bank

Inter-American Development Bank (IDB)

Economic Commission for Latin America and the Caribbean (ECLAC; or CEPAL in Portuguese)

Development Bank of Latin America (CAF)

Brazilian Institute of Geography and Statistics (IBGE)

Institute of Applied Economic Research (IPEA)

Institute for the Integration of Latin America and the Caribbean (INTAL)

Facultad Latinoamericana de Ciencias Sociales (FLACSO)

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## ABSTRACT

The last decade of the 20<sup>th</sup> century was characterized by two deep changes in Latin American countries. The old developmental paradigm, worn, gave place to the neoliberal paradigm, embraced by Latin American elites and societies. By reaching the 21<sup>st</sup> century, the region is going through a new paradigmatic change: the exhaustion, after a decade, of the neoliberal dynamics, and the immersion into the search for another destiny.

## KEYWORDS

Latin America; 21<sup>st</sup> Century.

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# THE CULTURE OF POLITICAL INSTABILITY AND THE RAPPROCHMENT OF SOUTH AMERICA AND UNITED STATES<sup>1</sup>

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## Introduction

In some countries of South America, the history of extreme poverty and social inequalities is being rewritten. Unlike the 1980s, marked by governments called neoliberal and IMF prescriptions, motivated by the Washington Consensus, the governments of the three Andean countries - Venezuela, Ecuador and Bolivia - have been implementing policies and social projects with some success in the last 16 years.

Not only assistance projects and the redistribution of income, housing, health, education, protectionist policies and nationalization of natural resources created new forms of political participation of society, but also have contributed to intensify the national and international ideological disputes. However, from 2015 onwards, political instabilities raised the debate on the future of these three countries and their consequences for foreign policy. This article discusses the foreign policy of the three Andean countries and its rela-

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tionship with the United States, taking into account the current Venezuelan, Ecuadoran and Bolivian political crisis.

In the late 1990s, South America has entered a phase of polarization between governments: the ones who claimed a so-called institutional continuity and the governments of Hugo Chavez (Venezuela), Evo Morales (Bolivia) and Rafael Correa (Ecuador), who proclaimed willingness to recreate the State and social democracy. The action of these agents produced tensions that spill over regionally and their actions are not restricted to their respective countries. They enlarge their political references and make use of their cultural identities and supranational histories, as in the case of Simon Bolivar.

As well as in the domestic realm, considering the past of poverty in these countries, there are significant changes in foreign policy that are related to the internal arena. These governments emphasize the strategy of cooperation and integration among Latin American countries, closer ties with China and Russia, and agreements for South-South cooperation. Another decision taken by the three countries that would affect the external interface was the nationalization of mineral and energy resources exploited until then by US and European companies. So in a greater extent, US interests were affected in the region.

Some authors argue that Latin America was increasingly less relevant to the United States, and that this trend was deepened by the events of September 11, 2001 (Ayerbe 2008, Fuentes 2004). However, this little attention is in contrast with US interest in the mineral and strategic resources in the region (among others). There is a vast literature on the historical US dominance in Latin America (Bandeira 2010, Ayerbe 2002, Pecequilo 2011 and 2012, Nye 1990 and 2002, Kagan 2012, Vizentini and Wiesebron 2006) that shows that the US was always paying attention to hemispheric affairs, despite the adoption of different strategies.

In the early 20<sup>th</sup> century, US President Woodrow Wilson changed the vision that the country had developed for its domestic consumption, and turned it into an operational program to be applied to the whole world. Since then, this same world had to pay attention to the US, both due to the reach of its vision, as well as due to its strength. (Kissinger 2015, 485). If this thought is still in place, US seemingly indifference to the region, supported by some circles, would not make sense. Indeed, the United States seems interested in the unfolding of the current crisis in the three Andean countries. Elements to provide answers to these questions are presented below based on the analysis of domestic and foreign policy of the three Andean countries.

## **The foreign policy of Venezuela, Ecuador and Bolivia: *politics “from below”; Proud, dignified and sovereign homeland; partners, not bosses***

Venezuela’s foreign policy, with the entry of Hugo Chavez, is marked by multipolarity, nationalism and the defense of Latin American integration. These three pillars are found in the Ecuadorian and Bolivian policies, respectively the governments of Rafael Correa and Evo Morales. Are they related to the export of Chavez ideas? The reasoning related to the simple migration of Chavez model seems simplistically since it disregards that there was (and there is) in place a same framework of capitalist logic and domination facing these countries. The nationalization and control of natural resources were central points for Chavez, but the motivational source of these actions are made of historical struggles of the region and sometimes have been attempted by other countries. This is the case of Bolivia in 1952 and the nationalization of mines controlled by Patiño groups, Hochschild and Aramayo. As Marx said in known passage of “The Communist Manifesto”, despite national peculiarities, industrial work and modern subjection to capital are the same in all countries, which deprived them of their national character.

### **Hugo Chavez ’ s foreign policy “from below”**

Hugo Chavez foreign policy, followed by his successor Nicolas Maduro<sup>4</sup>, has three dimensions: a confrontation with the United States, the pursuit of Venezuela’s dominant position in Latin America through the creation of the ALBA (Bolivarian Alternative for the Americas) and relations with Brazil and Mercosur (Carmo 2008). Chavez strategy was to search for his strengthening domestically and to seek international support for his national project. Therefore, with his speech and his policy to deal with social inequalities - a policy for “los de abajo” - Chavez enlarged this approach to the international scene.

Inside Venezuela, and politically, the former democratic liberal model

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4 Chavez was ahead the government for 14 straight years. He was elected by popular vote in 1998 to five years in office. To modify the Constitution and increase the president's power, a referendum was held soon after his election. Due to this change, it was necessary to hold another election, and Chavez was elected again in 2001. He took office in 2000 and 2007 for his mandates. In 2006, he was reelected once more, for a term ending in 2012. In the following elections, he was elected for a third term but he died in 2013. A new presidential election was convened and Nicolas Maduro, his political successor was elected.

that extended for 42 years and was based on two parties - Acción Democrática, a social democrat one, and Copei, the center-right Christian Democrat, was put to an end. Aligned with social movements, Chavez government implemented a new constitution in 2007, by a popular referendum, affecting the political and legal structures of the country, jettisoning the traditional elites of decisions. This internal confrontation required external support. A closer approximation and cooperation with Cuba - selling oil to this country below market prices since 1999 - was the strategy underlining the closeness with countries identified with Chavez social project.

The idea of a foreign policy “from below” followed the same principle of maximizing internal social policies in order to gain popular support; this way, Chavez implements a multipolar strategy and of support for Latin American countries (Ellner 2008). Venezuelan foreign policy gained a strong regional focus, in particular due to its defense of the region’s interests and the direct confrontation with other foreign interests. Therefore, foreign policy should strengthen alliances between countries with progressive governments, links with other countries in the region and with powers outside the US zone of influence. In the arch of Latin American alliances, Chavez distanced himself from Mexico and Peru Presidents, Vincent Fox and Alan Garcia due to their ties with the United States. He also distanced himself from certain international organizations and agencies since, in his view, they were the representatives of North American interests.

To reinforce this strategy of relations from below in 2006, Chavez withdrew Venezuela from the Andean Community of Nations (CAN) in response to agreements that Peru and Colombia had signed with the United States. According to Ellner (2009), for Chavez, “these agreements favored elites and transnational companies, and do not represent the interests of indigenous people, or afro descendants, or the poor”. At the same time the Venezuelan president was leading the creation of UNASUR and pushing for Venezuelan membership in Mercosur, which took place in July 2012.

The distancing between Caracas and Washington built up due to Chavez policies such as: the nationalization of the exploration of mineral resources, especially oil, by the creation of the state-owned oil company (PDVSA), restrictions on the foreign companies actions and the rapprochement with Cuba, Iraq and Libya (seen as US enemies).

Event tough political relations were not good the same cannot be applied to trade. Nowadays, almost five hundred US companies are represented in Venezuela and the US have direct investment concentrated largely in the oil sector and in the country’s industrial production. According to the US Department of State, the country’s complex exchange rate regime, the fall in oil

export revenues and the drop in global oil prices deprived US companies access to dollars that would enable them to send their profits abroad. In addition to this adverse situation to US interests, difficulties to import industrial raw materials and finished products to Venezuela, insufficient access to dollars, price controls and rigid labor regulations implemented by the Venezuelan government have forced many US and multinational companies to reduce or terminate their operations in Venezuela (U.S. Department of State 2015).

## The strategy of sovereignty adopted in Ecuador

Rafael Correa was elected in 2007 with the support of the Ecuadorian left. Although he faced several coup attempts and a kidnapping in 2010, from which he was rescued by military supporters of his government, Correa's government has a significant support from society. This popularity is often explained by thesis based on Weber's theory of traditional domination. This is a fragile vision since the analysis is focused solely on the president's persona. Although Correa is a young politician with a strong popular appeal, social inclusion and access of the poor to basic education and health services policies are the most viable explanations of his popular support. Thus, he is both a charismatic leader and also a leader legitimated strongly by polls. Indeed, Correa was re-elected president in 2013 for another four-year mandate. Its electoral strength also could be noticed in the popular referendum of the new National Constitution<sup>5</sup> that established the law for the national control of strategic sectors.

Regarding Ecuadorian foreign policy, its guidelines were presented in the government's action plans, the National Plan of Development 2007-2010 (Ecuador 2007) and the National Foreign Policy Plan 2006-2020, *PLANEX 2020* (Ecuador 2006). These plans define nationalism as one of the main axes of the country's foreign policy. The meaning of this agenda is linked to relations with neighboring countries; to hold the United States as a potential threat to the consolidation of democracy in Ecuador; to maintain relations with Europe, mainly focused on Spain, due to stronger historical and cultural ties, strengthened by the presence of more than half a million Ecuadorians in

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5 After eight years and seven months in government, Rafael Correa was positively evaluated by 52% of the interviewed (Perfiles de Opinión 2015. Accessed September 20, 2015). In the same period, after conducting several researches, Mexico's Mitofsky Consultant created a presidential approval ranking, and Correa was placed in the fourth place, losing to Danilo Medina of the Dominican Republic (89%, with 33 months in office), Evo Morales (75% with 113 months in office), the Panamenian Juan Carlos Varela (63%, 12 months). (Jornal Andes - Agência Pública de Notícias do Equador e Sul-América, September 9, 2015.)

its territory; and to consider relations with Asian countries, especially China and Japan (Holguín 2012, 43).

Generally speaking, Quito got closer to Venezuela's and Bolivia's stances, and distanced itself from Colombia due to border disputes and the entry of Colombian troops in Ecuadorian territory in pursuit of FARCS in 2008. Closer ties with Iran and Russia, bilateral treaties in energy cooperation with Venezuela – the construction of a refinery and the exchange between PDVSA and Petroecuador - and the strategy of regional integration for the creation of UNASUR and ALBA are guidelines in the Ecuadorian foreign policy agenda. One of the biggest infrastructure integration projects in South America is in Ecuador: the river and road corridor that will link the Brazilian city of Manaus to the port of Manta, in the western part of Ecuador. It will be a corridor to transport goods from the continent from the Pacific, increasing regional trade and offering an alternative route to the Panama Canal. Integration is strategic for the Andean countries and to Brazil, since the port of Manta will be Latin American nearest port to Asia.

Thus, the Manta port is an important issue in the drive of Ecuadorian foreign policy due to the potential for integration. But it was also a contentious issue with the United States. For ten years, from 1999 to 2009, Manta was an US military base in order to control drug trafficking and it was considered a North-American enclave in Ecuador. The non-renewal of the agreement that would have allowed the US to maintain this military base was one of the most important events in these nations' bilateral relations. For the Ecuadorian government, the presence of that military base meant a loss of sovereignty, and that needed to be repaired.

US-Ecuador relations were strained as Quito questioned the manner in which its natural resources were being exploited, its external debt and the forms of foreign investment in the country. Tensions between the two countries gained proportions of a diplomatic rupture when, in April 2011, the Correa government declared the US Ambassador Heather Hodges *persona non grata*, and asked him to leave the country<sup>6</sup>. Finally, Correa's bet to approach Iran and Russia is being considered as one of the most original elements of his foreign policy, indicating a strong interest in distancing from the United States.

Russia's and Ecuador approximation is visible, and it is linked to energy issues. In 2008, in a visit to Ecuador, Sergei Lavrov Russia's Foreign Minister expressed his country's interest in the market and bilateral cooperation.

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<sup>6</sup> According to the official version, the request was due to the information released by the Wikileaks network, regarding US knowledge of an attempt to destabilize the Correa government.

tion in various areas. That included academic education of Hispanic students, oil trade, and gas development of nuclear energy (Agência Brasileira de Inteligência 2016). However, the main strategic bilateral relationship in terms of trade is with China. Several projects in strategic sectors are currently under way in Ecuador, with a significant contribution of Chinese capital. Only in 2015, 15 bilateral agreements were signed and 9 accords in the framework of cooperation, science, technology and education. In addition, one can mention the Mutual Agreement on visas for entry in both countries. Chinese citizens can enter Ecuador without a visa for 90 days, while Ecuadorians can enter China without it for a period of 30 days. This shows Correa's interest to benefit from a larger number of Chinese who annually travel the world, contributing to the inflow of foreign exchange. But Chinese investments in Ecuador are the ones that stand out in the bilateral relationship. In this sense, analysts tend to point out that Ecuador's foreign debt only changed its origins: from the United States to China.

## The Bolivian foreign policy: partners, not bosses

When Evo Morales came into power in Bolivia for the first time in 2006, the country was placed among the poorest nations on the continent and it was number one in the list of countries that suffered the highest number of *coups d'État*<sup>7</sup>. The victory of Evo Morales and of the intellectual Álvaro García Linera (vice president) in 2005, with 53.74% of the vote, opened a possible space for similar changes to those seen in Correa and Chavez governments. However, the difference resided in the enlargement of the recognition of ethnic minorities, in the discussion of the types of land ownership and in the creation of indigenous courts. In ten years of government, the country reached the first levels of economic growth in the region and broke the tradition of governments that did not end their mandates. Also, in Bolivia, a new constitution ratified by a popular referendum in 2009<sup>8</sup> was promoted, establishing the "plurinational" and "intercultural" State based on multiculturalism (Ranincheski and Silva 2012).

There is a direct link between Morales' election and these constitutional changes to foreign policy. For the third time in the history of the country (1937, 1969, 2006), Bolivia promulgated a decree for the nationalization of natural resources, especially the sectors of gas and mining. Bolivia is one of

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7 Afterwards, Morales was elected in 2009 with 64% of the vote and in 2014 with 61% of votes.

8 The same process of construction and ratification of a plurinational constitution was held at the Correa government in 2008.

the largest producers of silver, gold, zinc and tin. It has one of the largest iron ore reserves in the world, in the region of El Mutún, and the Salar de Uyuni is one of the world's largest lithium reservoirs. (CEDIB 2004).

Evo Morales adopted a national defense strategy, gave priority to Latin American integration and highlighted the need to establish "fair" and symmetrical relations with international interests. The speech produced by Morales to mark this idea is the slogan "partners, not bosses," paving the way for the criticism from the left and right oppositions, for different reasons. The left calls for an industrial and development project; the right press for the departure of the president and for the return of private control of mineral wealth.

The Bolivian diplomacy follows the idea of a defensive and prospective sovereignty. The defense and revaluation of the coca leaf cultivation and the fight against drugs is embedded in this strategy. For the government of La Paz, the legalization of the production is a matter of national defense. On the other hand, the fight against drug trafficking must be held in a collective manner with international community, without opening spaces to external interference, especially the ones from the US, such as in Colombia. The Bolivian foreign policy also operates in traditional forums such as the UN, through presidential speeches regarding the issue. In September 2008, La Paz expelled the United States Drug Enforcement Administration (DEA) and in 2013 it did the same with USAID cooperation agency, both on charges of conspiracy.

Usually the explanation to the defense of coca by the Morales government is based on its historical connection with the trade union movement since the 1980s. He was a member of the Single Confederation Union of Campesinos Workers in Bolivia (CSUTCB) and was a member of the board of directors of the Special Federation of the Tropic, one of the six trade union federations of coca leaf producers. However, these actions must be understood as governmental policies that affect relations with the United States, because the problem of drug trafficking in the region is important in American politics and the Andean countries (Avila 2007).

The concurrent diplomacy of defense and reaction can be perceived in the way that Bolivia starts to build its relations with the United States. The country has made a public denunciation of the United States interference in its internal affairs by making use of international organizations as a resource to pressure and destabilize governments or leftist groups in Latin America. Tensions have worsened since 2008 (with the expulsion of the US ambassador in the country), and with Evo Morales's defeat in the February 2016 referendum regarding a law that would ensure his unlimited re-election, conflicts tend to be more intense.

## The crises of the Andean bloc: building a culture of instability

The economic and political crisis in Venezuela, Ecuador and Bolivia are frequent and long-standing (on this subject see Oliveira 2013). Based on a more detailed analysis, what makes the 2015 crisis different, is and increased pressure from the opposition and some victories. These victories put at the risk the continuity of the analyzed governments and the current foreign policy agenda of these Andean countries. The possible return of political conservative groups and aligned with international interests that were kept away from power in the last two decades is at stake.

Political crises have been a constant in the Chavez government, including an attempted coup to remove him from power in April 2002. For 48 hours, an alliance between media, business, sectors of the Catholic Church and the military were able to take him off the presidency. US support for the coup was evident in the immediate visit its ambassador to Caracas, Charles Shapiro, made to the coup leader Pedro Carmona, recognizing his government. At the same time, the IMF, announced on the same day, financial resources for Venezuela. Without any support from the population, the Armed Forces and the international community, the action failed, and Chavez was reinstated to the Venezuelan government.

The radicalization of relations with the United States gained strength after that coup attempt. Since 2010, there are no ambassadors in neither of the countries, and diplomatic representations are on the hands of business aides creating a stagnation of diplomatic ties. In 2011 and 2013, Venezuela suffered US sanctions because of its trade energy relation with Iran. PDVSA is banned from competing for government contracts in the US and to apply for Export-Import Bank funding in the United States. But it was Chavez's death in March 2013, that will demand new strategies in order to continue the so-called Bolivarian project. Following up, a new presidential election was held and the candidate Nicolas Maduro won. Maduro was considered Chavez heir without the same charisma and leadership in his predecessor party.

Thus, the recurring supply crisis in Chavez's government, gained new grounds in the Maduro government. The lack of basic basket food, leading to the formation of long queues, is an important factor in the discontent of the population. To some extent, it goes back to the governmental period of Allende in Chile, whose outcome was the military coup staged by General Pinochet in 1973. The government of Allende denounced internationally, including in a UN speech, the existence of an undeclared economic war between the Nixon administration and his own. Analysts pointed out, one year after the coup that



the lesson, if there is any, in the relations between the United States and the Allende government, is that if there is a government that is decided to nationalize US companies without compensations and intends to promote a internal program that effectively destroys its ability to attract investments, one cannot expect to gain aid, neither from the US government, nor from its private companies (Sigmund 1974, 38).

In the Venezuelan case, the government argues that the oligopolistic sectors are deliberately slowing down production as a means of pressure; the productive sectors, in turn, justify that the price adjustment has generated losses and thus, for the industry, the domestic production stays with no incentive. Many stopped milking the cows, since this is no longer a business (Jardim 2007).

The internal pressures suffered by President Maduro, Correa and Morales questioned the political project that was being implemented in each country. The political crises that affect the Brazilian government and the defeat of Cristina Kirchner group in the 2015 elections directly affected the three Andean governments. The new Argentine president, the conservative Mauricio Macri, represents the first possible break of the ties of cooperation that these countries were developing in South America. The statements of Macri on the importance of using the democratic clause in Mercosur to question the permanence of Venezuela indicate new settings for external relations in South America. In addition, perhaps the most prominent fact is the immediate elimination of taxes on exports of mining companies in Argentina.

The 5.5% average economic growth per year during the first two Morales of mandates, IMF's and the World Bank praise received or the performance of economies and the recognition of the eradication of illiteracy by UNESCO in 2014<sup>9</sup>, made it difficult to the action of supporters of the liberal market of large national and international economic interests. The global turmoil in the mineral sectors of oil and gas shows a worrying domestic situation given the dependence of the three countries in the export of natural resources. For 2016, FMI growth forecasts of the GDP indicate a decline in Venezuela, Bolivia and Ecuador.

These economic crises worsened the institutional political crisis in Venezuela, for example. In the 2015 parliamentary elections, the united opposition, Mesa de la Democratic Unity (MUD), was able to elect 107 parliamentarians (64.07%) and the United Socialist Party of Venezuela (PSUV), the situation party, reached 55 seats (32.93%) according to official data (CNE, 2015).

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9 Irina Bokova, director of UNESCO, highlighted these achievements, such as the process of eradication of illiteracy in Bolivia. See Naciones Unidas en Bolivia 2014.

The opposition will certainly try via parliament not only to remove the Maduro government, but to promote more radical changes to the right. According to a representative of the opposition, the problem of Venezuela can only be changed with structural changes - not with conjecture ones (Guevara, 2016).

Like Venezuela and Bolivia, the economic crises in Ecuador are intrinsically linked to oil exports. On two occasions, in 2009 and 2015, the country faced severe difficulties due to the fall of oil barrel prices. In 2009, the drop occurred due to lower levels of consumption. In 2015 the situation seems to be more complex in view of the serious Middle East conflicts and the need for oil price agreements between OPEC members, the agency that regulates the production and the price of oil. In the first crisis, the overcome of the crisis depended on the reserves that the country had due to the Law for the Recovery of Oil Resources and the questioning and non-payment of external debt. In the 2015 crisis, the government had reserves to support investment, but the ongoing country's dependence on oil exports remains although other exportable products such as bananas, cocoa and shrimp would be available.

The street demonstrations that President Correa faced in 2015, add up to the ones held in 2009, 2010 and 2013, although with a different agenda: they were against the political and economic model, but also against bills sent to the National Assembly as the tax on inheritance and income. The law in force since 2009 inheritances determines that taxes should be collected from the amount of \$ 68,800 onwards. The proposed law project intended to change the amount to \$ 35,400, and the tax was going to be charged progressively. The protests were so significant that forced the Correa government to withdraw the project from the Assembly. Street demonstrations were also against the bill that would increase oil export taxes, which critics say would cause layoffs in the industry (El tiempo). Sectors of the labor movement's opposition to Correa supported these street protests, arguing that it would represent a heavy blow against the poorest as they would be the ones to pay for any increase in prices.

In Bolivia, the crisis of instability are recurring. Despite the positive development that Bolivia achieved, being able to distance itself from the historical and traditional brand as the poorest and most unstable country of the continent, the internal pressures are enhanced by the fall in commodities prices in the international market and the gained ground on the Morales government. Between 2006 and 2015, Bolivia had a significant drop in unemployment (from 10.1% to 4% in the period), significant reductions in extreme poverty, the minimum wage was raised from 500 to 1,656 Bolivian pesos, and malnutrition, combined with the fall in infant mortality from 54.2 to 38 per thousand took place. These indicators, as well as the eradication of illiter-

acy recognized by UNESCO in 2009, made Morales a very popular ruler in the international environment. However, these positive data was not enough to gain Morales a win, in the popular consultation regarding a fourth-term candidacy.

One can notice the built of a culture of instability in the three countries. Despite undeniable progress in social issues, understood as those that directly affect the population's quality of life, particularly the most socially and economically disadvantaged, internal disputes, with the support of the United States and international bodies, seek to overthrow governments, even if this implies profound social and economic disruptions. In the name of political and ideological disagreements, the economical and political stability of the region is threatened.

## The United States and relations with the Andean countries

The powerful North American think tank Council on Foreign Relations presented in the 2008, a report of the so-called Group of Independent work with the results of studies and discussions on the relations between the United States and Latin America. The report<sup>10</sup> signals the end of the United States as the dominant country in Latin America and suggests that its policy for the Latin American continent should be restructured in four areas considered critical: poverty and inequality, because it feeds dissatisfaction; public security; migration and energy security. These points would be of immediate concern of governments and of the Latin American population and in this case, would represent an easier path for the US to regain its influence (CFR 2008).

This strategy would lessen the growing distrust of the Venezuelan population, Bolivia and Ecuador on the United States as

the overall distrust regarding the US has allowed the Presidents Hugo Chavez from Venezuela, Evo Morales from Bolivia and Rafael Correa from Ecuador, and even Felipe Calderón from Mexico, to try to increase their popular support with their criticism against Washington (CFR 2008, 7).

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10 The Council on Foreign Relations (CFR) is defined as an independent organization and formed by a group of experts and publisher dedicated to serving as a source of ideas for government officials, corporate executives, journalists, students, religious and civic leaders and others interested in understanding the options for US foreign policy and other countries. Founded in 1921, the CFR publishes the journal known as *Foreign Affairs*, the most relevant one in international affairs and foreign policy of the United States (CFR 2008).

For the authors of this Report, the anti-American policies of President Chavez should be taken seriously by the United States. The failure of the United States and the isolation of certain nations would reduce their influence, while, unwillingly, would strengthen the regimes of these countries, as the Cuban experience previously proved (CFR 2008, 75).

If the Americans also wanted to prevent Hugo Chávez from turning into a victim, or a second Fidel Castro, according to Bandeira (2003), the Clinton administration preferred to avoid political and economic costs at the national and regional levels, and took the attitude of wait and see. However, in the following years, the events that the report wanted to avoid took place: Ecuador and Bolivia elected progressive governments, Mercosur was recovered as an important part of regional integration and two new important blocks were created the Union of South American Nations (UNASUR) and the South American Regional Integration Infrastructure Initiative (IIRSA).

Even with the end of bipolarity in the 1990s and the influence of China and Russia on the international stage, the United States continued to play a leading role in international relations. For Pecequillo (2012), neither the United States declined enough to make way for a new hegemony, nor did the new powers amount to take their place. The type of order that was built generated a peculiar political and economic interdependence, mutual vulnerability situations and a contradictory sharing of US interests with their challengers.

The presence of the Chinese and of their investments was also taking place fast. China's presence in Latin America has been gaining momentum in recent years, with investments averaging about \$ 10 billion a year in several countries, with a significant presence in many sectors and industries, particularly in oil, mining and infrastructure. ECLAC (CEPAL) data indicate that

China already is the second main destination of imports from the region and the third main destiny of its exports. Between 2000 and 2014, its share on regional exports raised from 1 to 9% (in 2013 it reached 10%), and at the same time its share on imports grew for a little over 2% to 16%. Due to this, in 2014, China and the European Union (EU), almost had the same share in the trade of goods with Latin America and the Caribbean and the world (12,4% and 12,5%, respectively). Even though still is the second main market for regional exports, only behind the US, since 2010 China has surpassed it as the second main source of imports, also behind this nation (CEPAL 2015, 37).

China's and Latin America approach was silent, fast and cautious since it is the US sphere of influence (Visentini 2014). Probably the United States monitor this approach with concern.

The strategies of the United States in the last two decades are grouped into three main areas that would be the Engagement & Enlargement (1994), the Preventive Doctrine (2002) and the Obama Doctrine (2010) (Pecequillo 2012). For Latin America, the US stance was defined at the Enterprise for the Americas Initiative (IA), launched by President Bush in 1990, that proposed the creation of a hemispheric free trade zone; the Free Trade Agreement of North America (NAFTA) between the United States, Canada and Mexico entered into force in 1994; and the Free Trade Area of the Americas (FTAA) started its talks at the same year, without success. However, these initiatives, after completing more than two decades, were not expanded (Visentini 2011).

The use of force, support for coups and falls of governments are part of US strategies that remain, to a lesser extent and intensity. Complaints against these practices are even made by US own agencies. The National Endowment for Democracy (NED) publicly denounced what the CIA had quietly done for decades (Gaudichaud 2015). Sometimes, there are official documents that become public, through the WikiLeaks platform, such as the ones showing the financing of the Venezuelan opposition by the United States since the beginning of Hugo Chavez government in 1998 (Johnston 2014). Experts in the field analyze the US involvement in the region and conclude that the main US leaders took prior knowledge of the events. This was the case of the Director of Central Intelligence George Tenet and George W. Bush Secretary of State, Colin Powell, who were aware of the preparations to overthrow President Chavez in 2002 (Bandeira, 2014).

From the point of view of the security agenda, the United States considers that Latin America faces no immediate major risks in terms of the expansion of terrorism and the threat of armed conflicts (Ayerbe 2008). This American perception does not mean, however, the withdrawal from the military bases in the region. Maintaining US military presence has been, for at least two decades, justified by the fight against drugs. This reasoning allowed the US to implement one of the largest financial aid programs to a single country, the controversial Plan Colombia. The United States maintains active military operations in the Latin American continent, which is currently directed by the US Southern Command of the US Defense Department to operationalize the political and strategic decisions for Latin America and the Caribbean<sup>11</sup>. The Southern Command operates in two main areas: the South-

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11 It is a Combined Command composed of Army elements, Navy, Air Force and Marines, in addition to representatives of the State Department, the Drug Enforcement Administration (DEA), the Defense Intelligence Agency (DIA), the National Security Agency (NSA), Coast Guard and Customs, with an approximate total of 850 men and women of the three armed forces and 130 civilians.

ern Cone with the objective of “preparing the armed forces for peacekeeping, democratization, professionalization of the armed forces and strengthening national security”; and the Andean Arch, in order to “fight against drugs, democratization, the professionalization of the armed forces and the combat of transnational threats.” (Abreu 2002, 14).

Nowadays, there are two “Forward Operating Locations (Forward Operating Locations - FOL)” under the Southern Command: Rainha Beatrix / Hato (Aruba / Curacao) and Comalapa (El Salvador). There was a third base, located in Manta (Ecuador), but it has been disabled due to the refusal of President Rafael Correa to renew the lease, creating another point of friction with the United States as signaled earlier. The alternative to the United States was to negotiate with Colombia and Chile. If Manta was still in the US control, it would have meant the presence and monitoring of airspace in Latin America and the Caribbean, including part of Brazil, especially the Amazon region, from these three bases (Abreu 2002).

From the point of view of ideological campaigns by the United States, the export of democracy and its liberal values has been one of the major US foreign policy agendas for the world and, consequently, for Latin America (Castro 2014). Based on this speech, the United States find themselves in the right to interfere and comment on the domestic politics of countries. An example was the recent election for the Venezuelan Congress discussed above. Immediately after the proclamation of the victory of the opposition against Maduro, John Kerry, the Secretary of State himself, expressed the satisfaction of his country with the result. In his words,

Venezuelan voters expressed their overwhelming desire for a change in the direction of their country. Dialogue Among all parties in Venezuela is Necessary to address the social and economic challenges facing the country, and the United States stands ready to support such a dialogue together with others in the international community (Kerry 2015).

As stated by Villa (2003), after the Cold War, the United States started to punish countries that adopted the principles of international governance similar to the ones of socialist countries, but that were enduring several difficulties to implement them. Therefore, US pattern of action of referring to interferences in other regions and countries justified by the rhetoric of “defending the oppressed peoples”, “promoting democracy”, “remove dictatorships” and “guaranteeing individual freedoms” remains (Santos e Teixeira 2015, Castro 2014).

## Conclusion

The uniqueness of Chavez / Maduro, Rafael Correa and Evo Morales governments presents a historical significance for international politics, due to their focus on external relations focused on regional integration, the recovery of the control of the exploration of mineral and energy resources (some among the largest world), the approach with China and Russia. The United States, previously hegemonic, lost political spaces and are questioned about the attempts to interfere in the internal affairs of these countries.

These new strategies implemented by the three Andean countries are a result of domestic, and also historical, decisions in these societies, particularly Ecuador and Bolivia. From extremely poor countries with illiterate populations and no welfare state they transformed itself in nations that promoted a significant eradication of illiteracy, reduced social inequality and recognized the rights of ethnic minorities. Opposed to the rhetoric of repression of the opposition in these countries, these sectors have always been active, and participated and were being defeated in electoral elections. At the same time, they were organizing and sponsoring protests and attempted coups of State.

Sixteen years later, the three governments remain in power after several elections. In the last two years, however, they are showing signs of weaknesses in internal politics, opening the space for the questioning of the future of foreign policy if they were to leave the government. The first conclusion is the possible reversal of a sovereign foreign policy that these governments have adopted, particularly in relation to the United States. These varied oppositions represent closer interests with the US, harmed by economic policies. Constitutional mechanisms, created and approved by society, such as the Plurinational law, however, may be an obstacle to the return of those prior political conditions.

Another conclusion of this article is the importance of the ideological issue as a category of action, for projects and for the judging of the several diverse government projects and foreign policy adopted. The relationship with the United States, the nationalization of mineral resources and the option of integration and South-South cooperation without the usual pragmatism can be explained by the ideological dimension. This issue, however, deserves further research in relation to the left-right continuum for the understanding of the adopted projects. The political culture and the ideological question of each country matter to the understanding of international politics and external relations of a region. These are not mere relations amongst national States, but they represent interests that are articulated in the national and international level. The national policy of the last two decades in Venezuela, Ecuador and

Bolivia constitute an example of how domestic decisions affect the international scene and define the foreign policy to be adopted. They represent a reality full of examples regarding on how the ideological struggle is still a decisive factor in the understanding of the international political movements. In some extent, the actual multipolarity in international relations is the result of these countries internal decisions.

Last but not least, one can notice the narrow interdependence of the political stability amongst these Andean countries. Gradually, it becomes clearer that decisions or events that change the direction of domestic policy (and external) of a given country in the region will lead to reactions in the others. An emblematic example was the protest journey of 2015 in Ecuador. Unlike previous ones that were equally strong and organized, the latter had consequences in destabilizing the Correa government. The explanation for the change is not only related to an expected internal wear of a government that is re-elected, but also to the unfavorable situation that the neighboring governments of Maduro in Venezuela and Morales in Bolivia, were facing at the time.

Finally, this analysis reinforces the need to comprehensively understand the functioning of the political culture of nations and its relation to foreign issues. Both the United States and the Andean societies have values and beliefs which are expressed in support guidelines and motivations for political action. To deal with these dimensions altogether is not simple, but it can be useful for understanding the relevance of issues such as democracy, participation, freedom, nationalism, autonomy, solidarity, independence in each of these societies. These dimensions help to understand the level of involvement and understanding of the society in the definitions of the foreign policies of their countries. Public opinion is an important part in the outcome of the national and foreign policy decisions, given their interdependence. Indeed, the governments with the leftist stances that were analyzed here and the frictions and conflicts with US interests may involve a detachment of the national community with the United States. In this sense, this understanding supported the analysis of the recent crisis in Venezuela, Ecuador and Bolivia and its effects on the foreign policy and on the international politics of each and the region.

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#### **ABSTRACT**

The article deals with the recent foreign policy of the Andean countries, Venezuela, Ecuador and Bolivia, considering the relationship with the United States and the situation of political crises in these countries. We discuss the national context of each country and the consequences for external relations and international politics of each and of the region. We address United States interests in the effects of the current crisis in the three countries and highlight the importance of political culture for understanding reality.

#### **KEYWORDS**

Foreign Policy; Andean Countries; United States.

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# BRAZIL AND THE REGIONAL LEADERSHIP VACUUM: THE CHINESE-AMERICAN ADVANCE (2011/2016)

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## Introduction

From 2003 to 2010, Brazil's international relations had a high-profile action, from the combination of the North-South and South-South cooperation axes, with an emphasis on the second dimension. This emphasis was synthesized in a dynamic of systematic projection of initiatives at the regional and global level, from an agenda focused on issues such as development, social projects, reducing asymmetries and reform of multilateral institutions, readjusting to the new balance of world power in formation.

The built of alliances of variable geometry with emerging nations, the recovery of a stronger presence in Africa, Asia and the Middle East, larger political and economic investment in less developed countries and a vindictory posture in key international forums, composed the agenda of the "active and proud" diplomacy (Amorim 2015) of Ambassador Celso Amorim, then Minister of Foreign Affairs of Luis Inacio Lula da Silva government.

In South America, the reconfiguration meant the continuity of existing integration projects such as the Common Market of the South (MERCOSUR) and the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA) and the launch of new structures: in 2007, the Union of South American Nations (UNASUR) and, in 2010, the Community of Lat-

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in American and Caribbean States (CELAC). The aim was to strengthen the region as a platform for global insertion, through the creation of interregional negotiating mechanisms such as the Summit of South American-Arab Countries (ASPA) and the Africa-South America Summit (ASA) and partnerships with southern (China and the China-CELAC Forum) and northern nations (the European Union, Japan).

The search for alternatives to the relations with the United States and the reduction of political and economic vulnerability facing the hegemon were the background. US regional retreat favored this retreat (Pecequillo 2013), resulting from the American presence in Eurasia in the context of the Global War on Terror (GWT) that started in 2001, after the attacks of September 11 in the mainland, and the operations in Afghanistan (2001/2014) and in Iraq (2003/2011). Both for Brazil and for other emerging countries, this was a period of expansion, with the resizing of their regional and global partnerships and interests, taking advantage of the US vacuum and the potential of these nations, strengthening the process of power decentralization in progress (Visentini 2013).

However, from 2011 onwards, in the Brazilian case, the replacement of such high profile agenda for a low profile one, due to the change of Lula's government to Dilma Rousseff's (2011/2016), brought a turning point to these projects. In South America, the absence of Brazilian leadership reflects in an increase in the presence of China and a counter reaction from United States.

To analyze this context, this article is divided into three parts: an analysis of the Brazilian foreign policy and agenda in South America, the projection of China and of the US in this geopolitical and geostrategic space. The aim is, therefore, to present an overview of this strategic moment, as well as some prospects of this triangulation.

## **Brazil and South America: Advancement and Regression**

The contemporary trajectory of integration for Brazil has three key stages: the South Americanization of foreign policy in the 1970s, the creation of MERCOSUR in the 1990s and the launch of IIRSA in 2000. All these steps make up the process of valorization of South America as a platform for international projection, which culminates in post-2003 initiatives, with the rise of the Lula administration.

Such statement does not mean that before these steps there had not been regional proposals from Brazil to South America or previous integra-

tion agendas, given the case of the Pan American Operation of Juscelino Kubitschek (1958), the Latin American Association (ALAC) of 1960 or the Latin American Integration Association (ALADI) in the 1980s. However, it indicates that the strategic, political and economic investments in these early opportunities by Brazil and partners were not deepened or continued long enough to change the profile of their intra-regional relationship. In contrast, in the 21<sup>st</sup> century there was a relative greater consistency of the arrangements, which suffer, however, a setback in the post-2011 period.

Briefly mentioning these three steps, the South Americanization of foreign policy corresponds to the foreign policy agenda of the military regime (1964/1985) to strengthen the regional base of Brazil through a reduction of conflicts. The goal was to minimize the level of insecurity in Brazilian borders, particularly in the Southern Cone, lowering the costs of relations with countries such as Argentina, traditionally seen as a threat source. Another dimension was the northern border, due to threats to national sovereignty represented by the low political-economic-social occupation and the growing importance of environmental issues that opposed the Amazonian countries to developed nations in the dispute between conservatism and sustainable development. The unity of this region and its growth and occupation were perceived as critical to prevent the interference of external powers.

The second stage corresponds to a moment of transformation of these internal and external conditions that lead to the economic crisis (the lost decade), to the uncertainties of re-democratization and the “heating” of bipolarity, promoted by the United States under Ronald Reagan (1981/1988) which culminates with the end of the Cold War in 1989. What is observed is a closing of global spaces and a greater relevance of regional dynamics. The bilateral rapprochement with Argentina corresponds to the first phase of this agenda, which is then followed by the creation of MERCOSUR in the 1990s, with the accession of Paraguay and Uruguay.

The 1990s were paradoxical for integration processes, by bringing alignment dimensions and autonomy associated with their consolidation. At first, the alignment was predominantly due to the end of bipolarity and the resumption of a hemispheric offensive by the United States. Both Brazil and Latin America were faced with the continuing loss of international spaces and the economic crisis. To both were added pressures for joining the political and economic neoliberalism.

Neoliberalism, synthesized in the Washington Consensus, had a strong interdependence with the US hemispheric offensive that would apparently break this loss of relevance. However, the only thing that could be observed was the presentation of an agenda of conditionalities and promis-

es associated with such offensive. Notwithstanding, this has resulted on an alignment on the side of Brazil and other Latin American countries.

The American project was composed by three pillars: first, the aforementioned Washington Consensus, organized around the priorities of reducing the role of the state, trade liberalization, deregulation and privatization, cuts in social expenditures, flexible exchange rates; second, the regional integration, especially the proposal for the establishment of a Free Trade Hemispheric (Enterprise for the Americas Initiative) and the North American Free Trade Agreement of United States, Canada and Mexico (NAFTA) and a shared security vision, with an emphasis on the demilitarization of the region, the collective and transnational agenda for dealing with issues such as the environment, human rights, drug trafficking and immigration, good governance and democracy.

At that moment, it was even announced the end of the Monroe Doctrine, and the beginning of an era of unprecedented hemispheric cooperation between the United States and its neighbors. The slogan “trade, not aid” became a symbol of these new times and of the US re-engagement in its zone of influence. However, the image of renewal contrasted with a reality of continuity: there were no reforms in the inter-American system, held in the Inter-American Treaty of Reciprocal Assistance (Tiar 1947) or in the Organization of American States (OAS, 1948) and the economic embargo to Cuba was maintained, as well as the rupture of diplomatic relations.

Despite its autonomist content, in this context MERCOSUR was presented by the newly elected governments of Fernando Collor de Mello (1992/1994) and Carlos Menem (1989/1999) as a complement to the Enterprise of the Americas Initiative. The disruption of Collor’s term would lead to the relativization of the alignments in the case of Brazil, and bring a greater focus on South American integration as a strategic goal, which would continue through the administrations of Itamar Franco (1992/1994) and Fernando Henrique Cardoso (1995/ 2002). Itamar even proposed the creation of the South American Free Trade Area (SAFTA) in 1994, as an opposition to the resumption of the US initiative, the Free Trade Area of the Americas (FTAA).

The mark of Cardoso’s foreign policy was its ambiguity. Initially, it gave priority to “autonomy through integration” with greater approximation to the United States, the resumption of the Washington Consensus and the deepening of North-South relations. This prioritization, however, did not mean the abandonment of MERCOSUR or concessions to the United States in the FTAA negotiations, which yielded FHC numerous criticisms by pro-American sectors. Due to this resistance (and others from multilateral arenas such as the WTO) the failure of FTAA was attributed to Brazil, when in reality the



process was mutually deflated.

The US offensives are cyclical, they only occur when there is a perceived threat to the country's regional interests or opportunities to be pursued, and this was the case in 1989/1990, when the first proposals were presented. Although there was a discussion about the emergence of unipolarity, for the United States the reality was different: one of relative decline amid growing multipolarity brought by the rise of the Europe-Asia axis, with the expansion of the European Union and Japan (and later China) and the need to secure a reserve market for declining US exports. The United States only sought, without great efforts or investments, to preserve their area of influence, disengaging with the reduction of intra- and extra-regional threats and the emergence of other more relevant scenarios (traditionally focused on Eurasia). This phenomenon serves as a background for the 21<sup>st</sup> century and the crisis in Latin America, as well as for the US power vacuum that increased in this period.

The third stage of integration was inaugurated, initiated by the launch of IIRSA in 2000, in the government of FHC. IIRSA represents the prevalence of autonomy in the South American agendas and the concern for the resumption of the development cycle. This recovery was perceived as essential for countries to overcome the crisis caused by neo-liberalism and the alignment of policy options to the United States. The qualitative leap was represented by the priority of the infrastructure sector to leverage growth dynamics, reactivating the economies and benefiting of their comparative advantages and complementarities.

It can be said that IIRSA was the first opportunity in which the South American countries were able to elaborate a systemic perception of their regional space, identifying vulnerabilities, risk areas and opportunities. More than a pro-unity speech to strengthen the region, IIRSA was the pragmatic and realistic side of that strengthening, with the development of specific projects and the establishment of means to finance them (such as the resources of the National Development Bank, the Inter-American Development Bank and FONPLATA).

This is a time in which prevails a US distancing and significant power vacuum, contrasting with the offensive of the early 1990s. This favors the development of autonomous proposals, in which the United States did not find themselves inserted: they are indigenous agendas that focus on the interests and improvement of South American conditions.

This autonomy does not derive only from IIRSA, but also from the emergence of the "Socialism of the XXI Century" of Hugo Chavez in Venezuela. Such distancing in 2000 results from the presidential elections in the United States, and the Clinton administration's reaction is the implementa-

tion of the Andean Initiative Against Drugs (Plan Colombia) as part of a process of militarization of South America and strategic repositioning. In 2001, this position is derived from the 09/11 attacks, the GWT and subsequent military operations (and as part of the GWT frame, South America was a focus of concern at the triple border Brazil, Argentina and Paraguay).

Although in 2000, the Republican candidate George W. Bush, later president-elect, said that his administration would bring a “Century of the Americas” with an emphasis on cooperation, hemispheric proposals, such as the FTAA, were placed in the background. The militarist unilateral profile of W. Bush put in check multilateralism in general, particularly the economic and opened space for other nations to exert influence in this field.

In the Americas, until 2007 the actions were restricted to timid attempts and of low engagement cost such as the Free Trade Agreements (FTAs) with countries of lower relative weight in the region with whom Americans already had strong interdependence such as Chile, Peru, Colombia and Panama. Chronologically, these FTAs came into force in 2004, 2009, 2011 and 2012, and were accompanied by further negotiations with the countries of Central America. This negotiation resulted in 2007 in the creation of CAFTA (Central America-USA Free Trade Agreement). For Brazil, the Strategic Dialogue was established in 2005, solidifying the existing structures, but without major political-economic progress (the most important was to recognize the power of Brazil as a regional and global power). In 2007/2008 the global economic crisis, with a focus in the United States and the European Union, has given continuity to this detachment process.

There was, therefore, room for growth and expansion of IIRSA. IIRSA was composed by the Integration and Development Axes (EID) and the Sectoral Integration Projects (PSI). In terms of EIDs, ten were presented: Andean Axis, Southern Andean Axis, Capricorn Axis, Paraguay-Paraná Waterway Axis, Amazon Axis, Guyanese Shield Axis, Southern Axis, Central Inter-oceanic Axis, MERCOSUR-Chile Axis and Peru-Brazil-Bolivia Axis. In turn, the PSI were: Instruments for the Financing of Projects of Physical Regional Integration, Energy Integration, Border Exchange Facilitation, Information and Communications Technologies, Air Transportation Operational Systems, Maritime Transportation Operational Systems and Multimodal Transportation Operational Systems.

The entrance of the 21<sup>st</sup> century and the rise of the new government of Lula maintained that momentum, and the consolidation of a strategic and political vision associated with IIRSA. In 2004, the proposal of the South American Community of Nations (CASA) represented this action, adding to a South-South Cooperation discourse and international projection of the re-

gion. The creation of the ASPA and ASA Summits, already mentioned, is part of this process, as well as of a resumption of the globalist vision. This view retrieves the Third Worldism and expands the alliances of variable geometry such as the IBSA (India, Brazil, South Africa) and the BRICS (Brazil, Russia, India, China and South Africa). The resumption of policies in the Middle East, Africa and Asia, focusing on bilateral relations with China, makes up this agenda.

These initiatives open alternatives, and elevate the importance of South America as a geo-political and geo-economic space, but also of its surroundings such as the South Atlantic (the “Blue Amazon”). Strategically, the Blue Amazon is a relevant passage area between the Americas, Africa and Asia, as a region rich in energy resources such as oil (in particular the pre-salt and gas).

Regarding IIRSA, from 2005, with the Implementation Consensus Based on Consensus (AIC), the first projects began to leave the paper, with some having already been completed, as can be seen in the table below:

Table 1- AIC<sup>3</sup>

No	Projects	Axis	Millions of US\$	Countries	Situation
1	Duplication of the Highway 14 between Paso de los Libres and Gualeguaychú	MERCOSUR-Chile	780,0	AR (BR)	Concluded
2	Adequacy of the Rio Branco-Montevideú-Colônia-Nueva Palmira Corridor	MERCOSUR-Chile	234,0	UR (AR-BR)	Concluded
3	Construction of the Jaguarão-Rio Branco International Bridge	MERCOSUR-Chile	35,0	BR-UR	Pre Execution
4	Duplication of the extension Palhoça-Osório (Mercosur Highway)	MERCOSUR-Chile	700,0	BR (AR-UR)	Under Execution
5	Railway Project Los Andes-Mendoza (Central Trans-Andean Railroad)	MERCOSUR-Chile	5.1000,0	AR-CH	Pre Execution
6	60-CH International Highway (Valparaíso-Andes Sector)	MERCOSUR-Chile	286,0	CH (AR)	Concluded
7	Northeast Argentine Gas Pipeline	MERCOSUR-Chile	1.000,00	AR (BO)	Under Execution
8	Construction of the Salvador Mazza-Yacuiba Binational Bridge and Border Center	Capricorn	23,0	AR-BO	Pre Execution

<sup>3</sup> Elaborated through the official IIRSA documents, Agenda of Priority Integration Projects, of 2011 to 2013.

9	New Presidente Franco-Porto Meira bridge, with a Paraguay-Brazil Border Center	Capricorn	80,0	PA-BR	Pre Execution
10	Construction of the Pailón-San José-Porto Suarez Highway	Central Interoceanic	477,0	BO (BR-CH)	Concluded
11	São Paulo Railway ring (North-South and South extension)	Central Interoceanic	850,0	BR	Pre Execution
12	Customhouse Infante Rivarola-Canãda-Oruro	Central Interoceanic	2,0	BO-PA	Concluded
13	Construction of the Canãda Oruro-Villamontes-Tarija-Estación Albaroa Highway (1st phase)	Central Interoceanic	49,0	BO (PA)	Concluded
14	Toledo-Pisiga Highway	Central Interoceanic	95,0	BO (CH)	Concluded
15	Paving and Improvement of the Iquique-Colchane highway	Central Interoceanic	42,0	CH (BO)	Concluded
16	Recovery of the El Siliar extension	Central Interoceanic	120,0	BO (CH-PE)	Concluded
17	Binational Center for Border Service Desaguadero	Andean	7,5	BO-VE	Pre Execution
18	Customhouse Cúcuta-San Antonio Del Táchira	Andino	2,0	CO-VE	Profile Studies
19	Meta River navigability recovery	Andino	108,0	CO-VE	Under Execution
20	Road Corridor Tumaco-Pasto-Mocoa-Puerto-Asis	Amazonas	373,0	CO	Under Execution
21	Highway Paita-Tarapoto-Yurimaguas, Shipping and Logistics Centers	Amazonas	681,2	PE (BR)	Under Execution
22	Highway Lima-Tingo Maria-Pucallpa, Shipping and Logistics Centers	Amazonas	1.351,3	PE (BR)	Under Execution
23	Francisco de Orellana Port	Amazonas	105,3	EQ	Pre Execution
24	Paving of Iñapari-Porto Maldonado-Inambari, Inambari-Juliacá/Inambari-Cusco Highway	Peru-Brasil-Bolivia	1.384,0	PE (BR)	Concluded
25	Acre River Bridge	Peru-Brasil-Bolivia	12,0	BR-PE	Concluded
26	Boa Vista-Bonfim-Lethem-Georgetown Highway	Guyanese Shield	3,3	GU-BR	Concluded
27	Takutu River Bridge	Guyanese Shield	10,0	GU-BR	Concluded
28	Venezuela (Cidade Guiana)-Guiana (Georgetown)-Suriname (Paramaribo) Highway	Guyanese Shield	0,8	VE-GU-SU	Profile Studies

29	Improvements in the Nieuw Nickerire-Paramaribo-Albina Road and International Crossing over Marowijne River	Guyanese Shield	105,0	SU-GU	Under Execution
30	Exports through postal consignments to PMEs	TICs	5,0	Regional	Under Execution
31	Implementation of the Roaming Agreement in South America	TICs	1,3	Regional	Concluded
<b>Total</b>					<b>14.023,0</b>

In 2007, this resulted in the renaming of the CASA as UNASUR, and the introduction of new arrangements such as CELAC, created in 2010. Among the UNASUR projects, the establishment of the South American Defense Council (CDS) stands out. The CDS and CELAC initiatives represent the consolidation of new autonomy and leadership efforts.

The CDS, and a concern for the development of a strategic thinking to South America, both reflect the resumption of the regional concern over issues that had remained at second plan in the immediate post-Cold War period: the autonomy in the field of security and defense, investment in these sectors, the preservation of sovereignty and non-interference. This initiative offers a counterpoint to US actions in the sector, which oscillate between demanding a minimalist posture of local nations and increasing their physical presence in the region, either justified by the war on drugs, or by threats of transnational terrorism.

The CELAC is in an integration project that expanded Brazilian projection in a traditional area of US interest, Central America and the Caribbean (always seen as the “American backyard”). In addition to the construction of this regional framework, in 2010, Brazil was also involved in the crisis of the political system of Honduras, criticizing the deposition of the elected governor Manuel Zelaya, to whom the country granted asylum. Additionally, the country expanded its actions in Cuba, adding to the traditional political support more concrete measures such as the construction of the Port of Mariel, opened in 2015. This port is an important logistical connection among the Americas and the Pacific regions, North America and European Union and the South Atlantic. Also, the CELAC became, from 2014, a support for the China-CELAC forum.

What can be perceived is that, until 2010, there was a growing progress in South American actions, and an atmosphere of optimism in the future of the region, overcoming its marginalization and crisis in the post-Cold War. The growing presence of China helped the local economic growth through the export of agricultural commodities, energy and minerals, while

the United States remained distant and went through a gradual loss of influence.

From 2011, the relative change of vector of Brazil's foreign policy with the administration of Dilma Rousseff began a period of regress and power vacuum in this South American presence. In rhetorical terms, even due to the continuity of a Workers' Party administration, which capitalized on the successes of the Lula Era, the expectation was that the projects would be maintained. Both in rhetoric and in practice this seemed to be the case in 2011, when there was even a perception of strengthening of UNASUR and the incorporation of IIRSA, with the creation of the South American Council of Infrastructure and Planning (COSIPLAN).

However, what prevailed was an emptying of Brazil's international relations, regionally and globally. How was this emptying and change of vector made of? What are the results of this retreat?

In contrast to the period 2003/2010, the first term of Dilma Rousseff was characterized by a low-profile performance. This performance was composed by a minor exercise of presidential diplomacy by Rousseff, both in regional and global forums, an attempt to reduce criticism and to approach the US to contemplate the pressure of internal opposition. Some events that epitomize this dynamic were the visit, already in March 2011, of President Obama to Brazil, and the expansion of the Strategic Dialogue, and the increasing focus on the European Union-Mercosur negotiations.

It should also be noted that this visit also occurs in the context of continued loss of US space in Latin America to China. In 2010, China became, in the case of Brazil, the largest individual partner of the country, surpassing the United States, seen in Table 2:

**Table 2 - The Commercial Exchange: Brazil, USA and China (US\$ FOB)**

Year	Exports	Imports	Final balance
2003	16.728.079.047 (22,85%)	9.569.454.702 (19,80%)	7.158.624.345
	4.533.363.162 (6,19%)	2.147.801.000 (4,44%)	2.385.562.162
2006	24.524.748.523 (17,80%)	14.657.479.678 (16,05%)	9.867.268.845
	8.402.368.827 (6,10%)	7.990.448.434 (8,75%)	411.920.393

2010	19.307.295.562 (9,56%)	27.044.361.398 (14,88%)	- 7.737.065.836
	30.785.906.442 (15,25%)	25.995.419.005 (14,08%)	5.190.487.437
2014	27.027.771.514 (12,01%)	35.018.330.949 (15,28%)	- 7.990.559.435
	40.616,107.929 (18,04%)	37.344.985.579 (16,30%)	3.271.122.350
2015	24.079.945.544 (12,60%)	26.471.345.593 (15,44%)	- 2.391.400.049
	35.607.523.612 (18,63%)	30.719.405.022 (17,92%)	4.888.118.590

Obs. China's data are in italic

Source: data from MDIC (2015/2016)

This was an unprecedented event in bilateral relations and was not restricted to Brazil in the region: China gained ground in several South American countries, becoming the first, second or third trading partner, even in nations of traditional alignment with the United States like Chile that, since 2004, held an FTA with the US (as indicated in Table 3).

Table 3 - China's Commercial Expansion

Country	China as Exports Destination		China as Imports Origin	
	2000	2014	2000	2014
Argentina	6	2	4	2
Brazil	12	1	11	1
Chile	5	1	4	2
Colômbia	36	1	9	2
Venezuela	35	1	18	2

Source: data from ECLAC, 2016. Elaborated by the authors

There was, therefore, a double pressure on hegemony, coming from Brazil and China in their preferred area of influence that, in the post-2011, began to undergo some changes. The strategic triangulation Brazil-US-China seems increasingly more like a US-China bipolarity. After all, from 2011 to 2014, the South American projects evolved, but at a slow pace, and began to be affected by the reality of the political instability and economic crisis in Brazil. Regarding the economy, in fact the whole region began to feel some loss due to the decrease in the Chinese demand for commodities. Investments in COSIPLAN were significantly reduced, leading to suspension of project stud-

ies and delays in constructions in progress. In addition, regional and global Brazilian performance tended to show itself as increasingly apolitical, reducing the strategic content of international relations to commercialist actions.

Inconsistency took place on the external agenda: the rapprochement with the Americans was a priority for Dilma's administration at the beginning but, from 2013, it was replaced by conflict due to the espionage case by the US National Security Agency (NSA) denounced by Edward Snowden, followed by stagnation, even with the visit of the President to the US in 2015. Defined as "visit for work", Rousseff's travel to Washington aimed at minimizing the crisis generated by the cancellation of the "State visit" in 2013.

This situation only worsened from 2015, deepening until May 2016, in the light of corruption charges and forwarding of the impeachment process. Thus, opposing a decade of progress, there has been a series of setbacks, whose consequences, beyond the loss of space and leadership, are the increased regional instability, the emptying of integration projects, the consolidation of China's presence in South America and the deepening of US hegemonic counter reaction. Beginning even before the end of the Lula government, these movements have been intensified in the post-2011 in the Brazilian power vacuum.

## China's Action

Gilberto Freyre in some studies referred to Brazil with a rather curious term "tropical China," because in his view, as in China's case, beyond the territorial size, Brazil had "a cultural absorption power" and some Eastern cultural traits. And when analyzing the behavior of the United States, he affirmed that the country should pay further attention into South America, and particularly in relation to Brazil he said:

Especially for tropical China - Brazil - which here begins to set itself as a half power, while the other China has affirmed itself vigorously as power. Two Chinas whose presence in the modern world tends to become increasingly significant. (Freyre 2011, 201)

In the same article, originally published in 1959, he wrote

The US unpopularity in Latin America may derive largely from the fact that the "American colossus", as sometimes the Latin Americans call that nation, is, in their eyes, a great power with virtually no competitors (...). (Freyre 2011, 187)



In fact, 50 years after the publication of this text, some changes seemed to reinforce the first citation and change the scenario depicted in the second. At the end of the first decade of the 21st century, Brazil was appointed alongside China as one of the emerging powers in the international system. At the same time, it could be seen the expansion of Brazil's influence in South America and a growing Chinese economic presence, while there was a relative reflux of the United States. From 2010 to 2016, there were significant changes. The domestic economic problems eventually weakened Brazilian foreign policy for South America, while China deepened the construction of a foreign policy aimed at strengthening the economic ties with the region. And the United States began their reaction.

The main aspect of the change of China's foreign policy towards Latin America and the Caribbean was the aforementioned China-CELAC Forum. First, the creation of the Forum represented the inclusion of the region in the foreign policy and cooperation model established with Africa through the China-Africa Forum in 2000. Second, it makes China's relations with the region leave the mainly commercial sphere to gain a more political and strategic character to the extent that the projects to be financed by the Chinese are in line with China's economy supply needs. Just as in Africa, China does not impose conditionalities of political order in the agreements, but evidently the projects revolve around actions that reinforce the linkages of the economies in the region with China, which ultimately results in significant political and strategic consequences .

As already seen, at the time of creation of the Forum, China was either the main or second largest trading partner of most South American countries. Economic growth, which favored most governments in the region since the early 2000s, was basically due to the growing Chinese demand for commodities, which allowed the increase of both export volumes and prices, creating a favorable environment regarding the terms of trade. In 2003, China accounted for 5.4% of world imports and in 2014, 10.5%, while the United States reduced their share in the same period from 16.9% to 12.9% (WTO 2015a). The role of exporters of primary products that characterized the countries of the region was strengthened by China's attractiveness. Even Brazil, the most industrially developed country in South America, suffered the effects of the both the process of primarization of exports and of the deindustrialization resulting from the difficulties to compete with Chinese industrial production considering the smaller structural competitiveness of industrial companies located in Brazil and, circumstantially, from the appreciation of the real exchange rates which aggravated the situation.

The contradictory consequences of commercial integration with China were only seen later, when its effects were already quite pronounced. Initially, only the favorable political and commercial aspects were noted, less dependence on the US market and a sharp increase in the volume of exports. Even Chile and Peru, countries with free trade agreements with the United States, found in China a more promising economic partner. Of the largest countries in Latin America, only Mexico was not much affected by China's rise in 2014, only 1.5% of Mexican exports went to China, while 80% went to the United States (WTO 2015b).

China's rise has also affected the cohesion of the South American integration project. Given the difficulties of Brazil to lead this process and offer development alternatives, the attractiveness of economic ties with the Asia-Pacific increased, especially for Chile, Peru, members of APEC (Asia-Pacific Economic Cooperation) since 1994 and 1998 respectively, and Colombia, candidate for membership in APEC since the 1990s. The three, along with Mexico, in APEC since 1993, created the Pacific Alliance. Former Peruvian president, Alan García, one of the drivers of the process, wrote:

We can coexist with China in a constructive and productive manner, building greater trade and productive joint blocs. The Pacific Alliance, that integrates Peru, Chile and Mexico should facilitate and boost its shared services and investments, its exports linked to their value chains and the seasonal complementation of its agroindustry, leaning towards the most significant blocs of buyers, mainly with China. (García 2013, 180)

Alan García's analysis highlights two important aspects for the region, one already treated, the obvious rise of China, and, on the other hand, the most important aspect, the need for joint policies among countries in the region to respond to this rise. Strengthening integration could be a strategy to build an association with China that would at the same time leverage export growth while promoting development. However, the Pacific Alliance will hardly play this role, considering the structure of the Mexican economy, the strongest link of the block is with the United States. A successful strategy in this sense would go through the leadership of Brazil, and should be built by UNASUR. But in no time the region has been close to a consensus on a coordinated development strategy for the relationship with both China and the United States.

The creation of the China-CELAC Forum reflects China's ability to guide the form and agenda of relations with the region, and thus a relative weakening of Brazil. Within the BRICS, Brazil is, in theory, between equals, it is a type of non-hierarchical institutional arrangement. Multilateralism in

the Chinese manner present in the Forum places the countries of the region and, therefore, also Brazil, in a relatively inferior position to China: it is a kind of relationship in which one party, Latin America and the Caribbean, makes demands for help and the other party, China, occupies the position of aid provider. Although there is no conditionalities as traditionally made by Western powers or the World Bank and the Chinese discourse emphasizes the horizontal logic of South-South cooperation, the relationship does not cease to be hierarchical. The allocation of resources by China highlights the inequalities in political and economic power. For example, the conference of Chinese Premier Li Keqiang in ECLAC in 2015:

Specifically, we propose to explore the “3X3” cooperation model that is based on three joint paths: logistics, energy and computing; a virtuous interaction between companies, society and the government and the increase of financing channels, such as investment funds, credits and insurance. In order to promote the increase on the aggregated value of Latin America and the Caribbean export itens our government is stimulating Chinese enterprise to invest in the region and to cooperate with its countries to fully process energy, mining and agricultural products, as well as the fabrication of machinery and construction materials, iron and steel industry, and chemical and food ones. Together, we can explore the possibility to establish special economic zones, industrial areas, and also promote talks to facilitate trade and investment, among other issues pertaining free trade agreements. At the Summit, I also announced the creation of a special industrial cooperation fund amongst China and the region, and our country will contribute with 30.000 million dollars in order to support the concrete materialization of our cooperation in the matters of productive capacity and investments. (Li 2016, 26-27)

Within the Forum, there are also actions carried out aimed at increasing the social and cultural connections between the region and China, with the China-Latin America and the Caribbean Business Summit, the Forum of Interchange between China-Latin America and the Caribbean Think Tanks, the China-CELAC Political Parties Forum and the Forum of Friendship between Civil Societies of China-Latin America and the Caribbean. This part of the soft power may be the aspect in which China will find it more difficult to expand its influence in the region, given the cultural and social dominance of the United States, often reproduced and expanded without any direct state control.

By analyzing the challenges posed by the rise of China for Latin America and the Caribbean at a time of slowing Chinese economy, ECLAC (Li 2016, 19) argues that “building a partnership for development between

China and America Latin would be beneficial for both parties, but it requires a global governance". And in this respect another deficiency of Latin-American States appears, the low state capacity to define policies and properly implement them, which ultimately extends the power of China itself to set priorities in terms of policies and necessary works to the deepening of relations with Latin America. And this aspect challenges the output proposed by ECLAC, to change the nature of the ties with the Chinese economy to reduce dependence on exports of primary products. The emergence of this bond depended more on systemic factors engendered by the Chinese growth and the Chinese government's policies than on the result of policies adopted by Latin American countries. Some did not have the option of exporting other types of products, and countries which had such an option, such as Brazil and Argentina, have not been able to formulate policies to address the results generated by China's dynamic and the global market.

Even though China reiterates insistently that it is in a peaceful process of development, its growth has already caused systemic results with the redistribution of power in the economic sphere. And, in the political aspect, the approach to Latin America seems to consolidate a departure from the principle of Deng Xiaoping, *tao guang yan hui* (TGYH), "We will only become a great political power if we keep our low profile (TGYH) and work hard for a few years, than we will have greater weight in international affairs (Deng Xiaoping apud Chen and Wang 2011, 197). Today, there is no question about the Chinese political and economic presence in Latin America, a region traditionally under the United States influence. Therefore, China's performance does not go unnoticed. Still without a military expression, it is undeniable the Chinese willingness to participate in a geopolitical and geoeconomic competition for Latin America and the Caribbean.

## The US Reaction

As discussed, the US presence in Latin America, particularly in South America, was characterized by two distinct periods after the end of the Cold War: the offensive of the 1990s and the distancing of the first decade of this century. This detachment allowed an expansion of initiatives by Brazil, South America and the increasing presence of China, strengthening the dynamics of intra and extra-regional partnerships based on South-South Cooperation.

Given this context, which is not restricted to South America, but extends to the entire international system, synthesized on the idea of multipolarity and deconcentration of power, represented by the rise of emerging econ-

omies, the United States invested in a process of hegemonic counter reaction. Initially, a process focused on the strategic pillars and that later extends to a political-economic dynamic.

The first steps begin in W. Bush's administration through strategic actions, such as a focus on the militarization of hemispheric relations. This militarization adds to projects already in progress as Plan Colombia and the definition of the Triple Border as a risk area, and includes changes to the Southern Military Command (USSOUTHCOM). These changes relate to the reactivation of the Fourth Fleet in the South Atlantic since 2004, the increase of investments in the USSOUTHCOM and the creation of a new military command in 2008, with projection over the African continent and the South Atlantic (USAFRICOM). In 2008, a new war on drugs begins, the Merida Initiative, on the border with Mexico.

From 2009, these strategic proposals were continued under President Barack Obama (2009/2016). Despite its initial focus on economic recovery, democratic management intensifies the reaction in Latin America and globally against the emerging countries, despite its speech of positive engagement. Such speech was present in the National Security Strategy of 2010 (NSS 2010) when these nations, including Brazil, were defined as new centers of power.

In other rhetoric, Obama and senior government officials as the then Secretary of State Hillary Clinton criticized the projection of emerging powers and their "imperialist" pattern of South-South Cooperation. The charges are double folded: first, the dismantlement of the multilateral order from the pressures for reform of governance (advocated by Obama, but under a new standard, more gradual and less deep) and, second, the exploration of countries with smaller relative power over their resources, in an asymmetrical relationship. To this rhetoric reaction, a practical dynamic is added since 2011, conditioned by the American economic recovery that allows the country to pass from the defensive to the offensive.

Some initiatives are noteworthy. In the Americas, the United States supports the establishment of the aforementioned Pacific Alliance, an organization directed towards free trade without political-strategic aspirations of regional integration, offering a counterpoint to the processes led by Brazil. The same tactic to focus on trade-related negotiations, which pressures Brazil and China, trying to occupy spaces of action of these powers in the South Atlantic and in the Pacific, is the launch of the talks of the Trans Pacific Partnership (TPP) in 2011 and the Trans Atlantic Trade and Investment Partnership (TTIP) in 2013.

In October 2015, the TPP trade agreement came into force, composed of Australia, Brunei, Canada, Chile, United States, Japan, Malaysia, Mexico,

New Zealand, Peru and Singapore. On occasion, this initiative was defined as “the largest trade agreement in the world.” Again, it reproduces US actions to establish free trade agreements with nations with whom it has strong interdependence via FTAs already in progress or integration projects such as NAFTA. However, the TPP was not just a trade agreement, which exclude the BRICS, but also a strategic treaty whereby there (in fact) is a repositioning of troops. Such repositioning aims to pressure China, Russia and India, making a bridge with USSOUTHCOM, the USAFRICOM and the Pacific Military Command (USPACOM).

In turn, the TTIP, known as “United States-European Union Bilateral Treaty” continues its negotiations, held in secret. The transatlantic area already has strong interdependence, and aims to restrict the access of emerging markets to the north. A similar attempt was held previously during 1994-1995 for a possible TAFTA (Transatlantic Free Trade Area) but was unsuccessful. If completed, the TTIP, next to the TPP, not only brings real pressures on the South, but also on the multilateral system of the WTO negotiations.

In the regional environment, Obama did not advance any new proposition of a hemispheric free trade zone, but in December 2014, he announced a major change in the inter-American system: a resumption of diplomatic relations with Cuba, a traditional piece of Cold War politics. This recovery has both internal and external reasons: the desire to pressure the Cuban conservative interest groups and to approach the new generation of Hispanic voters, strengthening the Democratic Party in this electoral base domestically and to contain the Sino-Brazilian advances in the region externally, breaking the isolation of the United States. At the light of such resumption, the Secretary of State John Kerry also announced the new end of the Monroe Doctrine in 2014.

This resumption empties part of the criticism of the US in Latin America, at a time of Brazilian and Venezuelan leadership fall (in constant crisis since Chavez’s death). It also prepares the ground for the future US president to take over, in 2017, to continue the political, economic and strategic offensive, regardless of whether being Republican or Democrat.

In the case of the bilateral relationship, the post-2013 rapprochement culminated with the aforementioned work visit of President Dilma to the United States and some concessions, such as the opening of the market to Brazilian meat products, the establishment of the Global Entry (special visa for entrepreneurs), statements of mutual support and various memoranda of understanding (the last, on April 2016 about infrastructure). In practical terms, nothing has changed, mainly due to the Brazilian crisis and the continuity of opposition pressure for preferential bilateral relationship over the

previous globalist policy. Even China continues, in spite of these negotiations, the main individual partner country. It predominates here, too, the low profile and meanwhile the United States, as well as China, advance in the Brazilian power vacuum.

## Final Thoughts

During these early years of the 21st century, South America has become a major geopolitical and geoeconomic player given the priority of the regional integration process, especially, by Lula, Kirchner and Hugo Chavez. In this process, the Brazilian role in both regional and global levels was fundamental to generate consensus and a favorable outlook on the long-term effects of regional integration. However, since the beginning of Dilma Rousseff administration, this process ebbed. Initially, because foreign policy has ceased to be a priority in the presidential schedule, causing a decrease in the Brazilian protagonism, a low profile stance was adopted. This process was deepened over the subsequent years, to the extent that Brazil plunged into political and economic crisis. With the crisis and the prioritization of internal problems, there was an emptying of the integrationist agenda and the power of attraction of Brazil on its neighbors declined.

In this context, the Pacific Alliance gained relevance, which indicated the exact protagonism of the United States and China in the region. Due to the priority given to the issue of terrorism and the failure of the FTAA negotiations, the United States relatively distanced itself from South America, which gave opportunity at first to the Brazilian leadership and to the growing Chinese presence. With the emptying of the Brazilian leadership, China and the United States are reassuming this role. And the recent government changes because of electoral defeat or political weakening of governments increase the size of the challenge facing South America. It is still possible to work for autonomous policies based on regional integration that would enable a more sovereign relationship with both United States and China. However, if the integration projects and political conciliation attempts are abandoned, the new structural pattern of economic and political relations in South America with China and the United States tends to be consolidated, and the changes will be much more costly, and States in the region, and even Brazil, can become mere pawns in China and US' power game.

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**ABSTRACT**

The first decade of the 21st century was characterized by Brazil's action in South America. However, since 2011, there was a setback in the country's strategic, economic and political investments in integration, allowing the projection of the US and China. The aim of this article is to analyze this context.

**KEYWORDS**

Brazilian Foreign Policy; China; United States.

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# OLIGARCHICAL RESTORATION AND FULL NEOLIBERALISM RELOADED: AN ESSAY ON THE ROOTS OF THE TWIN CRISES AND THE 2016 COUP D'ETAT IN BRAZIL

Marcelo Milan<sup>1</sup>

## Introduction

Brazil experienced a short period of moderate growth of commodity production, low unemployment rates, rising real wages, and better functional income distribution from 2004 to 2011, briefly interrupted only by the global capitalist crisis in 2008-2009 (Amann and Baer 2012, Hallak Neto and Saboia 2014). This performance drew international attention to the country, which appeared, along with China, India, and other rapid growing underdeveloped economies, poised to become an important economic powerhouse in the world capitalist economy. Starting in 2012, however, the Brazilian economy has resumed a long-run trend of economic stagnation started in the 1980s, with years of moderate growth rates interspersed with periods of low growth or stagnation and recessions. This led to the adoption of neoliberal economic measures, making the situation even worse (Serrano and Summa 2015).

Regarding the political arena, the country enjoyed a somewhat longer period (for Brazilian standards) of uneasy and relative political stability since the impeachment of president Fernando Collor de Mello in 1992 (De la Fontaine and Stehnen 2016). The 1988 Constitution seemed to be a political institution anchoring social interactions and allowing for some restricted democracy, at least electoral democracy, despite the interruption of Collor de Mello's mandate being based on political vendetta by other oligarchs like him

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rather than on authentic legal issues. Yet, after the presidential elections in 2014, a dispute that gave a fourth victory in a row to the alliance formed by a clientelistic center (in the sense of Graham 1997) and a social democratic left led by the workers' party, there has been a continuous and coordinated attempt to oust the legitimate elected president and to eliminate the workers' party altogether from the political system. These efforts, successful at his first objective, has been carried out by a coalition of conservative, religious fundamentalist, neoliberal, and neo-fascist forces (in the definition of Feldman 2008) in the parliament, but also in the judicial system, federal police, segments of middle class, and mainly in the major corporate media outlets, not to mention the usually suspect international vested interests<sup>2</sup>.

The convergence of such major economic and political movements, with economic instability feeding into the political system and vice-versa, formed a perfectly combined twin crises<sup>3</sup>. This has led to explosive economic and political turbulence, with a deep recession, higher unemployment and inflation rates, a division within the winning political coalition, and ultimately, as an oligarchical crowing achievement, a *coup d'Etat* and the adoption of a thundering neoliberal program. The *coup* is very close to accomplishing its purposes of attacking fundamental political rights and liberties, dismantling the state, canceling out the incipient welfare state and income redistribution measures, and assaulting on autonomous secular education, culture, science, and technology. In other words, the the *coup* has resulted in an oligarchical restoration and a full re-encounter with the failed neoliberalism of the 1990s and early 2000s that led, given its acknowledged failures (Ostry et al. 2016), to the very political victories of the center-left coalition in the first place, but now with more authoritarian and fundamentalist elements (both market and religious).

How could such dramatic reversals occur in just a couple of years? Does the fact that it happened similarly to a lightning striking out of a blue sky mean that it is only a cyclical phenomenon, with an economic recession opening room for opportunistic political behavior? Or it has the coup also structural features that were developing before the demise of the incipient and anomalous social democratic-clientelistic experiment? Summing up,

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2 Regarding the judicial system in Brazil, *The Economist* has dubbed it as weird (2015a), and also as Jurassic and dysfunctional (2004). *The New York Times* (2016) associated the graft-prone Brazilian congress with a circus. Greenwald et al. (2016) have termed the Brazilian media oligarchic and anti-democratic.

3 The use of the term 'twin crises' in this essay is different from its usage by Callinicos (2010), who addresses the financial crash of 2008 and the geopolitical problems associated with the defeat of the United States in the Russia-Georgia affair as the US economic and political crises.

what are the main determinants and developments that led to the Brazilian twin crises and the coup? This essay is an attempt to provide a preliminary answer and a critical interpretation of those changes, highlighting the likely structural and conjunctural causes behind them. The hypothesis entertained is that these rapid economic and political changes, confluent to a revolt of the elites, are better understood as part of a deeper, long-run tendency. The deep structural trend is about maintaining the wealth, income, and political power heavily concentrated in the hands of the domestic and oligarchical big bourgeoisie, sparsely shared with only its minor partners in the bureaucracy of the three branches of the state, without accepting any long-lasting democratic challenges to this concentration.

For instance, whereas the world economy has been moving along a pattern of increased income and wealth concentration and undermining democracy, typical of neoliberal capitalism, Brazil started following a different tread in the 2000s, with redistribution of income and inclusion of the poor's and workers' demands on the public budget by means of a restricted political representation. There is a hefty tension between capitalism and democracy in Brazil, just like in any other bourgeois society (Wagner 2011, Houle 2008)<sup>4</sup>. But Brazil experienced an anomaly regarding the ability of the latter to mildly tramp over the former. Hence, the historical tendency toward income and wealth concentration and plutocracy was briefly interrupted. This can be explained, among others, by a quarter century of relatively progressive and democratic political developments outside existing formal bourgeois institutions, when the better organization of the working and intellectually sophisticated middle classes managed to increasingly promote their interests within the capitalist state and take part in victorious political coalitions. That is, the capitalist trend of wealth and power concentration was only briefly reverted in Brazil in the beginning of the twenty-first century, and now, with the *coup d'Etat*, the long-run pattern is going to be resumed, with draconian reforms in the making to recoup the lost time (and income) and reposition the country along the global neoliberal zeitgeist of income concentration and plutonomy (Volscho 2015, Oxfam 2016, Foster and Holleman 2010).

Therefore, this trend is not something unique to Brazil and it could be considered an overstatement regarding the distinctiveness of the Brazilian

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4 Using a conventional, rational choice assumption, Houle (2008, 41) claims that "Inequality does, however, destabilize already established democracies. This is because in unequal democracies redistribution is more costly to the elites, who are therefore more likely to mount coups". Indeed, Houle! And since capitalism breeds inequality, it destabilizes and undermines democracies more often than thought by its lackeys. Witnesseth the Occupy Wall Street Movement in the US.

oligarchical bourgeoisie. That is, the adoption of full neoliberalism to retain economic privileges and the overthrow of an elected government to undermine democracy and monopolize political power is not necessarily singular. It is more like a persistent capitalist feature than a typical Brazilian one. What is specific about Brazil is that those forces could be neutralized by means of a brief socioeconomic and institutional arrangement that changed the distribution of riches and political power against all odds. Thus, since it failed to sustain the expected flows of riches and privileges for a longer political cycle, under institutions designed for maintaining these flows, the arrange was doomed, and yet it lived it up to promote major historical changes in a short period of time. And part of the failure that allowed the oligarchical restoration was due in large part not only to the closed political setting inherited from the dictatorship period and not touched by the constitution, but also for not completely abandoning the neoliberal economic policies inherited from the reforms in the 1990s, adopted with the very purpose of concentrating income and wealth. The fact the these flows were shared by other classes, even for a short period and only to a moderate extent, made the pact unacceptable and subject to heavy attacks. It should not last. So, the oligarchical and neoliberal revolt was disproportionate to the limited changes promoted by the social democratic-clientelistic accord, although for Brazilian structural standards they were quite radical.

In addition, while part of the Brazilian bourgeoisie displays features attached to modern industrial, and urban financialized capitalism, with a recent preference for neoliberal policies of high interest rates and lower taxes on their income and wealth, another part still has aristocratic roots going back to the pre-industrial era, wary of democracy and universal rules. However, both fractions have a strong necessity to drain state resources (interest payments, tax subsidies and breaks, and cheap credit) and therefore to rely on authoritarian institutions and bureaucracies for maintaining their privileges. This means that the neoliberal restoration promoted by the *coup* is combined with unique long-lasting oligarchical and authoritarian features in Brazil.

What is interesting about the twin crises, therefore, is the way that it reflects, on the one hand, this long-term feature, an oligarchical trend toward state parasitism and authoritarian political exclusivity by its bourgeoisie. And, on the other, it accommodates and adjusts to changing external and internal circumstances regarding capitalist development by adopting neoliberal policies that transform the way wealth is produced and maintained and the appropriation of the flows of state revenues, with a modern discourse but backward practices of corruption and clientelism. The latter changes reduce economic dynamism and tax collection and create economic instability (Streek 2014),

whereas the oligarchical trend pushes for more tax revenues from the workers and middle classes to sustain the flows from the state to it, narrowing by necessity any democratic bias in the political system. That's how Brazilian capitalism pushes the contradictions it generates forward, combining itself with elements of the conjuncture to foster particular economic and political dynamics. Brazil is experiencing, it seems, a convergence of structural and cyclical factors, similar to any other capitalist crisis, but with elements specific to Brazil and its oligarchical bourgeoisie, in response to the possibility of slight changes in the balance of economic and political power that could make Brazilian society more equal and more democratic, challenging the current global neoliberal dogma.

This essay is an attempt to interpret what can be seen as the twin crises in Brazil, a preliminary exercise that requires more research to back some (or most) of its claims. Given this caveat, it is organized as follows. After this introduction, the second section briefly discusses the occurrence of crises in capitalism, pointing also to features that are singular in less developed or underdeveloped capitalist nations. Political crises are referred to as well. The third section discusses economic and political problems of the Brazilian society. It brings forth issues regarding cyclical and structural politico-economic features, and how they combine to generate the current twin crises. The final section concludes the essay.

## Economic and Political Crises under Capitalism

Capitalism has been remarkably and predictably unstable since its origins in the XIV<sup>th</sup> century (Heller 2011). Depressions, recessions, and all different types of cyclical disturbances have been plaguing this socioeconomic system since then, with different features, lengths, depth and so on. This means that some crises are worse than others in terms of the rupture caused or the period of time over which it lasts. Yet, this also means that a capitalist economy cannot be mired in a crisis situation forever. Eventually capitalist economies recover from crises, sometimes presenting a different structure, infra and super, from the one before the crisis, mainly in terms of concentration and centralization of capitals, sometimes with all the fundamental features intact. However, the recurrent nature of the crises also means that crises are pervasive and inevitable, which means that the system is structurally crisis-prone. The coming next crisis is a matter of time, although no one knows how long it will take for it to happen.

A crisis can be defined as a disruption in a pattern that is considered

normal regarding the recent past. In a capitalist economy, a crisis is understood by an interruption in the growth of capital accumulation and a reduction in profits in comparison with a situation deemed normal, with expanded accumulation and a fat mass of profits appropriated by capitalists. The problem here is that crises are equally normal under capitalism in the long haul, because the growth of capital accumulation is cyclical, and profits tend to fall when capital is accumulated in an unbalanced way at very rapid rates such that wages go up and exploitation does not follow suit (Shaikh 1990, Heller 2011). Crises are structural features, but reveal themselves only as cyclical phenomena from time to time. Excluding the Say's Law's barter fetish that sales are automatically granted by the very existence of commodity production, crises are endogenously created by the very operation of a capitalist economy, given its profit-seeking nature and the lack of control over the competitive environment where capitals struggle against each other and against labor for their shares of the mass of surplus values generated. But after the crisis has done its job of getting rid of less profitable capitals, capital accumulation, and therefore commodity production, and with it profits, resume, until the next crisis breaks in. That is, since crises are frequent but not permanent, periods of normality can be projected to continue forever, causing capitals (including credit) to accumulate faster, firms to introduce technical innovations, often with support from the government funding and stimuli, only to face a period of declining profitability and excess capital accumulation and commodity production again, showing the true normality of capitalism.

Macroeconomic policies, mostly fiscal and monetary, have been used intentionally at least since the 1930s to avoid the consequences of the crises, but not an important group of their causes<sup>5</sup>. Overall, it is assumed by proponents of such policies that the single most important issue regarding the cri-

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5 This led one of the most important orthodox economist of the twentieth century, Paul Samuelson, to claim in the 1970s that the National Bureau of Economic Research, responsible for dating the business cycle in the United States, had worked itself out of this job, since the cycles were over with the appearance of demand management macroeconomic policies. Robert Lucas Jr. another orthodox economist, equally claimed in 2003, from a laissez-faire point of view, that depressions were over, and therefore policies targeted at depression prevention were unnecessary. The worst crisis since the Great Depression started only four years later. This has been happening for decades. Marx identified this tendency already in the XIX<sup>th</sup> century: "In the crises of the world market, the contradictions and antagonisms of bourgeois production are strikingly revealed. Instead of investigating the nature of the conflicting elements which erupt in the catastrophe, *the apologists content themselves with denying the catastrophe itself and insisting, in the face of their regular and periodic recurrence, that if production were carried on according to the textbooks, crises would never occur.*" (Marx 1969, 500, italics added). In Marx's time, economic policies did not exist. But the claims by Samuelson and Lucas Jr. show that economists still believe in the revealed truths of their manuals.

ses of capitalism is the lack of demand for absorbing (realizing) the increased production caused by capital accumulation. However, under-consumption is only one possible reason for the existence of crises. As suggested above, other explanations include the sectoral imbalances between the production of capital goods and of consumption (wage) goods (or excess capital accumulation), profit squeeze caused by rising wages amidst increased competition and reduced rates of exploitation, and a falling rate of profit (the leit motiv of capitalism). Marx was wary of under-consumption crises as explained by low wages, for example. According to him, crises are preceded by an improvement in the living standards of the workers, provided by its turn by expanded capital accumulation. This does not mean that under-consumption crises cannot be caused by, for example, a lack of accumulation of constant capital (machines, equipments, buildings and raw materials) to absorb the surplus (profit) generated in the previous period (consumption here meaning also “consumption” of constant and variable capital). It is perfectly possible as well that fiscal and monetary policy can affect the rhythm of the crises, shortening their length and smoothing the fall in commodity production and sales by keeping profitability at levels compatible with capitalists’ expectations. As discussed below, this essay considers that either a profit squeeze or a falling rate of profit can explain the overall trend of capital accumulation in Brazil, but the political aspects of capital accumulation and fiscal austerity also played an important role in reducing aggregate demand.

Regarding underdeveloped capitalist economies specifically, crises have been equally a hardy perennial. For many years the crises in less developed societies were explained by appealing to external events, related to falling commodity export revenues (equivalent to under-consumption in foreign markets), failure to meet debt obligations (profit squeeze by interest payments in the distribution of surplus value), sudden stops in capital flows (interruptions in the circuit of international money capital), exchange rate collapse (monetary disturbances also associated with the circuit of international money capital) and inflation (conflicting claims), etc. But since the 1970s a literature has been developed pointing to domestic sources of disturbances as well, such as the late capitalism thesis that the cycle of capital accumulation has been more and more endogenous in many countries that lived up to industrialization (Tavares 1974, Melo 1975). Of course, if we consider the capitalist world economy as a single unity, it makes no difference to distinguish between external and domestic sources of disturbances. However, despite the process of increasing economic and mainly financial integration going on under neoliberal capitalism, the national state is still an important wedge between the internal competition of capitals and the world competition. This



warrants the separated analytical treatment carried out here between domestic versus external dynamics for less developed countries, along with a distinction between political and economic phenomena.

And an important feature of underdeveloped capitalist economies is their lack of technological development and the ensuing lower levels of labor productivity, notwithstanding their long-term association with multinational capitals from the more developed capitalist economies. This generates fragile economic structures, dependent upon world markets and exports of less sophisticated goods, a working class earning low wages and therefore sustaining lower levels of consumption. The reduced levels of capital accumulation and consumption creates a financial system interested in funding short-term, speculative activities, more than providing long-term money to capital accumulation and innovation. All these features contributes to underdeveloped capitalism to be more crisis-prone than advanced capitalism

Moreover, as Furtado (2002) argued, the bourgeoisie in those societies emulates the consumption patters of the bourgeoisie in the center, having a lavish life style and buying luxury goods abroad instead of accumulating productive capital. That is, the bourgeoisie is comprador. So, under-consumption by means of lagging domestic spending and over reliance on exports of raw commodities seems to be indeed an important source of crisis in the periphery, in the latter case coupled with the ensuing financial fragility in the balance of payments that reflects the problems of accumulation abroad. But as long as they are capitalist economies, albeit underdeveloped, they are prone to all but one type of capitalist crises, including profit squeeze and a falling rates of profit. The over-accumulation of capital is hardly a source of crisis in the periphery due to the fact that the backward, comprador bourgeoisie never accumulates enough without continuous support from the state (and in some cases, like Brazil, even with support) or from articulations with the international capitals.

Given the central role played the state in capitalism, and the necessity of organized political coordination of the nation state in order for it to function properly, political crises can have far reaching social and economic consequences, not being confined to the political realm of parties and their leaders and the functioning of state apparatuses. If it is assumed that politics is also class politics, and politics of class fractions, political systems are, just like the economy, instability-prone as different classes and fractions struggle to gain control of state apparatuses to implement their political program in order to foster their interests regarding the flows of resources to and from the state. Coalitions are formed and destroyed, for shorter or longer terms, based on the power of each fraction and its hegemony in the power bloc (Gramsci

1971); political alliances are re-framed and adjusted to rising new powers and collapsing old powers, or weak new powers and resilient old powers. In modern capitalist democracies, classes have access to state policies of spending, taxing, borrowing, and regulating, but not to the capitalist state structure itself, by means of political parties competing for bureaucratic and government positions in supposedly free elections. The legal institutions are devised to keep political conflict away from capitalist state structures, so that the capital relation in itself is never challenged, only the different political ways whereby to allow class domination. Politics is structured such that accumulation of capital and income and wealth concentration *per se* should never be affected or challenged by political conflicts, no matter how fundamental they are. This is reflected in all different permanent efforts to present economic matters as 'technical', 'scientific', and 'neutral' and political issues as 'not serious', 'intrusive' or 'interventionist'. Nevertheless, politics and conflicts affect the distribution of power and therefore the classes and fractions who benefit from income and wealth concentration at different moments in time.

By the same token, with money and wealth playing a significant role in politics, the adjective 'free' attached to elections must be qualified. Lenin used to say that the fastest way to burst an economy is to debase its money. The capitalist experiences in the twentieth and twentieth-first centuries confirm Lenin's *dictum* and adds a new feature of money: it is also the fastest way to burst popular sovereignty and the importance of elections (true democracy is something else completely). Money can destroy suffrage by buying politicians (they are for sale in wholesale – political campaigns – and retail – bribery). Money can also destroy suffrage by not buying variable and constant capital and boycotting elected governments by investment strikes, as it happened in Brazil.

The political system tends to be, overall, rigged in favor of moneyed interests well positioned in the struggle for the concentrated income and wealth typical of capitalism, usually those already in functioning power structures. It is rigged not in terms of results, that is, which political party or coalition is allowed to win, although of course capitalists put a lot of money in the campaigns of their closest and most loyal allies, but mainly in terms of policies that are acceptable (techno-scientific) and policies that are not acceptable (interventionists or populists) by the existing hegemonic bloc of wealthy and powerful at a given point in the evolution of capitalism<sup>6</sup>. A ruling party or

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6 Former US President Bill Clinton complained about the power of money to veto progressive political programs during his re-election campaign. According to Woodward (2005, 73), when he was told that finance would not accept a more progressive political program, Clinton retorted to his economic staff "You mean to tell me that the success of the program and my re-elec-

coalition may be challenged on several grounds, within the legitimate and legal rules of electoral competition, including the agreements to end existing or political crises in the making. When coalitions of powerful moneyed interests cannot have their interests fully addressed by the normal functioning of the political system, because other powerful fractions or classes are competing for the same end, with similar resources or more viable coalitions, in general the former can get the upper hand by means of force, including military or parliamentary *coups d'Etat*. The reason is either a fundamental disagreement that cannot be settled under normal political disputes or an exhausted alliance that no longer works for the allied parties and politicians and their existing powerful constituents. Of course, instability does not preclude the low politics of treachery, corruption, crave for power, frustration with political defeats, and so on and its capacity to destabilize political systems.

Economic policies, as the name tells it, are about the politics of economics as well as the economics of politics, and are employed regularly to avoid capitalist economies to hasten their trend toward crisis of under-consumption, or when recent expected economic trends are not fulfilled (including falling profitability). Considering the instability of capitalism and how economic policies can address them, the occurrence of a cyclical downturn, although recurrent and therefore not unheralded under capitalism, raises the question: Why exactly at that time? There is no way to predict when crises erupt in capitalism. The question is whether or not crises can happen in capitalism regardless of the policies chosen by the state and the political managers of capitalism. If they can, this means the focus should not be exclusively on the mistakes of economic policies. If they can't, so the instability of capitalism can be explained uniquely by the policy choices of the executive committee of the bourgeoisie<sup>7</sup>.

Politics in a capitalist society, therefore, and by means of hierarchical assignments of power at the national level, is mostly about the management

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tion hinges on the Federal Reserve and a bunch of fucking bond traders?" Portugal's President Cavaco e Silva addressed the Nation rejecting the possibility of abandoning pro-austerity policies when the majority of political forces against austerity won the parliamentary elections: "This is the worst moment for a radical change to the foundations of our democracy. After we carried out an onerous programme of financial assistance, entailing heavy sacrifices, it is my duty, within my constitutional powers, to do everything possible to prevent false signals being sent to financial institutions, investors and markets." (Evans-Pritchard 2015). By doing so he has made the Portuguese Constitution a dead letter. It is clear that the foundations of democracy in Portugal, in his view, is to accommodate the wills of the financial sector against the vast majority. This is not a free democracy by any means, but a dictatorship of financial markets.

7 Gilens and Page (2014) show statistically that the marxist instrumentalist thesis associated with the work of Ralph Miliband is correct for interpreting the political system in the United States, for example.

of political conflicts between capital and labor, and among fractions of capital over surplus extraction and distribution. When capital accumulation and the production of commodities and its distribution in the form of profits falters, that is, a period of economic instability, the political system is called to re-balance the distribution of the surplus in favor of capital, so that accumulation can be resumed at the previous rhythm. It is necessary for capital to crush labor if political opposition is stubborn due to democratic institutions conquered by previous struggles. Sometimes the state bureaucracy may gain autonomy from class struggle and share a large fraction of the surplus. When an accumulation crisis happens under such conditions, an economic war waged against the government and the institutional source of autonomy, not the state as a whole, may be necessary.

On top of that, in underdeveloped countries the undue political importance of fractions of capitals tied to primary sector production and the lack of substantive democracy usually results in the formation of oligarchies (Stephens et al. 1992). Even today modernization and capitalist development could not get rid of this feature in many underdeveloped countries. Actually, capitalism and oligarchy are combined in many different ways, with oligarchs keeping political positions and media control, and at the same time promoting the economic interests of the different capitalist fractions not rarely by means of bribery. Moreover, even in the advanced capitalist countries the recent rise of oligarchical power, as opposed to the long-lasting feature of underdeveloped nations, is widespread (Reich 2015, Johnson 2009)<sup>8</sup>.

Hence, broad democratic institutions represent a threat to those ruling powers and must be avoided and only minor concessions made to grant some legitimacy to the capitalist state and its class politics, so that the political programs associated with electoral results, never the political parties in charge of their implementation, must be considered within acceptable ranges. If they are not, a crisis must be concocted, and as it develops and reaches worrisome proportions, the defeated oligarchy dethrones the winning forces from power by overthrowing the meager democratic institutions altogether. For example, in modern capitalist economies political crises could be a necessary result of resistance to neoliberalism ('technical' measures seen as the only acceptable program for delivering growth and stability) when capital accumulation is imperiled. That is, coalitions of neoliberal forces cannot always win elections when workers are consciously well organized, even with expensive campaigns and media control. Neoliberalism usually requires a shock doctrine to be implemented (Klein 2007), and when such a clash does not happen, an artificial one, in the form of a political crisis, must be contrived. But it is part of the

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8 Interestingly, Johnson also refers to a coup in the US by a financial oligarchy.

modern neoliberal oligarchy, up to this moment, to avoid the use of violence unless strictly necessary. It could be possibly used in foreign lands to support weak oligarchies, but it is not pervasive like it used to be in the past. The modern ruling capitalist class prefers to overthrow progressive governments (and sometimes even not so progressive ones) with ‘intrusive’ policies by using their own capitalist state, that is, creating a situation of political instability in which laws and institutions do not seem to work properly under current executive guidance. The bourgeois institutions cease to be universally valid (giving up on the need for legitimacy) and are employed in particular, class-based ways (showing their true nature) when accumulation and profits are, really or only perceived, seriously threatened.

## **Cyclical and Structural Features of the Brazilian Twin Crises**

As stated above, crises are inherent under capitalism. But disturbances are just the outcome of several different socioeconomic, cultural, and political movements at play. Crises can thus be thought as the result of a complex process, and they will exist as long as the determinants of the process continue. So, it is important to identify those determinants and the ways they shape the process and therefore the crises. Economic crises can lead to political crises, and vice-versa. This is so because continuous accumulation requires political support in the form of laws, contracts, state control over workers and their class institutions, and ‘appropriate’ (which may be opportunistically ‘technical’ or ‘intrusive’) economic policies, whereas politics and class politics depend on the ability of accumulation to generate fiscal funds for supporting the political system and the entire capitalist state apparatus. Yet, it is very difficult to distinguish between them or to determine their temporal sequence of causation and mutual influence. It is even hard to sort them out when both happen with high intensity. But this work attempts to separate the two forces leading to the twin crises, and also assumes a temporal separation between cyclical (short-term) and structural (medium- and near long-term and far longer-term) factors, highlighting the likely conjunctural political and economic features on the one hand and structural complexions on the other.

### **Short-term or Cyclical Features of the Twin Crises**

Brazilian capitalism displayed an unusual period of political stability and economic expansion from 2004 to 2011. As Minsky would defend, however, stability breeds instability, and capitalism cannot exist without crises. Every period of expansion must, by necessity, end. And the favorable situation

for domestic capital has changed considerably since 2012, with Brazil currently being in a dire economic situation and a political maelstrom. Regarding the economic conjuncture, overall commodity production has lost momentum, stagnating in 2014 and falling deeply in 2015. The Federal Government entered a period of paradoxical economic policies, combining ongoing neoliberal contractionary policies (such as keeping high interest rates and primary budget surpluses) along with anti-cyclical policies adopted to avoid unemployment rates to soar, mainly by means of subsidies and cheap credit to industrial capitalists (Serrano and Summa 2015).

As a consequence, the results in terms of capital accumulation were poor. More important, Brazilian capitalists decided to act politically and provoked an investment strike (Rugitsky 2015). Under-consumption kicked in. Unemployment rates were maintained relative low in 2014 (helping with the reelection of Dilma) and 2015, but have been on the rise more recently, reaching levels above 10% in 2016. Inequality stopped falling. A spike in domestic prices at the end of 2015, mostly due to correction of administered energy prices and a strong currency depreciation, caused the inflation rate to break the upper limit of the inflation targeting regime for the first time since full-fledged neoliberalism was abandoned in the beginning of the 2000s. Deficits in the current account increased, with a pronounced decline in exports, although the depreciation seems to be reverting this trend in 2016 (that is, under-consumption also in the external sector). Foreign direct investment had been higher over the past lustre or so, not diminishing significantly over the crisis. But a large fraction of it is made up of inter-companies loans, just to profit from the stubbornly and structurally high interest rates in Brazil (Marques and Nakatani 2015). Primary budget surpluses turned into deficits due to the recession, contributing at first to avoid an even deeper recession (given the automatic stabilizers of fiscal policy). But an attempt at deeper fiscal austerity measures, led by Ministers Joaquim Levy and Nelson Barbosa in 2015, contributed to transform the downturn or semi-stagnation into a full-fledged recession.

Fiscal problems have been presented by conservative scholars as the single most important source of economic and political problems, with the government hiding the real fiscal stance by accounting gimmicks in 2014 and deserving to be impeached on that ground alone (because it affected the electoral results). But could creative accounting, widespread also in the private sector in a capitalist economy<sup>9</sup>, but not less acceptable because of that, cause

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9 Just to give a recent example from Brazil, avoiding mentioning the Libor scandal, one of the leaders of the plutocratic and coup-mongering media, newspaper (sic) Folha de São Paulo, cooked up the number of a poll of its own statistical institute, the suspect Datafolha, which

a severe crisis such as the one Brazil is facing? The initial answer is “no”. It would be needed a quantitative exercise to provide a more precise answer, but it is unlikely, since the short-term transfers using public banks and postponements of debt repayments sustained additional spending in the economy in a year of weak economic activity. Anyway, this increase does not seem to be relatively large by any reasonable measure to revert capitalist expectations. And the investment strike, as shown below, started in 2013. Of course, with hindsight it is possible to argue that a specific policy has not worked by just looking at the outcomes, without making any effort to establish more precise connections between cause and effect.

As argued in the previous section, in a capitalist economy, macroeconomic policy can have non-negligible impacts on capital accumulation and commodity production, distributive conflicts for the surplus, international competition, credit growth, and so on and so forth. But the crucial decision regarding the pattern of accumulation and production in a capitalist economy belongs mostly to the capitalist class and its strategies of expanding its wealth. Once it falters, the economy bears the brunt of the ensuing crisis. That is, regarding stabilizing macro policies, they can dampen or exacerbate the initial movement, but not completely eliminate it. Otherwise the state would have full control over the economy a la Samuelson or Lucas Jr, and this has not definitely been historically the case. Apparently, what one can see is a political decision by the government, a political and economic decision by capitalists, and a crisis, not necessarily in that order. What neoliberal economists usually do is to always assume the same sequence of events, suggesting that the policy mistakes by the government, no matter how relevant they are, and denying any political role to the decisions made by capitalists, are at the origin of any and all capitalist crisis.

These conservative (or neoliberal) scholars are in general prophet of past facts: intrusive economic policy went wrong because there was a crisis. That is, crises result from bad government management. It has been, they argue, always like that. The Great Depression was caused by monetary policy mismanagement (Friedman). The Great Recession was caused by subsidies to finance housing and regulations to force banks to make bad loans to poor borrowers. In this view, if economic policies were sound (correct, that is, neutral and scientific), there would be no crisis. This is the Samuelson-Lucas syndrome: business cycles are over, conditional on governments pursuing the right policies (aggregate demand fine-tuning in the first case, doing nothing

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failed to predict many political results in the past elections in Brazil, even considering the confidence interval, in order to beef up the situation of the coup-monger new President who conspired to oust Dilma Rousseff (Greenwald and Dau 2016).

in the second)<sup>10</sup>.

There were policy mistakes in Brazil? Of course. The huge amount of subsidies to the Brazilian bourgeoisie is probably the most important one. Since capital accumulation was not re-enacted, the State could not recoup, in the form of accrued tax revenues, the money donated. A larger fiscal imbalance, already large due to interest payments to rentiers and all the capitalist classes, ensued. So, the bourgeoisie first emptied the Treasury. And now, by means of a Parliamentary *Coup d'Etat* supported by all the oligarchical groups in the industrial bourgeoisie, media groups – a perpetual steward of anti-labor propaganda – rentiers, financiers, and agribusinessmen, and conservative religious zealots, they launched a neoliberal program with a labor reform to empty the working class pockets.

Domestic credit flows came to a stop in 2015. Monetary policy was tighten up beginning in 2013 as part of the structural neoliberal policy making that states: in case of doubt, raise the interest rates. Real interest rates were raised in a movement contrary to what was happening in the world, given that most central banks were setting very low interest rates. However, interest rates are so absurdly high in Brazil that it is not clear whether incremental changes in them, the way monetary policy have been traditionally implemented, can cause any substantial change in spending financed by credit. It seems that it could have an impact from the income distribution perspective, with ongoing increased transfers from workers and industrial capitalists to rentiers (and many industrial capitalists in Brazil are rentiers – the investment strike caused a major availability of money to be accumulated in the form of financial assets) – causing a reduction in spending (under-consumption) and an increase in the financial wealth that enables the absorption of these transfers.

Monetary policy, in this regard, is more a structural feature of Brazilian capitalism in the age of neoliberal financialization and bears very little

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<sup>10</sup> See footnote 2 above. Actually, this is an excuse for capitalist instability. Orthodox economists always have more excuses than models, making it possible not to repeat the same excuse twice (Rodrik 2005). The Samuelson-Lucas syndrome reflects this view. Conservative (neoliberal) scholars would argue that 'we' (intelligent and wise economists) have learned for a long time how to prevent crises, but they (politicians and bureaucrats advised by "obtuse economists") have not followed the acknowledged right rules, probably delivered by a superior being in the heavens, in the form of a table of natural laws scribbled in the manuals– it is not a coincidence that N. Gregor Mankiw, the high priest of the orthodoxy, has ten principles in his textbook – regarding the absolutely correct and flawless economic policy making laws of the universe that must support the (always technical) decisions about economic policies. Thus, repeating the same mistakes of the past is due exclusively to stubborn populist governments and their economists who do not see the definitive natural laws of the economic universe.



responsibility for the great reversal leading to the twin crises. However, when President Dilma Rousseff tried to contribute to softer monetary policies in 2012 by reducing interest rates charged by public banks, being followed by the Central Bank in its decisions about the policy rate, there was a political and financial backlash from the rentiers and stories about the Armageddon and the apocalypse that would follow. The reduction in interest rates would lead to a perfect storm for capital accumulation and wealth and income concentration in the hands of the bourgeoisie and could not be allowed. That is, Dilma tried to solve what appeared to be the Gordian-knot of the Brazilian financialized capitalism, the supposedly major structural constraint for sustained economic growth and better income distribution in Brazil since the neoliberal program was adopted: the highest real interest rates in the world. However, financial income provided by fiscal transfers was perhaps the single most important issue unifying the bourgeoisie in Brazil, and it is likely to have, along with the pressure on real profits, hurried the neoliberal oligarchical revolt, with an investment strike accelerating the cyclical downturn. The policy of high interest rates had to be resumed no matter what.

Moreover, by not fully abandoning fiscal austerity policies amidst a recession and a shrinking world market, it created the conditions for a major continued crisis. Fiscal stimulus was first implemented, but not by means of increased government spending and investment, relying instead on fiscal relief for industrial capitalists. Unemployment remained low for a long time after the crisis started. But investment did not follow suit, the recession deepened, and the political alliance was in tatters, that is, the social democratic pause was over. Economic turbulence breeds political turbulence.

Of course, with low unemployment rates, President Dilma Rousseff was reelected in 2014, but by a narrow margin, notwithstanding the relatively poor economic situation started with the descending phase of the accumulation cycle and the “downturn boost” from an investment strike in 2013. There was now open opposition from the industrial bourgeoisie, the agribusiness sector that houses most backward oligarchs, and the would-be modern financial sector. The corporate media intensified its continuous attacks, claiming for a Parliamentary or Military *coup*. The massive street demonstrations of 2013, against the world cup and in favor of better public services, shattered the political pillars of the corrupt political system (Castro et al. 2014). After that, mostly white, upper middle class, and conservative voters defeated four times in a row in the presidential elections, funded by the corrupt oligarchical parties, started street manifestations for the first time since the military-corporate *coup* in 1964, sometimes demanding another corporate-military *coup*. Coupled with a declining economic activity, the popularity of President Dilma

Rousseff went south. The oligarchical restoration was ready to get in place again and put an end to the political instability it nurtured in the first place. The bourgeoisie in almost its entirety backed the *coup*, as it did many times before, including financing the 1964 entrepreneur-media-military *coup*. And the old, unabashed neoliberal economic program had no more waiting for its return, thought to be the answer for the very structural economic problems it created in the first place.

The elections for the House of Representatives and the Senate has been funded by corporations and more and more influenced by religious fundamentalist leaders. As a consequence, a coalition of conservative, neoliberal, and neo-fascists took the majority of the legislative power, creating the conditions for defeating any hopes of a social democratic government and restoring the oligarch hegemony by a parliamentary *coup* in 2016. Opposition within the state apparatuses became stronger, with fractions of the judicial system and the federal police acting to blow up the workers' party coalition by customized, targeted investigations, and unlawful use of coercive measures. There was a major setback for the government when the single most important clientelist political partner abandoned the alliance that reelected President Rousseff. Many attempts were made by the oligarchy at reverting the election results, including a recounting of the votes, and many mandates at the courts to nullify the results, because construction companies involved in corruption scandals, mainly related to the state oil company, Petrobras, contributed to the workers' party election fund, notwithstanding the fact that the same companies contributed even more to the corrupt defeated coalition of hard-die neoliberal oligarchs. These are the political elements of the oligarchy (and the upper middle class) revolting against the government that improved the standards of living of the poor and the workers (a not deadly sin), and tried to force a reduction in interest rates (deserving the death penalty).

Of course, there are also geopolitical issues involved. As it always happens, the role of the United States will not be revealed until the conditions are ripe for it not to cause a major political setback. Many analysts like Mark Weisbrot (2016a, 2016b, 2016c) and Peter Koenig (2016) are pointing to the existence of a *coup d'Etat* and to the role of the United States in it. Brazilianist James N. Green wrote a letter to the U.S. Representative at the Organization of American States denouncing the *coup* and the mistakes of fully backing it again, like in 1964. It may not be a coincidence that Brazil had during the period leading to the *coup* the same U.S. ambassador that served the U.S. Paraguay's Embassy when another parliamentary *coup* took place, Liliانا Ayalde. It is not a coincidence either that the Petrobras investigations, with a significant potential to deliver a large blow in part of the corrupt political system in

Brazil, has turned into an instrument of political revenge against the workers' party. Petrobras is the company target of NSA spying and will be privatized to foreign firms, most likely US oil companies. On the other hand, it is clear that the Brazilian bourgeoisie lacks the cognitive abilities to contrive alone such a plot against democracy on its own. Just like the corporate-military *coup* of 1964, the parliamentary *coup* in Brazil pleases the U.S. Department of State and its foreign policy. The subordinate role that the Brazilian bourgeoisie and its partners in the state bureaucracy are willing to assume in regional and world affairs, something that changed during the workers' party-led government in exchange for keeping part of the wealth produced and extracted domestically, avoids political clashes with the imperialist forces.

Hence, on the economic side there was an expected typical cyclical downturn, not surprising after a relatively long (for Brazilian standards after the 1980s) boom, since a bust is what must follow a boom in capitalism. However, under the pressure of financial interests to adopt even more austere fiscal policies, the government decided to cutback on federal government spending, mainly investments and outlays related to social protection. At the same time, the investment strike by industrial capitalists contributed to the economic collapse. The strike can be understood as conjunctural decision to influence the results of the 2014 election at first, along the lines suggested by Michal Kalecki in 1943 on the political aspects of full employment. When it failed to accomplish its political aims, it could not be reversed so easily, given the multiplier and accelerator effects. And on top of that, in 2014 the investigation of corruption scandals affected investments from Petrobras, a major source of capital accumulation in Brazil, along with the construction sector, another important capitalist sector with some endogenous technological development. This led to a major reduction in effective demand and contributed to cause a deep recession by means of under-consumption.

Therefore, Brazil has been crossing a major convergence of an economic crisis in which an expected cyclical downturn in the economy has been turned into collapse by means of an accumulation strike and an attempted austerity policy by the government. The Brazilian oligarchy was ready to take advantage and restore its political power by causing a political crisis within the lower house of representatives, with the partial judicial system taking its part by legitimizing the unlawful practices of the car wash task force in its anti-workers' party operations. With the declining economic activity, it could also easily manipulate the conservative and neo-fascist middle class through the *coup*-mongering media, which promoted an intensive, 24-hour attack on the workers' party, creating a momentum for the retreat of the restricted democracy. The economic crisis feeds the political instability, that feeds back on

the loop and deepens the economic problems.

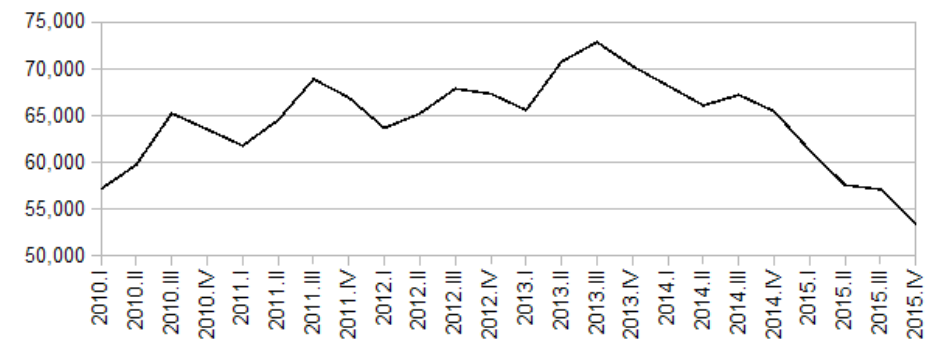
The parliamentary *coup d'Etat* of 2016 is the crowning achievement of the political revolt of the neoliberal oligarchs, until then subsumed under the social democratic accord, but not completely defeated. The *coup* was seen as a solution to the short-run economic malaise by reducing political uncertainty associated with a coalition that includes the workers and the poor. Nonetheless, the economic program of this fraction of the oligarchy is the unrestricted neoliberal one that failed to restore economic growth in the 1990s, but which is believed to unite all the fractions of the bourgeoisie against the workers' party and the left in general. This means this economic program may not restore sustained economic growth, or even revert the current recession in the next couple of years. But its goal is to concentrate income and wealth, with a declining share of wages in the national income, just like it used to be before the social democratic intermission.

### Medium-Term Transitional Economic Determinants of the Twin Crises

The above confluence of political and economic processes toward a full-fledged twin crises may not make explicit all the relevant components of such dynamic evolution. Therefore, it is important to identify and highlight some of the semi-structural and structural economic and political features that have shaped the above trends and behaviors. That is, the cycle is intertwined with the trend, and the trend must manifest itself in the form of cycles. The political time is different from the economic time, though. The medium run, the interval between the short and the long run, extends temporally the former to the latter. However, it is assumed here that during this interval the political short-run dynamics does not change, only the economic forces. Short-run politics is molded by long-run trends. Thus, it is important to understand the medium-run economic dynamics leading to the short-term economic and political results, for a given political setting, keeping in mind that politics is also carried out in civil society, mainly companies, not only at the state apparatus.

Considering the economic tendencies, chart 1 shows the trends for medium-term capital accumulation, from the end of the booming period (2010-2013) to bust (2013-2015). The depicted accumulation strike could be interpreted as an economic response by the bourgeoisie, starting in 2013, to the distributive measures that favored labor for almost a decade, and also as a short-term strategy to defeat the workers' party-led political coalition. That is one way whereby money boosts democracy.

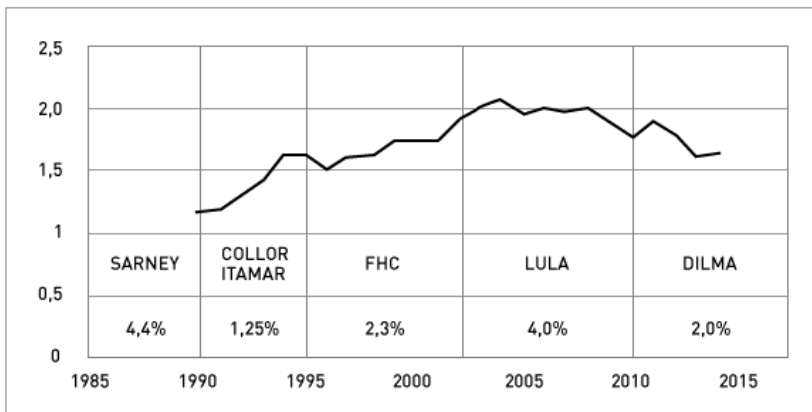
**Chart 1 – Quarterly Gross Fixed Capital Formation (BRL R\$ million, prices of 1995)**



Source: Elaborated by the author using data from IBGE.

The short-term investment strike discussed above also reflects the medium- and long-term class conflict depicted on chart 2, estimated by Prado (2014) and central to understand the current capitalist crisis in Brazil, with low unemployment rates improving the bargaining power of workers and causing the rate of exploitation to fall under the social-democratic-clientelistic government. Minimum wages and mean wages increased fast. A profit squeeze must have been a likely result of this combined increase in wage and reduced exploitation of labor. The falling rate of exploitation under Presidents Lula and Dilma, although the rate was still higher than under unabashed neoliberalism, clearly preceded the decline in capital accumulation caused by the strike. The rates of real GDP growth, shown at the bottom, follow the rate of exploitation and illustrate the medium- and long-run trends.

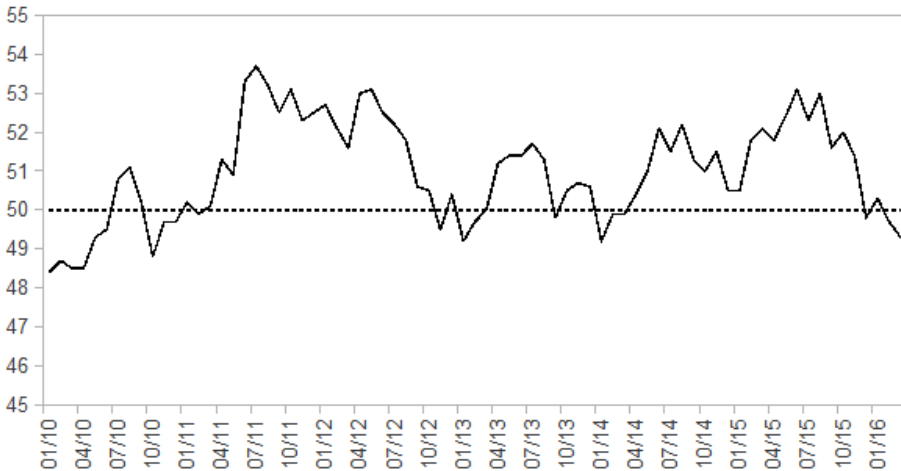
**Chart 2 - Rate of Exploitation in Brazil (1990-2013)**



Source: Prado 2014, p. 3.

On the other hand, industrial capitalists have experienced an overproduction of industrial commodities. Chart 3 shows that only for short periods of time over the interval 2010-2015 the effective inventories were below the expected (meaning a faster rate of surplus realisation), and not by a large margin. So, despite the rapid growth of exports, rising wages and credit to consumers, and steady increases in capital accumulation from 2004 to 2013, capitalist production could not be sold at the expected rate. A possible explanation is the sustained primary budget surpluses imposed by the neoliberal legacy over the period. When primary budget surpluses turned into deficits due to the crisis, the level of inventories started falling, and dropped below expected at the end of the period shown.

**Chart 3 – Evolution of Manufacturing Inventories (Planned x Effective) (Jan. 2010-Mar. 2016)\***



Source: Elaborated by the author, using data from CNI (Brazilian National Confederation of Industry).

\*Numbers above 50 mean inventories of unsold goods are above expected levels.

### Long-Run or Structural Trends

After the end of the import substitution process in the 1980s, Brazil suffered a major external debt crisis, economic stagnation, fiscal difficulties, and episodes of hyperinflation. At the same time, industry already started losing importance, suggesting that the Brazilian industrial bourgeoisie could not survive without state support. The solution devised by the bourgeoisie, contradictorily, was to adopt a neoliberal policy inscribed in the Washington

Consensus in three steps. The first structural reform was targeted at external trade, given the reliance of the bourgeoisie on markets relatively isolated from imports. This required opening up the economy to trade: capitals operating in the Brazilian economy would now have to compete with capitals producing commodities around the world; both capitals from settled bourgeoisie in the developed center as well as the rising bourgeoisie in the less developed world, mainly Asia, not to mention the heavy alliance between State and capital in China. The second step aimed at reducing the participation of state in the economy by means of deregulation and mainly privatization of state-owned assets, despite the sizable increase in the tax burden that took place under neoliberalism. The third structural reform included the stabilization plan of 1994, which created the conditions for increased financial accumulation by means of a strong domestic currency and skyrocketing interest rates paid out of higher taxes on the middle class, the workers and the poor. Financial liberalization increased the financial fragility of the country, with three major agreements with the IMF being necessary to stabilize the flows of capital and the price of the Brazilian currency.

On the political ground, in 1985, after massive pro-democracy street demonstrations, as the economy was experiencing a major challenge, the military and the oligarchy were confident that their rule could no longer be challenged from a truly progressive perspective. The corporate media was never so powerful before. The communist parties had been handicapped. The two major official parties were loyal to the oligarchy, and the workers' party was becoming important, but still at its infancy. Therefore, Presidential elections could be allowed again, and a new Constitution, with legitimate formal democratic features, was written in 1988. This new democratic legislation represented a major departure from the Constitution enacted under the military-corporate dictatorship in 1967. And, despite the oligarchical control of the congress, progressive measures were introduced and approved to legitimize the new form of institutional control by capital. Political participation resumed. An outsider from a regional oligarchy, Fernando Collor de Mello, was elected President in 1989, with a platform aimed at hunting 'lazy and wealthy' public servants. His political program introduced elements of a full neoliberal platform, opening up the economic to international trade (first neoliberal reform). However, he confiscated liquid assets to dampen fast-rising inflation, based on an ultra-monetarism, and suffered a process of impeachment under corruption charges. That is, economic instability fed political instability. And yet, the political rule of the oligarchy and the political system were not questioned, so that the political problems were solved by replacing the President without further consequences. Economic instability had to be

solved by a major political rearrangement of capitalist fractions. Vice-president Itamar Franco assumed and paved the way for a full-neoliberal coalition led by Fernando Henrique “Blessons le pauvres” Cardoso.

The transition to full-fledged neoliberalism under oligarchical rule was carried out by a spinoff of one of the two official political parties allowed to exist by the dictatorship. Again, the political system was working well for the ruling classes and fulfilling its role of achieving political domination and excluding the workers and the poor from the governmental decision center. The major structural changes required to implement neoliberal reforms had to be settled with minimum intra- and inter-capitalist conflicts. Although this was made difficult by the ongoing economic crisis, the oligarchy had not many options given the international transformations of capitalism and the pressures from international capital on underdeveloped economies. The political accord was achieved by an oligarchical alliance between the leading party that supported the dictatorship and the offspring of the official opposition party to the military-corporate rule. That is, the political system was still ruled by the same forces that coexisted under the umbrella of the military-corporate dictatorship. By excluding organized labor from the agreement, capital, mainly financial capital, would feast. The re-election of Fernando Henrique “Amochons les pauvres” Cardoso in 1998 confirmed the oligarchical hegemony under neoliberalism. The crisis changed the mix of policies under the auspices of the IMF, with inflation targets, floating exchange rates, and fiscal austerity (since neoliberals could not avoid large deficits as a consequence of their policy of unbelievably high interest rates).

Fernando Henrique “Ecrasons les pauvres” Cardoso took himself to the task of abolishing the labor legislation developed in the 1930s under President Getulio Vargas as a fourth step (he derisively call it the “Vargas’ Rubble”). Despite being reelected by means of keeping a strong currency, and a moderate but rising inflation, he attempted to deepen the neoliberal program by attacking the workers’ pockets and labor rights, but could not destroy the labor protection rules, not even the trade unions (that the dictatorship tried to smash, but could not destroy, creating instead the political cradle of Lula da Silva). And real minimum wages had dropped so low since the peak just before the military-corporate dictatorship in the 1960s, that it was no longer possible to keep them at such depressed levels even in a formal bourgeois democracy. The government decided that it could start raising it again without creating problems for capitalists. However, the unemployment rates were kept high enough to depress the labor share in national income, providing a major transfer from labor to capital in the form of low mean wages, along with state transfers in the form of interest payments.



Those pro-finance and pro-capital reforms represented a major watershed for restructuring Brazilian capitalism. The state, rather than providing cheap goods and services to industrial capital (including capital applied in the agricultural sector), was now devoted to promote interest transfers to finance (including financialized industrial capital) and cheap labor to industrial and commercial capital. The oligarchy had a different ruling fraction, with financiers and rentiers replacing the industrial and commercial bourgeoisie as the dominant fraction. Of course, the industrial bourgeoisie adapted to this new accumulation trends by becoming increasingly financialized (Bruno et al. 2011). It became clear that, despite the increased discipline of labor by means of higher unemployment rates, the industrial bourgeoisie could not compete with foreign capitals. The pro-finance policies of keeping skyrocketing interest rates and a strong currency depressed industrial profits, compensated only by wage moderation. This represented an opportunity for importing machines, technology, and strategic inputs, promoting the renewal of industrial plants spoilt by the opening to trade. And after a foreign exchange crisis in 1999, the currency lost its strength, creating relatively better competitive conditions for domestic industrial capital to export. An agreement with the IMF reinforced the pro-finance policies, with measures of permanent austerity being imposed in order to guarantee interest payments to rentiers no matter what.

Regarding economic growth, the strategy not surprisingly failed. As a consequence of full neoliberalism, capital accumulation as a share of GDP slowed down at the same time that financial accumulation increased (Bruno et al. 2011). Real per capita income stagnated and unemployment rates stayed high throughout the period. Exports were meager, and after most state-owned assets were privatized, foreign flows of capital declined. This should have created fissures within the bourgeoisie, with the exporting sector and the industrial sector bearing the brunt of the structural change regarding the distribution of the economic surplus. However, their class interests trumped any other consideration, and they kept their political support for their right-wing government. The Brazilian oligarchy reorganized itself, and adapted to this major change in the development of world capitalism, accepting lower profits by means of production and sales and accepting bigger rentiers' incomes.

Nevertheless, the continuous poor economic performance coupled with the pro-capital policies that shifted income away from labor led to a political reversal, highlighting the fact that the oligarchical electoral system had failures. The workers' party, which had gradually abandoned its more radical demands, won the elections with a pro-labor and pro-poor platform. After winning the election, Lula had to retreat politically and declare in a letter to Brazilians that more radical measures, that is, a full rupture with the neoliber-

al program, would not be adopted. This accord to deliver the results expected and acceptable by the bourgeoisie facilitated a political truce with the moderate bourgeoisie, but sealed (actually entrapped) the fate of workers' party rule in the long run. That is, the political result (electoral victory of a social-democratic-clientelistic alliance) in itself was not relevant, only the guarantee that the 'appropriate' policies, that could not resume sustained growth and capital accumulation in the previous period, would still be pursued. So, the oligarchical rule could not be completely challenged, and yet the bourgeoisie had to accommodate, temporarily, a role for the workers and the poor in the policies of the Brazilian bourgeois State, and forfeit the income that was being also being shared with other classes and fractions. The global crisis did not hit strongly the Brazilian economy, suggesting a resilient economic setting, notwithstanding the financial fragility that characterizes capitalist economies in the current period.

Anyway, the influence of economics on politics became clear in the more recent Brazilian experience leading to the *coup d'Etat*. After that dismal economic performance under neoliberalism in the 1990s and beginning of the 2000s, Brazilian society, exhausted and hopeless, decided to change its political leadership within the rules allowed by the bourgeois institutions. Of course, political maneuvers among the ruling class were also necessary, in the previous period, to implement neoliberal policies that would potentially hurt a fraction of the bourgeoisie and overcome the economic crises of the 1980s and early 1990s – that is, the influence of politics on economics is also blatant. After the political change, when for the first time a mass left party was allowed to be part of a victorious coalition under bourgeois institutions, from 2004-2011 Brazil became an outstanding economic player in the world economy, presenting moderate growth rates of commodity production, lower unemployment rates, rising minimum wages, restrained inflation, and, for the first time in a very long time, falling income inequality, with slightly improved personal and mainly functional income distribution. This all happened despite the embracing of the macroeconomic policies from the unsuccessful neoliberal period. For instance, successful transfer income programs were responsible for eliminating extreme poverty for a large fraction of the population. Credit was expanded as never before, mainly by public banks. For the first time in history the country obtained the investment grade by the credit rating agencies.

The political change affected the economy in many other different ways. Capital accumulation, a major issue regarding the economic stability of capitalism, proceeded swiftly, and Brazilian capitalism seemed to takeoff after two lost decades. Despite the drag on realization represented by the type

of neoliberal macroeconomic policies adopted, i. e. the government sustained primary (excluding interest payments) budget surpluses above 3% of GDP for quite a long stretch of time, higher wages and credit seemed to even it out. Interest rates, although still one of the highest in the world, created another weakness in realization, but it fell from 2004 until 2013, and credit, with the support of public banks, grew at hefty rates. Inflation was mostly above the central point target established by the National Monetary Council, but within the tolerance intervals allowed. Exports in general, and of raw materials in particular, mainly to China, grew at substantial rates. South-South cooperation allowed the diversification of trade partners and the opening up of new markets to the Brazilian bourgeoisie. The current account deficits, a structural feature of an underdeveloped economy due to services and net property income from abroad, stayed close or below 3% of GDP, with a short period of surpluses. Brazil received continuous flows of foreign capital, accumulating sizable amounts of foreign currency. The global economic crisis of 2008-2009 did not have a strong impact on Brazil, and the economy grew above 7,0% in real terms in 2010, despite the fact that the capitalist economies in the more recent period are more fragile.

This relatively good economic performance, by its turn, fed back on the political landscape. President Lula da Silva, as a consequence of the continuation of the above trends, and of course in 2002 anything seemed better than the failed hard-core neoliberalism of the 1990s, was reelected in 2006, and President Dilma Rousseff, for the same reason, was elected in 2010 (Castro et al. 2014). Both won the elections on an attenuated social democratic platform that delivered better results than hardcore neoliberalism, although not only for the bourgeoisie. The political alliance with the clientelist center, led by the workers' party, had lukewarm support from a large number of parties, including traditional industrial and rural oligarchs. The defeated neoliberal right-wing proposals had no major repercussion in society, except for their sempiternal corporate and plutocratic media partners and isolated members of state bureaucracy. Complaints about very high wages and income transfers were heard, but with no further political actions coming from the bourgeoisie and the oligarchy. Corruption, intrinsic to the Brazilian State and political system, suddenly started being remembered continuously by the traditional corrupt elites and considered as a permanent feature of only progressive political alliances. The conservative branch of the judicial system started a campaign to criminalize the workers' party, with accusations and charges of unbridled corruption, without electoral success. Given the temporary weakness of the oligarchy, the *coup*-mongering corporate media presented itself as the real

political opposition in Brazil<sup>11</sup>.

An intriguing question must be raised. How these very same structural political and economic changes from the 1980s and 1990s, that caused the oligarchy to rule and the financial sector to thrive, but the rest of the economy to suffer, allowed the partial success of the governments of Lula and Dilma? The restricted democratic Constitution allowed a minimum social democratic program, but this required a coalition with the oligarchy, and Lula's vice-president was an industrial capitalist and he appointed an international banker for the head of the Central Bank. Lula was able to circumvent the monetary policy constraints of inflation targets by fostering industrial capital in a typical social democratic movement. This was accomplished by means of targeted credit policies, with the stock of credit as a share of GDP growing very fast (Teixeira e Costa Pinto 2012).

However, the high interest rates sustained a strong currency and created problems for the industrial bourgeoisie, although it kept the high financial revenues of financialization. At the same time, fiscal austerity added to a relatively lower level of realization of the surplus, but Lula was also able to promote redistributive policies with tax transfers that reduced poverty and stimulated the consumption and the internal market. Credit was also instrumental in getting a higher consumption pattern and a higher growth rate. Exports were stimulated by the growth of China and the South-South cooperation, with a new assertive diplomacy. Since investment dropped substantially as share of output under the neoliberal regime, it could resume rapidly under Lula, but without changing the backward economic structure. State-owned Petrobras, a pariah under Cardoso, not privatized for lack of time, also boosted capital accumulation. Minimum wages were increased rapidly, and with it the other wages, reducing the income concentration. Labor shares of income increased and, given a declining rate of exploitation, may have caused a profit squeeze that took capital accumulation down, as shown above.

Historically, higher wages have led to a higher composition of capital in advanced capitalist countries (Marquetti 2004). In less developed countries, on the other hand, higher wages have led to political authoritarianism and maybe violence to revert it politically. This is a significant part of the explanation for the recent *coup d'Etat* in Brazil. Wages and salaries increased fast, with support from the central government, outstripping productivity changes and, as a consequence, reduced the profit share of income. As stated before,

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11 The President of the Brazilian National Association of Newspapers and an employee of coup-monger newspaper Folha de São Paulo, Maria Judith Brito, declared in 2010 that the media was the major real opposition to progressive governments, since the right-wing political parties were too fragile (Albuquerque 2016)

according to Marx, crises usually are preceded by rising wages and benefits to workers. In Brazil indeed there was an unprecedented improvement in workers' pay before the start of the twin crises. As shown above, higher wages, coupled with the decline in the rate of exploitation of labor, caused a profit squeeze and a political as well as economic interruption of capital accumulation as a way to reduce the legitimacy of the government and get the oligarchy fully back in power. When the strike failed politically, the recession started destroying capital, a political crisis was concocted, precipitating the need for a political *coup d'Etat*.

### **Even Deeper or Longer-Run Structural Problems and the Contradictions of the Neoliberal Vendetta**

The neoliberal restoration proposed by the oligarchy after the *coup* is not likely to solve the structural economic problems that neoliberalism caused in the first place. Regarding the external trade, Constantinescu et al. (2015) argue that the slowdown in world trade and income is structural, not cyclical. If it is true, it should not be reverted soon, creating problems for the Brazilian exporting industrial bourgeoisie. Regarding the dynamics of income in advanced capitalist countries, stagnation has been considered the new normal, and is not likely to grow in the rhythm necessary to boost underdeveloped economies. Remaining state-owned assets will not generate a huge amount of fiscal revenues when privatized, but the ensuing outflows of foreign income will cause additional problems for the balance of payments and for the funding necessary for potential domestic capital accumulation. High unemployment and lower wages will subdue inflation, but high interest rates will continue to feed financial accumulation and restrict industrial capital accumulation and output growth. Another possible way seen by bourgeoisie is to slash labor costs and taxes, reducing the state's ability to raise funds to implement pro-labor policies. Additionally, freezing state expenditures on health and education will cause poverty levels to increase, and at first will represent a major drag on the realization of potential profits generated by crushing workers' compensation (wages and benefits) – a continuous under-consumption replacing the profit squeeze as the most important driver of the crisis. On the other hand, the Brazilian state has been very generous in terms of subsidies and credit to cheapen capitalist production. Actually, this is one of the reasons for capitals originated in Brazil not being wiped out by foreign competition. Fiscal austerity, if implemented as planned by the market fascism (a term coined by Samuelson to explain neoliberalism in Chile after the *coup d'Etat* in 1973 – and the comparison here is appropriate for the old-new times) of the

new economic policymakers, will represent a nail in the coffin of the Brazilian industrial bourgeoisie.

The single most important issue facing the neoliberal oligarchy, therefore, is how to resume industrial capital accumulation after the *coup*. It should be emphasized that, restoring capital accumulation for the big Brazilian and foreign bourgeoisie appropriating profits in Brazil is not about accumulating industrial capital *per se*, but improving capital accumulation so as to compete with other foreign capitals seeking profits in world markets. That is, Brazilian capitalism has to catch up with the most dynamic capitalist trends if it is to survive without State support. This requires a focus on innovation that is beyond Brazilian bourgeoisie. This is its greatest and deepest constraint. For instance, the Bloomberg innovation index, a composite index made up of seven items (R&D intensity, manufacturing value-added, productivity, high-tech density, tertiary efficiency, researcher concentration, and patent activity) ranks the most innovative countries since 2013<sup>12</sup>. This means that overall innovative activity is not a feature of Brazilian bourgeoisie. Of course, it would be necessary to account for the role of government, mainly public universities and federal and state funding agencies, in all the major components of the index. It is worth mentioning here two federal programs of incentives for fostering innovation in Brazil under Lula (PITCE) and Dilma (PBM). If we exclude the government, directly and indirectly, it is doubtful if the capitalist class, including the increasingly internationalized fractions, could still change the overall picture and be ranked among the top 100.

The consequence of this failure, regarding the industrial capital, is a long-term transition from manufacturing, developed to be the center of capital accumulation in Brazil over a time span of more than 50 years, to agriculture (Petras 2013). The manufacturing fraction of industrial capital has been stagnating since the 1980s, and the hiccup allowed under the social-de-

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12 In 2012 Bloomberg published the Innovation Quotient, evaluating 20 countries for 10 years. Of course, Brazil was not ranked among them. The global rank with 50 countries was first calculated in 2013, but even if it was stretched far back in history the result would likely not have been different. Brazil was not among the top 50 in 2013, despite the fact that the number of countries ranked more than doubled. In 2014 the company published the top 30 countries. Brazil was not among them. In 2015, the index covered the top 50 again, and Brazil ranked 47<sup>th</sup>. It dropped from the rank in 2016. The frequent changes in the ranking of the countries suggest that the measurement is volatile. There are other problems. To mention only two, manufacturing value added per capita is a measure of productivity. Also, the higher the expenditure on R&D, the higher the value added. Nonetheless, it is clear that the Brazilian bourgeoisie is not able, despite all the government support to boost their profits, to innovate and accumulate capital according to the current stage of global capitalism. Besides that, to quote another *The Economist* piece, "(...)a big reason for Brazilian firms' underperformance [in the rank of the best global companies] is less well rehearsed: poor management." (*The Economist* 2015b).

mocratic-clientelistic accord was not enough to bring it back to the center of capitalist accumulation. This movement is made clear by the reprimarization of the export basket, since exports are the first to suffer competition from more able bourgeoisie around the world. The agricultural fraction is unable to foster technological advance by definition (contrary to what is argued by many agricultural oligarchs, it can use technology intensively, but not produce technology like laboratories and universities in the tertiary sector or the machine and equipment sector in manufacture). If the agricultural fraction of industrial capital gets the upper hand in the new power bloc after the *coup*, and there is no sustainable technical and economic linkages between manufacturing and agribusiness deepening the agro-industrial complex created by the State after the 1964 coup, the former is likely to continue its long process of decay.

This longer-term structural incapacity of the Brazilian industrial bourgeoisie to lead a process of capitalist development based on accumulation geared to innovation, invention, and diffusion of technical progress has long been known to scholars. For instance, the branch of the dependence theory developed by Enzo Falletto and Fernando Henrique “Assomons le pauvres” Cardoso in the 1960s considered this a major feature of dependent and associated development in Latin America. In their view the process of capitalist development could be led only by the international capitalists, with the native bourgeoisie being at most a minor partner. Another branch of the dependency theory, associated with Andre Gunder Frank, provided the best definition for the Brazilian bourgeoisie: Lumpenbourgeoisie (Frank 1972). Jorge Bernstein (2016) provides a more recent account of the decadence of lumpenbourgeoisie in Latin America. All interventionist proposals to develop capitalism in Brazil, and the same is true for their neoliberal counterparts, assume a universally able bourgeoisie throughout the capitalist system, a money-bag that, by seeking a larger quantity of money, tends to cause the contents of the bag to spillover to society in the form of productivity gains, employment, and technical progress, given the proper (technical or scientific) political conditions. This has not been the case in underdeveloped countries, with a few exceptions that are treated ideologically as the rule. This has clearly not been the case in Brazil. The degree of underdevelopment of Brazilian bourgeoisie points to a Sisyphus effort on the part of the policymakers and developmental intellectuals in developing capitalism in Brazil as an emulation of the advanced stage of world capitalism.

A remarkable structural feature of the Brazilian lumpenbourgeoisie is its permanent status as comprador (Amin 2011 explains the concept). Tax subsidies and credit may not translate into increased capital accumulation in Brazil, but it is very likely to boost the housing market in Miami-Dade.

The Brazilian lumpenbourgeoisie, or at least part of it, is usually amongst the top buyers of real estate in Miami, Florida. In a survey conducted by the Miami Realtors Association (MRA 2016), Brazil ranks second in the 2015 survey (with 12% of all sales, against 13% of Venezuela), after being third in the 2014 survey (usually being ranked between second and third from 2011 on). Of course, it is not only the bourgeoisie, since what it produces is only lumpendevelopment. Their acolytes in the state bureaucracy are equally eager to sound “sophisticated” and be part of the international jet set by buying property in Miami-Dade. A famous former Brazilian justice used a fiscal haven to buy property in Florida and avoid collecting taxes that pay for the extremely high salaries of judges in Brazil. This is not only about real estate, either. According to a McKinsey & company report (McKinsey 2014, 2):

Some 80 percent of all Brazil’s luxury goods spending takes place abroad while wealthy Brazilians are travelling, mostly to destinations in the U.S. and Europe. Brazilians spend more on luxury in the U.S. than visitors from any other nation

This structural feature cannot be fully discussed here due to space constraints. Cattani (2013) provides a detailed research about the wealthy in Brazil, whereas Cuadros (2016) deals with the question from a journalistic perspective.

Regarding the structural institutional features, the system of political parties currently in place was inherited from the corporate-military dictatorship and is completely anti-democratic and therefore anti-labor and anti-popular. As claimed before, capitalists interests represented by financial contributions to the political campaigns (buying politicians wholesale) require that the results are always in their favor, it does not matter which political coalition wins the elections. The appearance of workers’ party and the institutions of organized labor in urban as well as in rural areas represented a major threat to their ruling. Besides that, Brazilian oligarchies and the bourgeoisie are by their very nature authoritarian, supporting *coups d’Etat* whenever their money cannot buy the politicians that will deliver the best results for their interests. Actually, some capitalists even tortured political prisoners during the 1964-1985 dictatorship.

This anti-democratic feature is combined with a neo-fascist segment of the high middle classes who think that they are part of the oligarchical bourgeoisie, and the low middle classes who think that they belong to the high middle class. This phenomenon was studied by Burris (1986). Of course, the middle class tends to be heterogeneous and complex, and the mistakes of misinterpretation emphasized by Orwell (1968) must be born on mind. Feld-



man (2008) provides a profile of neo-fascists that is consistent with the behavior seen in Brazil, mainly the nationalist bias (wearing the Brazilian national team jerseys to protest against the ‘corruption’ - that is, against the poor). So, this fraction is very well represented in the chamber of representatives and in the Senate. The grotesque spectacle in the lower chamber on March 17<sup>th</sup>, with the pentecostal representatives screaming and dancing, invoking god and family to deliver the first blow to the restricted democracy, corresponds to the neo-fascist segment of the middle classes. The reborn neo-fascism remained anesthetized with the end of the corporate-military *coup* and the rise of the organized left. But the limited social transformations allowed by the social democratic compact awoke them. The increased number of students from working class background in the universities created a stir. The neo-fascist middle class feels that this has challenged their place in society, because universities are not considered, in their world view, appropriate institutions for the working class and the working poor. The same is true about airports and air travels, with a bulk increase in the number of first-time working class fliers. Workers and the poor are not supposed to travel by plane. Actually, in their neo-fascist view, they are not supposed to travel at all. They talk about meritocracy and effort all the time, but they do not approve of competition. They have a cast-based society in their mindsets. Their violent reactions against change reflects what Gordon and Busseri (2012) found to be an association between conservative preferences for prejudice and lower cognitive ability.

In sum, this structural political elements were combined into an inversion of what Christopher Lasch (1996) called ‘The revolt of the elites’ regarding the US. Lasch lamented the rise of technocracy and the lack of religion and spirituality. In Brazil, the revolt of the elites reflect a lack of technical progress and technological development, opening room for religious zealotry. The longer-term structural trend is therefore essentially about economic and political backwardness.

## Conclusion

The Brazilian twin crises represent, first, a cyclical political and economic crises of Brazilian capitalism, with a profit squeeze, underconsumption, and an accumulation strike by capitalists, with elements of misguided neoliberal policies targeted at revamping profit expectations and capital accumulation, aiming at boosting commodity production and maintaining employment levels. The cyclical economic instability led the authoritarian oligarchy to launch a major effort to overthrow an already restricted democracy, bringing about a *coup d’Etat*. Once accomplished, the oligarchical restoration

has been leading Brazil to a re-encounter with the failed full-neoliberal policies of the 1990s and early 2000s. These processes reflect growing real wages and declining exploitation, causing a profit squeeze. Continuing austerity policies contributed to underconsumption. Coupled with attempts to reduce interest rates and parasitic financialized gains, it led to a political and economic backlash. Yet, the crises represent also structural economic and political crises of underdeveloped Brazilian capitalism, with an industrial bourgeoisie that is unable to lead a process of capitalist development based on innovation-inducing capital accumulation. Coupled with the structural authoritarian feature of the Brazilian bourgeoisie, a backward state bureaucracy, a neo-fascist middle class, and a *coup*-mongering and anti-labor media, the crises are actually a collection of multiple structural trends coupled with cyclical economic and political crises.

The problem with Brazilian capitalism is its ruling class and the illusion that it can be a catalyst to socioeconomic development. The Brazilian lumpen-bourgeoisie has historically been pushed to produce and to invest only when significant support from foreign capitalists and mainly from the central state took place. On its own, the Brazilian bourgeoisie cannot survive world capitalist competition. Policies targeted at increasing the accumulation of industrial (productive, including agribusiness) capital is a waste of social resources and may only in very narrow circumstances cause a period of rapid growth, like the one between 2004 and 2012 under Lula da Silva and Dilma Rousseff. And sole under the narrowest of the circumstances, like the ones existing under the social-democratic-clientelistic accord, the unlikely growth will translate into better living standards for the majority of the population.

Thus, the current twin crises are the result of an oligarchical bourgeoisie eager to maintain the country's income, wealth and political rule concentrated and not shared. Since aggregate income and surplus fall during cyclical crises, and interest payments can never be challenged in Brazil, an increased appropriation of a falling surplus by the manufacturing fraction of the bourgeoisie can be obtained only with an even larger drop in the incomes of workers and the assistance for the poor. Given that the capitalist world market right now is not able to provide additional room for the production and circulation of surplus at the current juncture, the result is a recession that deepens, without the possibility of a structural recovery. The situation is worsened by a lumpen-bourgeoisie, structurally unable to invest and to innovate on its own, who tries circumscribe the effects of the crises to the majority of the population, gearing the economic and political systems to attend their primitive interests, to attack labor and social rights by imposing cutbacks on social spending and by means of channeling the meager state funds crushed

by neoliberal policies, to its pockets, either directly with subsidies or indirectly via tax evasion.

The political crisis that led to the *coup d'Etat* is the consequence of such an aggressive behavior of the lumpen-bourgeoisie against workers, the poor, and against democracy. Accepting some democracy, no matter how minimum it is, among the ruling class has been the exception, not only in Brazil, but this country is an example of a lumpen-bourgeoisie without any respect for the rule of the law, unless the laws are only in their favor and not universally enforced. There is no escape from the old statement: Lumpen-bourgeoisie, lumpen-development, lumpen-institutions. The twin crises are a reflex of that complex underdevelopment. Elected Turkish President Recep Tayyip Erdogan affirmed recently, regarding the failed attempt at an old-fashioned *coup d'Etat* in his country, that Turkey is not a Latin American country. Brazil, unfortunately, *mutatis mutandis*, and as a prime example of a second-rate Banana Republic, cannot claim the same.

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#### **ABSTRACT**

This essay provides a critical interpretation of the origins of the current combined economic and political crises in Brazil. It is argued that the twin crises reflect both cyclical and structural elements typical of capitalist economies, yet with specific elements reflecting the underdeveloped status of Brazil, its oligarchical bourgeoisie, and its history.

#### **KEYWORDS**

Brazilian Capitalism; Economic Crisis; Political Crisis.

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# POLITICAL ECONOMY OF TRADE WITH THE EUROPEAN UNION: SOUTH AFRICA'S PURSUIT OF NARROW SELF-INTEREST

Oscar van Heerden<sup>1</sup>

## Introduction

This paper explores how South Africa fits into the regional pattern of trade and what a Free Trade Agreement (FTA) with the European Union (EU) meant for South Africa's regional trading partners. The trade agreement provides an illustration of this facet of South Africa's foreign policy with a particular consideration for how this has affected SACU and the SADC region. It clearly demonstrates an instance when South Africa opted to negotiate with a major global economy without taking into consideration its SADC partners, choosing to "go it alone" instead. This is an interesting scenario as it demonstrates South Africa's potential to act in isolation – independently from its region. It puts into question South Africa's need to bring its region along with it to the negotiation table. At the same time, however the tensions that have emerged in the region, among SADC members, about this very position, have been difficult for South Africa to manage. As such this is a scenario of South Africa acting alone highlighting its pursuit of narrow national interests and the resulting repercussions for its regional partners. The primary research question in relation to this instance is the extent to which the SADC region was a constraint or an opportunity for South Africa during these Trade, Development and Cooperation Agreement (TDCA) negotiations.

The paper begins with a brief account of the reasons for the selection of this external relations example which is followed by a short description of the economic constraints of South Africa. A detailed synopsis of the main events relating to the South Africa/EU trade negotiations from 1995 to 2008 is then presented, before this process is analysed in relation to objectives and

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outcomes by the various stakeholders.

## History of EU/South Africa trade relations

To provide the economic context for this example, the South Africa–European Economic Community (EEC), and later the EU, trade flows are analysed for the period before the TDCA (1958–2000). A short description of the regional economic context is then provided. These provide the historic and economic contexts to the TDCA negotiations.

South Africa has a population of 46 million people and a GDP of \$570,2 billion. As the nineteenth largest economy in the world at the time of TDCA agreement, it is seen as the economic powerhouse of Africa (Burger 2006). The EU, on the other hand, has a population of 494 million people and a GDP of \$13 881 Trillion (Burger 2006). Since South Africa is the largest economy on the African continent and popularly seen as the gateway to Africa, and in light of its recent historical break (at the time) with the apartheid system, which left the socio-economic conditions in a terrible state, it makes sense why these two would want to engage in a free trade agreement. The Trade, Development and Cooperation Agreement (TDCA) which the two countries entered into, was established in January 2000.

In order to understand the trade negotiation context better, one must reflect on the historical patterns of trade flows between the parties. Such historic analysis must take into account the changes in the South African political landscape since 1994. The pivotal role of the transition to democracy is recognised by the South African Department of Foreign Affairs in its description of South Africa–EU relations:

The advent of a new democratic political dispensation in South Africa in 1994 marked the dawn of a new era in South Africa–EU relations. The legal framework that governs South Africa's relationship with the EU is the Trade, Development and Co-operation Agreement (TDCA), which is premised on political dialogue, trade and economic co-operation, and development co-operation (Burger 2006, 277-315).

However, while the new South African government took shape in 1994, the TDCA was only provisionally implemented on 1 January 2000 and came into force fully on 1 May 2004.

Table 1 presents the key events that were of major economic significance in South African foreign relations with the EU, prior to 1995:

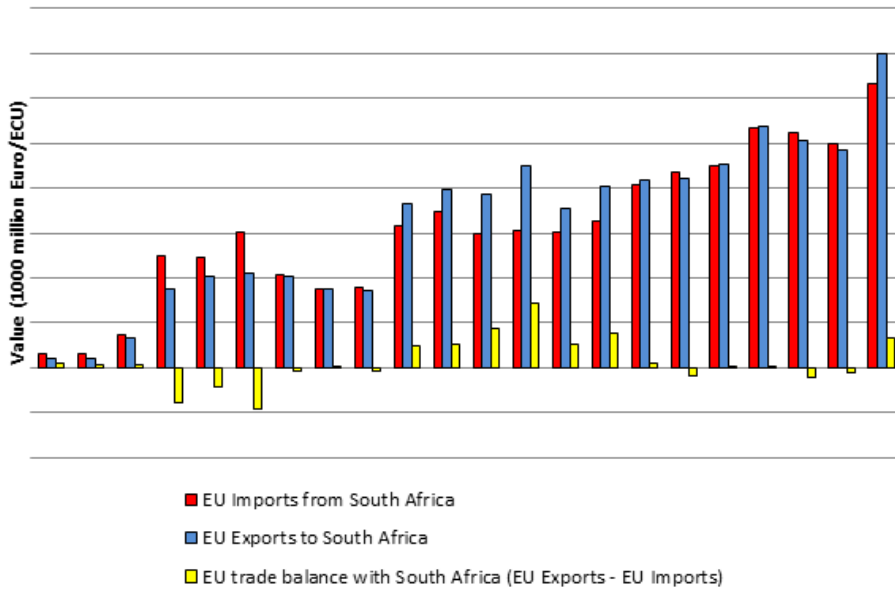
**Table 1: Key EU–South Africa economic events prior to 1995**

Date	Key event
17 August 1992	The Declaration and Treaty of SADC "Towards the Southern African Development Community", adopted in Windhoek, Namibia, by Heads of State or Government of Southern African States, calls upon all countries and people of southern Africa to develop a vision of a shared future, a future within a regional community.
Mar-93	Publication of "The restructuring of the South African Economy: A Normative Model Approach (NEM)"
Dec-93	Macro Economic Research group (MERG) growth plan final report published
Dec-93	Small International Monetary Fund (IMF) compensatory financing facility draft letter of intent accepted by the ANC
Jan-April-94	Reconstruction and Development Programme (RDP) is electoral manifesto of the ANC
Apr-94	South African transition to democracy with first democratic elections
1994	South African becomes a member of SADC
May-94	Inauguration of President Nelson Mandela
Soon after May-94	Offer from EU to develop a "new relationship that could contribute to economic growth and development and thus to the strengthening of democracy in South and Southern Africa"

As illustrated in table 1, the SADC regional structure was only established in 1992, and South Africa was not a member at the time. South Africa was focused on its domestic transition to democracy, and its economic focus was on the "Normative Model Approach" of the National Party government of 1993, which then led to the Reconstruction and Development Programme (RDP) part of the election manifesto of the African National Congress (ANC) in 1994.

Given that the TDCA focused primarily on trade between the two parties, it is important to also understand the historic patterns of the trade relations between the two parties. This provides the background trade context in which the TDCA was negotiated. As the agreement was only signed in 2000, the historical trade patterns between the two parties prior to this date are described. EU trade with South Africa during this period is represented in Figure 1.

Figure 1: EU trade with South Africa (1958–2000)



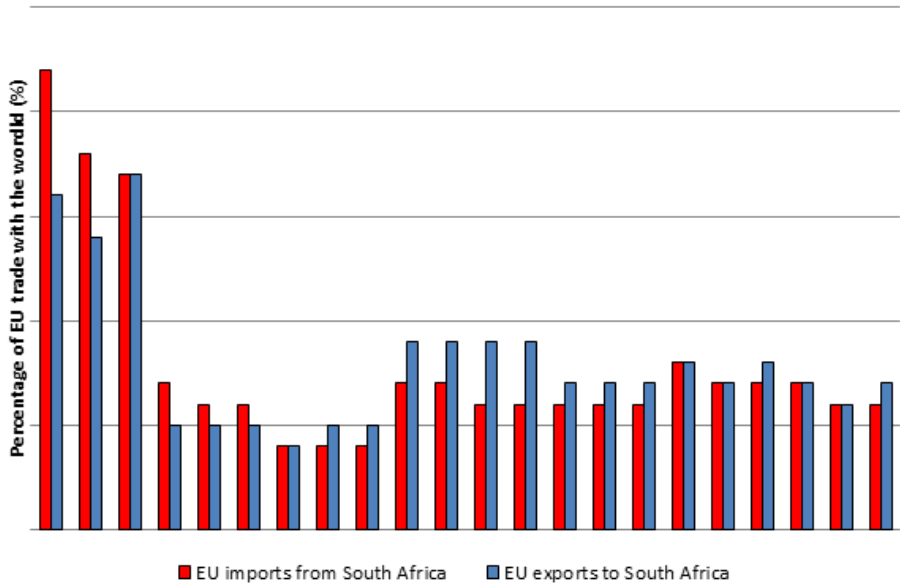
Source: South Africa Country data extracted from European Commission, Euro Stat<sup>2</sup>

During the period from 1958 to 1980 there was a trade deficit with the EU importing more to South Africa than it exported from this country. This pattern continued until 1988 which saw a trade surplus in EU trade with South Africa. From 1988 to 1994 there continued to be a trade surplus. This roughly coincided with the period of international sanctions against South Africa, which officially ended in 1991. From 1995 to 1999 EU exports to South Africa largely matched EU imports from South Africa, with slight trade deficits evident. In 2000 there was once again a trade surplus in EU trade with South Africa. The EU trade balance with South Africa has fluctuated and that the differences in relative value of imports and exports on a year-by-year basis have been relatively small.

The overall share of global trade that South Africa represents for the EU is particularly important as it shows South Africa's relative importance while removing the effect of inflation. This is presented in Figure 2.

<sup>2</sup> Note that data is for 1958, 1960, 1970 and then from 1981 annually.

Figure 2: EU trade with South Africa trade as percentage share of EU–global trade (1958–2000)



Source: South Africa Country data extracted from European Commission, Euro Stat<sup>3</sup>

In 1958, 1,6 per cent of all EU imports were from South Africa and 2,2 per cent of EU exports were to South Africa. By the early 1980s this had dropped substantially, with the percentage share of imports and exports being 0.3% and 0.4% respectively. The decline in EU imports from South Africa in the apartheid period of international sanctions against South Africa is evident in the late eighties and early nineties. It also clearly demonstrates that EU trade with South Africa is relatively minor from an EU perspective, contributing less than one percent of its global trade.

The same is not true from the South African perspective. For South Africa, the EU is a major trading partner, accounting for 42 per cent of South African imports and 33 per cent of its exports in 2001.<sup>4</sup> By way of comparison in 2001, South Africa accounted for 0.7 per cent of the EU imports and

<sup>3</sup> Note that data is for 1958, 1960, 1970 and then from 1981 annually.

<sup>4</sup> Trade data on the EU share of South Africa trade with the world in 2000 was not obtainable. As such 2001 has been used. Source: "EU Bilateral Trade and Trade with the World (ACP including South Africa)," DG Trade, Trade Statistics, European Commission, EuroStat, September 2006. Accessed March 11, 2011. <http://trade.ec.europa.eu/doclib/html/111465.htm>

0.6 per cent of exports to the world (European Commission, EuroStat). These numbers underscore the asymmetric nature of the partnership. Despite the quantitative differences, the importance of South Africa in relation to its domestic, regional and international positioning remains considerable.

It was only after the implementation of the EU–South Africa TDCA (in January 2000), that a recommendation to consider economic regional integration issues was put forward in SADC structures (in March 2001). This was followed by a SADC Memorandum of Understanding on Macro-Economic Convergence (in 2002). It was only in 2003 that SADC released the draft Regional Indicative Strategic Development Plan (RISDP) as a demonstration of its commitment to deepening the integration processes among its members. The RISDP is intended to

provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged, through regional integration (Draper, Alves and Kalaba 2006).

So while the SADC was relatively new at the time of negotiating the EU–South Africa TDCA, and South Africa had only joined after its transition to democracy, it is a very important role player when consider the impact of the TDCA on the southern African region. As such it is important to reflect briefly on the trade dynamics between SADC member states. South Africa makes up the lion's share of SADC trade with the world. South African imports account for, on average, 78 per cent of the SADC imports from the world for the period 1999–2004.<sup>5</sup> South African exports were an average of 72 per cent of the SADC exports during the same period.<sup>6</sup>

South Africa is also the dominant player in SACU. This is evident when considering SADC trade data with the world in 2003. South Africa accounted for 75 per cent of the exports and 70 per cent of imports. Other SACU members had a much smaller share of the trade flows.<sup>7</sup> South Africa

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5 Own calculations from data extracted from: SADC Trade Development Programme (Online), SADC trade Database: "SADC 2007 SADC HS4 trade", developed by the Australian Agency for International Development (AusAID) and Trade and Industrial Policy Strategies (TIPS). Accessed March 11, 2011. <http://data.sadctrade.org/st/TableViewer/tableView.aspx>.

6 Own calculations from data extracted from: SADC Trade Development Programme (Online), SADC trade Database: "SADC 2007 SADC HS4 trade", developed by the Australian Agency for International Development (AusAID) and Trade and Industrial Policy Strategies (TIPS). Accessed March 11, 2011. <http://data.sadctrade.org/st/TableViewer/tableView.aspx>.

7 Own calculations from data extracted from: SADC Trade Development Programme (Online),

is the dominant player in both SADC and SACU and its membership in both bodies is the source of some regional tensions.

## Key events in the South Africa/EU TDCA process

The following table presents the key events that were of major economic significance in South African foreign relations with the EU, from 1995 to 2008.

**Table 2: Key EU–South African relevant economic events from 1995 to 2008**

Date	Key event
Soon after May 1994	Offer from EU to develop a "new relationship that could contribute to economic growth and development and thus to the strengthening of democracy in South and Southern Africa" (Davies 2000)
1996	So-called butterfly strategy developed by the South African Department of Trade and Industry prioritised development of relationships with the developing world: Africa (the body of the butterfly), in the Indian Ocean rim and Asia including China (one of the wings) and Latin America and the Atlantic (the other wing)
1996	The SADC Protocol on Trade was signed in Maseru, Lesotho
March 1996	Mandate given by the EU Council to seek exclusion of a long list of products (making up 46% of South Africa's current agricultural exports to the EU)
June 1996	Growth Employment and Redistribution: A Macro-economic strategy (GEAR) report proposes an accelerated programme of privatisation, deregulation and fiscal restraint. It targets a 6,1% growth rate and the creation of 409 000 jobs per annum by the year 2000.
1997	European commission Green Paper on relations between the EU and ACP countries on the eve of the twenty-first century: challenges and opportunities for a new partnership
1997	South Africa admitted to the Lomé Convention with extremely restricted conditions
End of 1997	South Africa presents a detailed trade offer to the EU
Early 1998	EU presents a detailed trade offer to South Africa

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SADC trade Database: "SADC 2007 SADC HS4 trade", developed by the Australian Agency for International Development (AusAID) and Trade and Industrial Policy Strategies (TIPS). Accessed March 11, 2011. <http://data.sadctrade.org/st/TableViewer/tableView.aspx>.

Date	Key event
<b>June 1998</b>	South Africa's qualified membership of the Lomé Convention comes into effect
<b>29 Jan 1999</b>	South African and EU Commission agreement on text in Davos Switzerland
<b>24 March 1999</b>	Heads of government of the EU give approval for a TDCA
<b>26 October 1999</b>	COSATU submission on EU-RSA Trade and Development Cooperation Agreement, presented to a joint sitting of the portfolio committees on trade and industry, foreign affairs, agriculture and land affairs, and the NCOP select committee on economic affairs
<b>2000</b>	Expiry of Lomé IV convention (EU-ACP)
<b>January 2000</b>	Implementation of SA-EU TDCA
<b>April 2000</b>	Africa – EU summit held in Cairo
<b>1 September 2000</b>	Implementation phase of the SADC Protocol on Trade which encompasses the establishment of a Free Trade Area by 2008 (Burger 2002, 146).
<b>2000/2001</b>	The establishment, through Trade and Investment South Africa (TISA) of the Department of Trade and Industry, of "trade and investment promotion offices on the continent for the purpose of facilitating trade and investment between South Africa and the continent .... [African] offices are located in Egypt, Nigeria, Ghana, Uganda, Kenya, Ethiopia, Tanzania, Zimbabwe [and] Mauritius" (Burger 2002, 144).
<b>March 2001</b>	Review Report approved by the SADC Heads of State and Government at the Extraordinary Summit held in Windhoek, Namibia, which recommended, among other things, the formulation of a Regional Indicative Strategic Development Plan (RISDP)
<b>August 2001</b>	Amended Declaration and Treaty of SADC, signed in Blantyre
<b>September 2001</b>	Conclusion of the new Southern African Customs Union (SACU) Agreement, in which the International Trade and Economic Development Division of the Department of trade and Industry (ITED) played a pivotal role (Burger 2003, 159).
<b>2001/2002</b>	The South African Department of Trade and Investment is "mandated the task of providing support services to the establishment of NEPAD" (Burger 2003, 157).
<b>February 2002</b>	Wine and Spirits agreement between South Africa and the European Community signed (Burger 2003, 159).
<b>2002</b>	SADC Memorandum of Understanding on Macro Economic Convergence



Date	Key event
March 2003	Draft Regional Indicative Strategic Plan released by SADC secretariat
July 2004	New SACU agreement comes into force (Burger 2007, 169).
August 2004	SADC secretariat finalising the mid-term review on the implementation of the SADC Protocol on trade
Mid 2005	All SADC countries (with the exception of Angola, the DRC and Madagascar) were implementing the SADC Trade Protocol (Burger 2007, 169).
August 2005	SACU concluded a Free Trade Agreement with European Free Trade Area (FTA) States (Burger 2007, 170).
August 2005	South Africa and the EU signed the Enlargement Protocol, which provides for South Africa to extend the TDCA preferences to 10 new member states and vice versa (Burger 2007, 170).
March 2006	SADC proposal for a way forward vis-à-vis the EU, a framework in which the revised TDCA is to play a key role
Mid 2006	Substantial progress on harmonising documentation, and procedures, and in preparing the Memorandum of Understanding (MoU) on Cooperation and Mutual Assistance among Customs Administrators in SADC countries (Burger 2007, 169).
December 2007	EU Africa summit held in Lisbon

In economic terms the most significant event in the above sequence was arguably the shift in macroeconomic policy from the RDP policy document to GEAR. Another important event was the fact that South Africa had wanted to attain full membership of the Lomé Convention through which it would have qualified for various forms of developmental assistance and aid. However South Africa was not, at first, admitted to this agreement, and when it was later, this was only with qualified membership. The reason was that South Africa plays a dominant role in trade between the African Caribbean Pacific (ACP) countries and the EU. Southern African Customs Union (SACU) countries (other than South Africa), together with the ACP countries were signatories to Lomé. For the EU, taking into consideration the economic plight of many of the Lomé signatories and their low economic base, a blanket approach and concessions from the EU would greatly advantage the South African economy. This has implications for the impact of the TDCA on the regions, which are examined later in this chapter.

Finally the above sequence of events clearly shows that South Africa's involvement in, and membership of SADC, ran in parallel to the TDCA negotiation process.

## The South Africa/EU TDCA

A Free Trade Agreement (FTA) signed in 2000 between South Africa and the EU committed South Africa to grant duty-free access to 86 per cent of EU imports over a period of 12 years, while the EU committed to liberalise 95 per cent of South Africa's imports over a ten-year period (Southern African Development Community Cooperation in Standardisation). It was expected that the TDCA would help to restructure the South African economy and stimulate long term economic growth (Southern African Development Community Cooperation in Standardisation). Rob Davies, South Africa's deputy Minister of Trade and Industry, reflected that the main objectives of the TDCA were to address "the problem that South Africa had the worst possible terms of access into the EU market".<sup>8</sup> He also indicated that the agreement covered "trade and related issues, co-operation in economic, social and political fields".<sup>9</sup> The agreement also provided "a legal framework for ongoing EU financial assistance on grants and loans for development co-operation, which [amounted] to R900 million per year". (Southern African Development Community Cooperation in Standardisation). The main provisions of the FTA were agreements on:

- An asymmetric timetable;
- Identification and protection of sensitive products;
- The integration of South Africa into the global economy;
- The introduction of the "rules of origin" doctrine;
- Cooperation in diverse fields.

Each is explained briefly below.

An asymmetric timetable was agreed upon by both parties in the agreement. This meant that while the trade agreements were reciprocal, each party had different timeframes for achieving the targeted objectives. Generous timelines were specified for both parties to ensure mutual benefit within the time frame agreed upon. Given the massive restructuring agenda of South Africa, the EU agreed that it would open up its markets faster than

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8 Interview with Rob Davies, Deputy Minister of Trade and Industry, Pretoria, conducted early 2009.

9 Interview with Rob Davies, Deputy Minister of Trade and Industry, Pretoria, conducted early 2009.

would South Africa.

The identification of certain sensitive products was deemed necessary by both parties to agree on the protection of key sectors. This was done especially where there were seen to be undue impact on South Africa's neighbouring trade partners. Thus, some products were excluded from the agreement in order to protect vulnerable sectors on both sides. These were mainly agricultural products. From the South African side, products which are of interest for those neighbouring countries within SACU were also excluded. South Africa wanted products from the motor vehicle industry, textiles and clothing to be excluded while the EU wanted mainly agricultural products to fall within this ambit (Southern African Development Community Cooperation in Standardisation). This was of particular importance for both parties since there was a tacit understanding that if the parties did not confine these sensitive products to the periphery of the trade agreement, endless problems would have been encountered by the negotiating teams.

The agreement also wanted to ensure the integration of South Africa into the world economy. This is made explicit in the following extract on the aims of the FTA:

The creation of the FTA aims to end South Africa's economic isolation following the Apartheid regime by helping to promote economic growth. In this respect, the free trade agreement fully complies with the rules of the World Trade Organisation (WTO), the key organisation of the world economy (Southern African Development Community Cooperation in Standardisation).

In addition to the above, the provisions of the TDCA extend to cooperation in fields as diverse as:

- Social cooperation, where both parties committed to initiating dialogue on this subject in order to tackle questions relating to the social problems of a society coming out of an era of apartheid. They both guaranteed basic social rights such as the freedom of association;
- Co-operation to protect the environment;
- Cultural cooperation;
- Co-operation in the fight against drugs and money laundering; and
- Co-operation in the field of health and, in particular, the fight against AIDS (Southern African Development Community Cooperation in Standardisation).

The above was particularly important for the EU since most countries were in agreement that given the history of South Africa, it needed help beyond the economic front. Apartheid had left the country with many social and political woes and hence an economic package in the absence of tackling these components would be a futile exercise.

## Analysis of the South Africa/EU TDCA process

With the above understanding of the main events that have transpired in the EU–South African TDCA, of the South African economic context at this time, and of the substance of the TDCA, it is now possible to provide an analytical interpretation of them. This analysis is conducted in order to reflect on the interplay between South Africa's foreign policy behaviour at the regional and international levels in this economic example. This section examines the South African government objectives, and the outcomes of these both domestically and regionally in relation to the EU TDCA.

An examination of the ACP trade data shows that South Africa dominates not only intra trade among the signatories but also trade with other countries in the world, and is clearly not in the same economic position as the other ACP countries.<sup>10</sup> This makes it clear why the EU decided to only allow South Africa qualified membership into the Lomé Convention. When asking the question why the EU did not accept South Africa as a full member of Lomé, one must look at a number of reasons. According to Hill (2001), European motives were clearly a mixture of the internal and the external. He argues that internally, ministers were always aware of the perceived threat that South Africa posed to both European farmers and industrial workers, by virtue of its semi-developed position. He continues that, externally, the EU's motives were rather more statesmanlike and less obviously self-interested. The EU's interests lay not only in seeing South Africa recover politically and blossom economically, but also in seeing it become the engine of growth in the whole of southern Africa, a region that has been blighted by war, poverty and disease since the 1970s. The EU wished to see regional integration develop in southern Africa, and this would not have happened if South Africa had acceded to the trade and aid chapters of Lomé (Hill 2001). Given the relatively small economies of the ACP economies, with preferential stipulations from the EU a necessity when dealing with such economies, a useful and constructive engagement with an economy such as South Africa would simply not

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<sup>10</sup> Data on ACP trade separates South Africa from the other African countries in recognition of how significantly the South African data skews the overall analysis.

have been possible.

South Africa was in a very difficult position preceding the trade negotiations with the EU. On the one hand, it had to be seen to want to redress the huge imbalances created by the apartheid regime and improve the lives of ordinary South Africans. This almost certainly meant more state intervention in the economy, possibly a programme of nationalisation of key sectors in the economy and a heavy emphasis on social welfare. On the other hand, South Africa faced the realities of the global market, which among other issues would entail an opening of the domestic market and the liberalising of the economy to attract foreign direct investment. The latter, some argue, flows against the former objective. It was constraints such as these that shaped South Africa's approach and policy objectives as it entered into trade negotiations with the EU.

The South African government projects itself as having SADC as the "centrepiece" of its foreign economic policy (Hill 2001). This projection of its foreign economic policy is clearly evident when tracking how the South African government has described its trade relations with Africa and the SADC since 2000 in its yearbook.<sup>11</sup> The descriptions of African relations in these documents are revealing of how South Africa would like to be seen to be acting in its economic relations:

**Table 3: Yearbook descriptions of South Africa's economic trade relations with EU and the SADC 2001–2008**

Year book	Description of SADC trade relations	Description of EU trade relations
2001/02	"Africa forms the focus of South Africa's global economic strategy, within which the government pursues a strong developmental agenda partnerships with countries on the continent are therefore considered vital and strategic" (Burger 2002, 144).	"Relations with Europe, with the EU as the pivot, are economically crucial...The historic TDCA between South Africa and the EU...is a key component of South Africa's trade policy since the EU is the countries largest trade and investment partner, accounting for about 40% of South Africa's total world trade" (Burger 2002, 147).

<sup>11</sup> No yearbooks were produced and published publicly in the period 1995–1999. The yearbooks start from 2001/02 and are published annually thereafter.

Year book	Description of SADC trade relations	Description of EU trade relations
2002/03	<p>As above and (with specific reference to African and SADC as key market for SA goods):</p> <p>"Africa is an important market for South African exports" (Burger 2003, 156).</p> <p>"As the market for a large proportion of South Africa's high value-added exports, the growth of these domestic industries is inextricably linked to the growth of the region's economies" (Burger 2003, 157).</p> <p>Mention is made of the trade imbalances with the rest of Africa, as being largely "offset by South Africa's investment in the continent, aimed at infrastructural projects designed to enhance the productive capacities of African economies" (Burger 2003, 156).</p> <p>"In southern Africa, South Africa seeks to restructure regional arrangements promoting industrialization. The department supports the process whereby interested manufacturing platforms are the basis for an integrated regional industrial strategy. This entails using southern Africa as an integral part of supply chains for globally competitive manufacturing processes. Through a combination of sectoral cooperation, policy co-ordination, and trade integration, South Africa's regional policy aims to achieve a dynamic regional economy capable of competing effectively in the global economy" (Burger 2003, 157).</p>	<p>Largely as above with specific reference to the TDCA, and.</p> <p>"The long awaited wine a spirits agreement between South Africa and the European Community was signed in February 2002, concluding the TDCA, and firmly establishing South African wines and spirits exports in its major market" (Burger 2003, 159).</p>
2003/04	<p>As above and:</p> <p>"South Africa's economy is inextricably linked to that of the southern African region and its own success is linked to economic recovery of the continent through NEPAD. The development challenges must be viewed in light of the mutually beneficial economic and developmental impact of South Africa and Africa's self-enforcing and economic existence" (Burger 2004, 169).</p>	As above

Year book	Description of SADC trade relations	Description of EU trade relations
2004/05	<p>As above and a description of the work of the International Trade and Economic Development (ITED) division of the Department of Trade and Industry which has a global economic strategy which “was formulated in light of the country’s relations with SADC, the rest of Africa, NEPAD and economic relations with the developed and developing trading partners in the North and South” (Burger 2005, 160).</p> <p>And:</p> <p>“Since attaining democracy in 1994 South Africa has put regional integration by SADC member states at the top of its foreign economic agenda. This approach comes from the belief in the economic benefits that can be brought to all member states by closer economic cooperation in the region.”</p>	<p>As above with:</p> <p>“Trade relations with Europe, particularly the EU a pivotal to South Africa’s economic development. The TDCA with the EU forms a substantial element of South Africa’s reconstruction and development” (Burger 2005, 163).</p>
2005/06	As above.	As above.
2006/07	<p>As above, and:</p> <p>“Addressing development challenges will be mutually beneficial to South Africa and the rest of Africa”.</p> <p>Mention is made of the SACU free Trade Agreement with the European Free Trade Area EFTA (of August 2005)</p>	<p>As above and</p> <p>“In August 2005, South Africa and the EU signed an enlargement Protocol, which provides for South African to extend the TDCA preferences to the 10 new members states and vice versa” (Burger 2007, 170).</p>
2007/08	<p>Largely as above and:</p> <p>“To complement the SADC and SACU processes, South Africa pursues a bilateral strategy for engagement with countries in the southern African region. This strategy is underpinned by the objective of achieving economic growth and development in the region through outward investment, infrastructure development and trade liberalization” (Burger 2008, 148).</p>	As above

This table shows the chronological development of the increasing sophistication of South Africa’s projection of its relations with SADC which is the “centre piece” of its foreign policy, and the EU relations which are the “pivot”, and “economically crucial”. The descriptions relating to Africa and

SADC show that over time, South Africa's projection of its role in Africa becomes more sophisticated, shifting from seeing Africa as a market to having its development challenges as critical to its own success.

The relations with EU are largely already in place by 2000, with only the wine and spirits agreement being delayed until 2002. So while there was planned talk of a parallel process in reality to EU engagement preceded the SADC and SACU processes with South Africa concluding these bilaterally, before bringing SADC along with it, as this regional structure matured.

It is clear the government talk has been of having SADC and southern African region as the centrepiece of its economic foreign policy. However the extent to which this has been enacted and become a reality is far less clear. This tension, between vision or intention and concrete actualisation of trade relations, is described by Qobo, when he explains that talking about the SADC region "is very tricky".<sup>12</sup> He elaborates that when the government engaged in its relationships with SADC in the early nineteen nineties, there were a set of assumptions about SADC being at the heart of the foreign economic policy, where "our destinies in South Africa are primed to the destinies in SADC".<sup>13</sup> However, "what has not happened is to define precisely what we seek to achieve in the region for South Africa".<sup>14</sup>

The shift to emphasising trade *and* development is evident in the discussion with Qobo, from the Department of Trade and Industry. He explains that there has been some "high level thinking where we try and shift emphasis to what we call *developmental regionalism*"<sup>15</sup> (my emphasis). This is also evident when he explained the role of the International Trade and Economic Development (ITED) division of the DTI:

The focus on trade policy development as a cross cutting area and South Africa's attitude to trade, transcends the conventional textbook trade view. We are aware of the unique role we play in the broader continent, so any component of our work is developmental.<sup>16</sup>

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12 Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.

13 Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.

14 Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.

15 Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.

16 Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.



He went on to explain that trade policy forms an integral part of their overall foreign policy of South Africa:

We are conscious of the fact that you cannot “dis-embed” trade policy from the broader foreign policy objective. One example is when you look at the foreign missions operations abroad you will immediately notice that you will have [representatives] from DTI as well as from DFA. So there is a conscious understanding of the interrelatedness of the two roles of trade and foreign policy.<sup>17</sup>

This shows that South Africa seeks to project a developmental trade policy agenda towards SADC. It used the same approach in its EU negotiations, positioning the TDCA as an agreement of both trade and development.

## Domestic outcomes

In January 1999 there was agreement on the text of an EU South African agreement. The heads of government of the EU soon (March 1999) gave formal approval for the TDCA. In October 1999 the South African domestic concerns about the TDCA process and content were officially documented by the broad-based South African labour federation, the Congress of South African Trade Unions (COSATU). COSATU raised various concerns about the broad consultations undertaken by the South African government. These processes it felt were inadequate for COSATU to input substantively and continuously into the negotiation process.

Within this context of domestic concerns about the TDCA process, the South African government therefore deemed it important that they stress the developmental character of the agreement, in order for them to be in a position to effectively address the socio-economic imbalances of the broader South African population. Notwithstanding this government positioning of the TDCA at the time of the negotiations, the extent to which the TDCA was actually developmental in its final outcomes has been questioned domestically. Vickers argues that “we should stop talking about the TDCA as a developmental agreement. It was a hard-nosed bruising trade negotiation...We fought hard and learnt a lot of lessons.”<sup>18</sup> Davies also expresses the outcomes of the TDCA for South Africa, in terms of economic gains, and not developmental

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<sup>17</sup> Interview with Mzukizi Qobo, Department of Trade and Industry, Pretoria, responsible for trade policy development, conducted early 2009.

<sup>18</sup> Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

ones:

I think by and large we [South Africa] secured a reasonable outcome in terms of access into the EU markets, access by the EU producers into the South African market, while not undermining our most sensitive sectors.<sup>19</sup>

This sentiment is also voiced by Qobo who describes the main objectives of the TDCA, from the South African perspective, as being “to expand trade between the EU and South Africa”.<sup>20</sup> Davies makes a similar point about how the commercial interests of the EU over-ride their developmental imperatives. He explains that

when you meet with the developed world to negotiate a trade agreement, on the one side they put all their best intentions to try and help; and on the other, they put... just look at it as a straight fight between commercial interests. And [the latter] is what it is ultimately about. They have commercial interests and they will pursue their commercial interests. And their commercial interests will be a limitation as to what they are prepared to grant you for other [developmental] reasons. That's just the reality – and that was evident in the TDCA negotiations as well.<sup>21</sup>

At the time of the TDCA agreement, the South African public saw media reports on South Africa's role in championing a pro-Africa trade agreement, through support for the cancellation of African debt, engagement with the G8 on farm subsidies in the agricultural sector.

## Regional outcomes

Substantial tension existed for South Africa in managing the perceptions with regional neighbours. SADC was not yet mature and in a position to negotiate directly with the EU and simultaneously South Africa was not seen as qualifying to be part of the Lomé convention. These regional tensions are clear articulated by Qobo who explains that there was a combination of historic mistrust and concern about South Africa's dominant role in the region, and resentment at South Africa's exceptional status and relative economic

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<sup>19</sup> Interview with Rob Davies, Deputy Minister of Trade and Industry, Pretoria, conducted early 2009.

<sup>20</sup> Interview with Mzukizi Qobo, Department of Trade and Industry, responsible for trade policy development, conducted early 2009.

<sup>21</sup> Interview with Rob Davies, Deputy Minister of Trade and Industry, Pretoria, conducted early 2009.

prosperity in the region.<sup>22</sup> He explained that historically (during the Union of South Africa and during apartheid), the southern African regional countries were regarded as extensions of South Africa. The foreign policy role was very “overt” and “dominant”.<sup>23</sup> This historical fear was coupled with a new found hope that South Africa holds the key to embracing a new regional policy approach – one that is positive, and in contrast to this historical past. Qobo explained that at the same time, “there has always been resentment [from the southern African countries, about] the level of economic growth that South Africa has enjoyed, and the diversity of its structural capacities”.<sup>24</sup>

It is clear that from the perspective of the other countries in the region, as well as from the EU, South Africa was seen as different, or set apart from, the rest of the region. It was seen as “an African country that is different from its neighbours”.<sup>25</sup> There was a major tension in how much more commercially productive and competitive South Africa is in relation to its neighbours. The dominance of South Africa in SADC is stressed by Draper et al., when they argue that South Africa is not an “ordinary” SADC member state, as it “dominates the region economically (accounting for about 60 per cent of SADC total trade and about 70 per cent of SADC GDP), rendering it indispensable for any regional economic integration process” (Draper, Alves and Kalaba 2006).

Brendan Vickers describes this tension between South Africa and the other SADC member as a “long-standing tension” and attributes this to the conflicts created by South Africa negotiating alone with the EU, while simultaneously being part of SACU.<sup>26</sup> He explains that as a result of South Africa’s membership in SACU, “whatever common external tariff was agreed in the [TDCA] negotiation, would automatically apply to the lesser developed members of the customs union [SACU]”.<sup>27</sup> Qobo corroborates, that the major tension facing the region with regard to the TDCA, was the impact that reducing trade tariffs would have on other SACU members. He explained that

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22 Interview with Mzukizi Qobo, Department of Trade and Industry, responsible for trade policy development, conducted early 2009.

23 Interview with Mzukizi Qobo, Department of Trade and Industry, responsible for trade policy development, conducted early 2009.

24 Interview with Mzukizi Qobo, Department of Trade and Industry, responsible for trade policy development, conducted early 2009.

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26 Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

27 Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

reducing trade tariffs in the TDCA would increase imports from the EU into the region, thereby reducing the SACU tariff revenue, on which a number of SACU members depend.<sup>28</sup>

Vickers elaborates that there are contesting narratives that have emerged from the regions response to the TDCA purpose, and postulates that “only insiders” would have a true understanding of what actually transpired.<sup>29</sup> On the one hand, it is reported that South Africa put forward its position as being part of SACU, and not wanting to or being able to “leave our neighbours behind”; and it was the EU that argued for an agreement with South Africa, given that the other SADC and SACU members were included in the Cotonou Agreement, from which South Africa was excluded.<sup>30</sup> On the other hand a “conspiracy theory” is put forward that South Africa negotiated in isolation, as it wanted to “break up SACU, because they [South Africa] don’t need SACU any more”.<sup>31</sup> This sentiment is further supported by Grant, who argues that as an economic powerhouse in the South, South Africa found it difficult to satisfy its own trade needs and that of the region but it attempted to satisfy this objective as far as possible. As Grant stipulates, negotiating the TDCA for South Africa meant the exclusion of the SACU countries with detrimental consequences for the Botswana Lesotho Namibia and Swaziland (BLNS) countries. She indicates that,

even though South Africa was a member of SACU at the time of entering into negotiations with the EU, it chose to do so alone and not to include the BLNS 4 countries. The Agreement has had a large impact on the BLNS who are effectively de facto parties to the TDCA. Because of the common external tariff in SACU, the BLNS will be forced to reduce their tariffs on imports from the EU at the rate agreed by South Africa in the TDCA (Grant 2006).

She further states that because of the above, this was expected to have an impact on tariff revenue for the BLNS and it has been estimated that this could be around a 21 per cent decrease (Greenberg 2000 apud Grant 2006). Botswana has been estimated to lose around 10 per cent of its total national

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28 Interview with Mzukizi Qobo, Department of Trade and Industry, responsible for trade policy development, conducted early 2009.

29 Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

30 Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

31 Interview with Brendan Vickers, senior researcher on multilateral trade, Institute for Global Dialogue, February 2009.

income as a result of the TDCA (Sandrey 2005 apud Grant 2006).

In opposition to this general view, the extent to which there was regional tension caused directly by the TDCA was down-played by Davis, when he argues that at the time of the TDCA negotiation, there was no agreement in place with SACU to negotiate together and explains that although the other SACU members were affected by the TDCA outcomes, there was some consultation with them. In his view the tensions with regard to the way the BLNS countries were affected by the TDCA was “not such a major factor”.<sup>32</sup>

SADC members were however clearly weary of South Africa, due to its historic role in the region, as well as its exceptional economic and competitive status. As a result, several SADC members hold overlapping and competing membership of regional bodies. These bring with them, their own set of complexities. These challenges and the explicit impact on relationships with the EU are made clear by Kalaba et al., in this extract:

Deepening integration in SADC remains a highly challenging and contentious process, hence member states are cautious in their approach. On the one hand member states have made commitments of deeper regional integration through various steps, from free trade area to common markets, as stipulated in the Regional Indicative Strategic Development Plan (RISDP) document. On the other hand, members remain committed to multiple and overlapping memberships to other regions despite obvious incompatibilities. Instead of seeking solutions to the existing problems, more complexities to the problem are added. The recent addition is in the form of the ongoing Economic Partnership Agreement with the European Union. All these are taking place concomitant with the need to harmonise domestic policies of those regional groupings to which they are members (Kalaba et al. 2006).

Dicks who reflected on this issue by explaining that “we have to accept that the levels of economic activity and growth [between south Africa and rest of SADC] are at different levels, and that South Africa is an “exception from the rest”.<sup>33</sup> He pointed out that this exceptional status has some negative implications for South Africa. It is not able to benefit from duty free and quota free access to European markets, as it is in a different economic position to

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32 Interview with Rob Davies, Deputy Minister of Trade and Industry, Pretoria, conducted early 2009.

33 Interview with Rudi Dicks, executive director of the National Labour Education and Development Institute, and former Policy Specialist on Labour Market Trade and Economic Affairs, COSATU, conducted in 2008 and early 2009.

other SADC countries for example.<sup>34</sup>

In the 2001/02 yearbook, trade relations with SADC are described in relation to South Africa's trade surplus, and the trade imbalance in the region: "Although a sizable share of South Africa's exports is destined from SACU and other SADC countries, South Africa imports relatively little from the region" (Burger 2002).

**Table 4: South African trade with SADC (2000) (Burger 2002)**

2000: Billions of rands	South African exports to	South African imports from	Total trade value	Trade balance
SADC	15	2.6	17.6	12.4

In contrast, the 2001/02 yearbook described trade with Europe (with the EU as the pivot) in quantitative terms:

Europe is the largest source of investment for South Africa and accounts for almost half of South Africa's total foreign trade. Seven of South Africa's ten top trading partners are European countries (Burger 2002).

The actual trade figures for 2000 are then presented in some detail. These are tabulated below:

**Table 5: South African trade with European countries (2000) (Burger 2002)**

2000: Billions of rands	South African exports to	South African imports from	Total trade value	Trade balance
Britain	18.9	16.1	35	2.8
Germany	16.4	24.8	41.2	-8.4
France	3.9	7.8	11.7	-3.9
Switzerland	3.7	4.4	8.1	-0.7
Belgium	6.4	2.9	9.3	3.5
Sweden	1	2.9	3.9	-1.9
Denmark			1.3	
Italy			3	

<sup>34</sup> Interview with Rudi Dicks, executive director of the National Labour Education and Development Institute, and former Policy Specialist on Labour Market Trade and Economic Affairs, COSATU, conducted in 2008 and early 2009.

Central and Eastern Europe			2.5	
Total of reported European trade (in 2001/02) yearbook	50.3	58.9	116	-8.6

From this it is clear that, although SADC may be called the “centrepiece” of South Africa’s foreign economic policy, it is quantitatively eclipsed by the amount of trade with merely a selection of European countries. Total trade with Germany alone is more than double the total trade that South Africa has with 14 SADC countries. The significant trade surplus with SADC countries further diminishes its “centrepiece” position.

In the 2007/08 yearbook, trade relations with SADC are described thus:

Since the attaining democracy in 1994, South Africa has but regional integration at the top of its foreign economic agenda. South Africa has pursued a policy combining sectoral co-operation, policy coordination and trade integration to forge a dynamic regional economy capable of competing effectively in the global economy (Burger 2009, 148).

**Table 6: South African trade with SADC (2006) (Burger 2009)**

2000: Billions of rands	South African exports to	South African imports from	Total trade value	Trade balance
SADC	35,849	10,440	46,289	25,409

The overall trade ratio between South Africa and SADC had diminished from the year 2000 levels of 7:1 to 3:1.

The 2007/08 yearbook described trade with Europe again as:

Trade relations with Europe, particularly with the EU, are pivotal to South Africa’s economic development. The TDCA with the EU forms a substantial element of South Africa’s reconstruction and development.

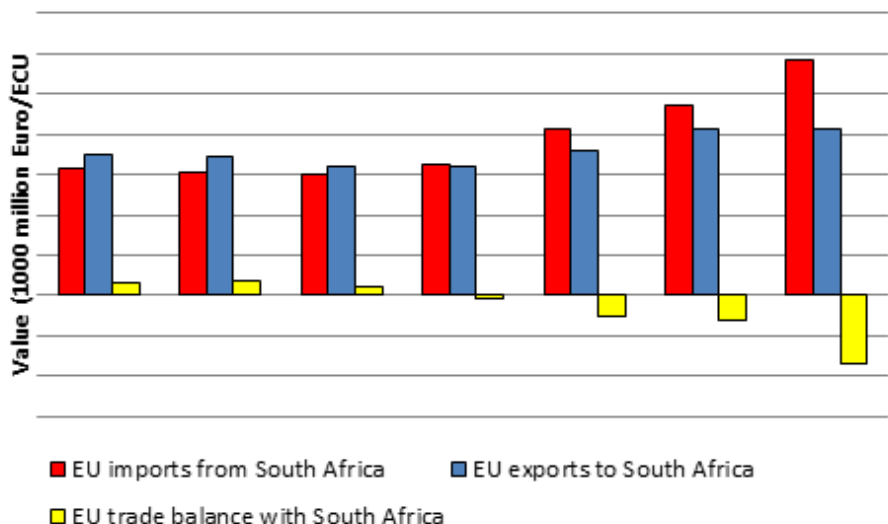
The trade figures for 2006 are presented in relation to Europe and the EU:

Table 7: South African trade with Europe and the EU (2006) (Burger 2009)

2006: Billions of rands	South African exports to	South African imports from	Total trade value	Trade balance
Europe	139,574	168,198	307,772	-28,624
EU (as part of the above)	126,373	161,053	287,426	-34,680

Figures 3 and 4 present EU trade with South Africa in value terms, and as a percentage of EU trade with the world:

Figure 3: EU trade with South Africa (2000-2006)



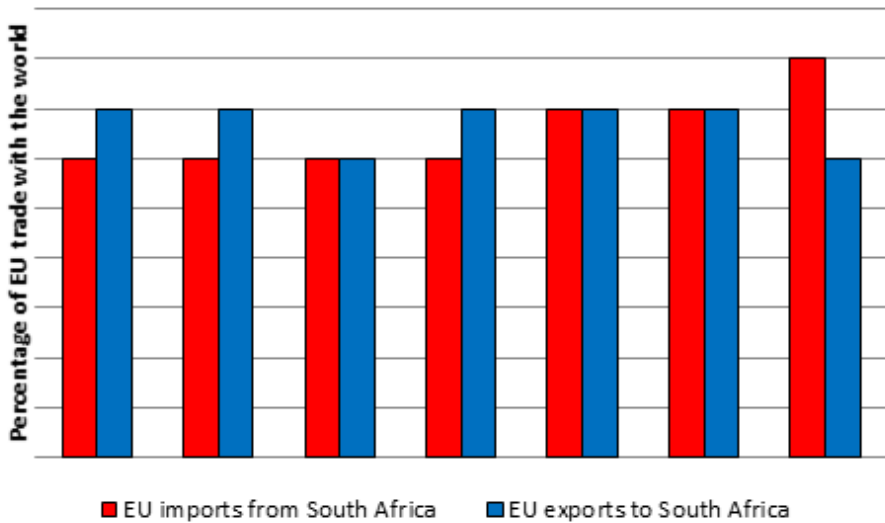
Source: South Africa Country data extracted from European Commission, Euro Stat<sup>35</sup>

The value of EU trade with South Africa has increased following the TDCA and the percentage of EU trade with South Africa has been within the 0.6% range, with increased for 0.7% in 2004-2006. However, the projection of SADC as the centerpiece of South Africa's policy, seems not be actualised when considering the actual trade patterns. The EU has far more prominence in the trade data, than SADC does. In this regard, South Africa does not seem to be providing to the region in terms of a trade.

35 Note that data is for 1958, 1960, 1970 and then from 1981 annually.



Figure 4: EU trade with South Africa as percentage share of EU–global trade (2000–2006)



Source: South Africa Country data extracted from European Commission, Euro Stat<sup>36</sup>

## Conclusion

From the historic context and process tracing analysis presented in this chapter, it is important to bear in mind that the EU–SA TDCA was the first bilateral agreement that South Africa negotiated post apartheid. It is clear that SADC was in its infancy at the time of the EU TDCA negotiations and as such the main reason for South Africa negotiating on its own, and not as a SADC member. Given the point in time at which the TDCA took place a bilateral agreement with the EU was inevitable. This benefited South Africa (over its neighbours), but as SADC structures have matured, and South Africa increases its provision to these regional integration processes the region is set to benefit.

The South African government policy towards the SADC region and Africa in general is increasingly developmental regionalism. South Africa takes on its role as representing the region and Africa in general in global forums, and there has been a clear shift in the projection of its foreign policy from Africa being viewed as potential market for South African commercial

<sup>36</sup> Note that data is for 1958, 1960, 1970 and then from 1981 annually.

activity, towards South Africa as supporting and driving investments in infrastructure and development in the region, and continent more broadly. The emergence of the ITED division of the DTI shows this growing institutional capacity to support its trade and development agenda. The Economic Free Trade Agreement (EPA) and SACU FTA have taken place on the back of the experience gleaned and capacity developed through the TDCA process.

As for the issue of dualism as it relates to trade negotiations, this will remain an obstacle for as long as the “neo-mercantilist” world view remains intact. Nations will always put their domestic priorities above those of the regional partners unless they begin to put into practice an alternative view of how they might survive economically within this globalised market economy.

Will the TDCA ultimately result in the growth patterns needed by the South African economy in order to create the much needed job opportunities? Only time will tell. There are many different views on what South Africa could have done differently during this negotiation process but be that as it may, the South African government is resolute that the TDCA with the EU has produced the required results and that it will continue to do so in the immediate future. South Africa is also very much satisfied with its standing within the international arena at this point in history. It has been welcomed into almost all the necessary international organisations and has already demonstrated in many respects that it can fulfil a leadership role if and when required to do so, as we have seen with the chairpersonship of the World Bank and the IMF, as well as the current rotating seat in the United Nations Security Council.

Finally, the twin track approach adopted by the EU Commission (even though it met huge resistance from certain quarters at times) did finally pay off. The Director General for Development would have wanted to see greater concessions made for South Africa but in general a better deal came out of these negotiations than have been initially anticipated. Even though, the same cannot be said for the region as such. As for South Africa and the socio-political advances attained, the EU can only but be satisfied that not only has there been sufficient progress but that their ultimate aim of wanting to position South Africa as a leading power on the continent has come to fruition. SADC however, one must conclude, was a constraining factor for South Africa during these trade negotiations. Only time will tell whether further economic integration in the region, will ultimately lead to the desired economic outcomes.

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## ABSTRACT

In the years between 1995 and 2008 South Africa was engaged in trade negotiations with the European Union (EU), which were seen as platform for addressing the trade imbalances in favour of the EU. In 2002, a Free Trade Agreement (FTA) was signed between South Africa and the EU. Despite its membership to the Southern Africa Development Community (SADC), South Africa engaged on the negotiations on its own which led to trade and political tensions with other countries within the community. By going alone South Africa was clearly indicating an appetite to vigorously pursue its interests at the expense of regional partners. It is argued that the exclusion, at an early stage of the negotiations, of other regional countries within SADC was counterproductive and had the potential to harm the regional trade relations. In addition, the change of approach at later stage that brought in the regional approach to the negotiations improved the regional trade relations within SADC.

## KEYWORDS

South Africa; European Union; Trade.

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# KWAME NKRUMAH AND THE PAN- AFRICAN VISION: BETWEEN ACCEPTANCE AND REBUTTAL

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## Introduction

The Pan-African vision of a United States of Africa was and is still being expressed (dis)similarly by Africans on the continent and those of African descent scattered all over the world. Its humble origins and spread is attributed to several people based on their experiences over time. Among some of the advocates were Henry Sylvester Williams, Marcus Garvey and George Padmore of the diaspora and Peter Abrahams, Jomo Kenyatta, Sekou Toure, Julius Nyerere and Kwame Nkrumah of South Africa, Kenya, Guinea, Tanzania and Ghana respectively. The different pan-African views on the African continent notwithstanding, Kwame Nkrumah is arguably in a class of his own and perhaps comparable only to Mwalimu Julius Nyerere. Pan-Africanism became the cornerstone of his struggle for the independence of Ghana, other African countries and the political unity of the continent. To transform this vision into reality, Nkrumah mobilised the Ghanaian masses through a popular appeal. Apart from his eloquent speeches, he also engaged in persuasive writings. These writings have survived him and are as appealing today as they were in the past. Kwame Nkrumah seized every opportunity to persuasively articulate for a Union Government for all of Africa. Due to his unswerving vision for a Union Government for Africa, the visionary Kwame Nkrumah created a microcosm of African Union through the Ghana-Guinea and then Ghana-Guinea-Mali Union. In defending the need for a United States of Africa, he made friends and foes alike. The impact of the vision of an African Union vigorously defended by Nkrumah still finds relevance today among Africans even those who feel that Nkrumah was realistically idealistic. His ideas

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about a United States of Africa have placed him between acceptance and rebuttal or denial. Those leaders who oppose these ideas have an egotistical disposition meant to benefit themselves and their supporters from the West. The current onslaught on African people and resources still calls for a rethinking of the concept of AU as propounded and defended by Kwame Nkrumah.

## Pan-African Visions

There are several notions of pan-Africanism. This notion has evolved over time, changing from one focus to another and broadening in definition and practice. These diverse visions about continental Africa are all in attempt to give Africa a visibility and importance even if in the negative sense. Some notions of pan-Africanism have also stressed on greater collaboration and union of African countries on certain issues such as climate change and terrorism. Others views are at the centre of disunity and conflict within and between some African countries like South Sudan, Somalia, Mali, Nigeria among others. It has argued that pan-Africanism is a global movement to unite Africa and its people against racial oppression and exploitation associated with European hegemony. M'bayo and Okhonmina also opined that pan-Africanism involved efforts to mobilise continental Africans against colonialism and racism and was the philosophical grounding for the unity of Africa through the AU (Kuman-Abiwu 2013, 124).

These two visions or definitions or explanations of pan-Africanism seem to be similar but very different. In the first notion, Williams as cited in Kuman-Abiwu (2013, 124) is more concerned with the unity of the black people all over the world against what is hegemonic control of the Europeans and today the United States. He is apparently calling on all people of black descent in the Caribbean, Latin America, the United States and other parts of the world to come together and articulate their common grievances as a united group. These grievances are oppression and exploitation. M'bayo and Okhonmina lay their emphasis on the need to mobilise Africans within the continent against colonialism and racism. They view pan-Africanism essentially as an affair of people resident in the continent and are seemingly blind to or deliberately do not care about the plight of other black people in other parts of the world notably Latin America. Their mention of racism however is relevant to pan-Africanism beyond the people of Africa residing in the continent. Racism has been a common problem to the people in Africa as well as their kith and kin in other parts of the world. Their vision of pan-Africanism is also limited by their appeal only to colonialism. Today, pan-Africanism is also used to fight against neo-colonialism in all its forms.

The AU has also clearly stated what its vision of pan-Africanism is. According to this continental body which is successor to the OAU, Pan-Africanism is:

An ideology and movement that encourages *the solidarity of Africans worldwide*. It is based on the belief that unity is vital to economic, social and political progress and aims to ‘unify and uplift’ people of African descent. The ideology asserts that *the fates of all African peoples and countries are intertwined*. At its core Pan-Africanism is a belief that African peoples, both as the continent and in the Diaspora, share not merely a common history, but a common destiny (Kumah-Abiwu 2013, 124 - emphasis is mine).

This notion of pan-Africanism where socio-economic and political progress is brought to the fore is shared by Kimaryo (2013, 16-17). He also argues that pan-Africanism at its core is “a belief that African peoples, both on the continent and in the Diaspora, share not merely a common history, but a common destiny” (Kimaryo 2016, 16-17). Pan-Africanism according to the AU highlights a number of issues meant to benefit all Africans wherever they may find themselves. The AU argues that for pan-Africanism to be a success the solidarity of Africans worldwide is necessary. This solidarity will lead to socio-economic and political progress which will improve the lives of African people. Again, the AU defines pan-Africanism taking into consideration the Diaspora which consists of people of African descent and those who have migrated and settled in other parts of the world. Although the fates of all Africans and their countries are intertwined, it is rather unfortunate some African leaders have not gone beyond lip-service in their defence of pan-Africanism. This explains the difficulties that the AU is facing to move Africa forward through a Union Government.

Other articulations of this very broad concept of pan-Africanism include the Afrocentric interpretation. This interpretation traces the struggle of Africans from self-assertion dating back to the era of 3200 BC. Meanwhile the Eurocentric assumptions on the other hand lay emphasis on pan-Africanism as African response to slavery and colonialism. The deep desire by Africans that their brothers and sisters who were taken out of the continent should be safely brought back was a manifestation of a pan-African spirit. It has also been taken down to the nationalist struggles in individual African countries like the spirited fight that Yaa Asantewaa of the Gold Coast and Shaka Zulu of South Africa put up against European colonial domination and traders (Kumah-Abiwu 2013, 125). These struggles like many others have been described in some circles as the struggle for pan-Africanism because this was trying to rid Africans of foreign domination. Afrocentricity in pan-Africanism is there-

fore seen to have started many years before the birth of Christ and not at the time of the slave trade and then colonial rule. Today, African people and blacks all over the world are not only united in their condemnation of the trans-Saharan and Atlantic slave trade but also all forms of enslavement perpetuated by the developed countries against developing economies in Africa and elsewhere. Colonial rule led to subjugation but today pan-Africanism is focusing on other forms of subjugation such as human-trafficking and wanton exploitation of African resources including all the problems associated with it.

Furthermore, Motsoko Pheko argues that Pan-Africanism advocates the use of the riches of for the benefit, upliftment, development and enjoyment of the African people. It is a system of equitably sharing food, clothing, homes, education, health care, wealth, land, work, security of life and happiness. It also means the privilege of African people to love themselves and to give themselves and their way of life respect and preference (Nyangena 2003, 5). This perception of pan-Africanism is quite appealing to the people in the streets who see the looting of the riches of Africa like oil, agricultural products, and forest resources among others to develop the North. There is very little of any development like hospitals, good roads, and electricity to benefit the areas providing these resources. There has not been any equitable sharing of these and other resources and accounting for the civil unrest in several African countries.

Pontificating on pan-Africanism Bujra (2002, 108-9) traces its roots to the 1800s. He argues that from 1900 when pan-African conferences started, this was no longer simply a protest movement by people of African descent in the Caribbean and the United States of America. Beginning in 1900, pan-Africanism became a weapon with which African nationalists fought colonial rule. Another slightly different perspective of pan-Africanism is that of Che-Mponda (1987, 53) who argues that African unity is a genuine desire of African peoples on the continent itself and the surrounding islands. He explains that it is in opposition to self-determination of African peoples by colonialism and imperialism. With the struggles against subjugation came the perception that the totality of Africa had a common front. This historical root of pan-Africanism differs from the Afrocentric interpretation which traces the origins of pan-Africanism to 3200BC instead of the 1800s. In spite of the differences in tracing the roots of pan-Africanism, there is however agreement that pan-Africanism began before the 20<sup>th</sup> century. The new dimension of the African peoples' willingness to unite by Che-Mponda is the surrounding islands joining in the unity drive. Although there is genuine desires to see Africa united from the base or bottom, at the top there is still a hide and seek game by those who holds of realms of power in different African countries.



The notion of Pan-Africanism as presented by Ratcliff (2009, vi) is similar to that of other authors. According to him pan-Africanism has a political, social and cultural ideology but is also a complex movement which attempts to ameliorate the dehumanising effects of “the global Eurocentric colonial/modern capitalist model of power.” Pan-Africanism therefore is a response to racist and sexist oppression and economic exploitation of Afro-descendants. The element of racism surfaces again as a core issue in defining pan-Africanism. In the midst of racism, pan-Africanism is seen more or less as a revolt against this and a projection of the African personality as dignifying. Radcliffe observes that through political, social and cultural actions, African countries were able to challenge the colonial and neo-colonial antics of Europe which was and has remained steeped in the exercise of power over other people. African people must therefore fight against this sexist and economic exploitation through pan-Africanism that is built on unity rather than disunity.

In addition, Nyamnjoh offers yet another definition or notion of Pan-Africanism. This notion is built around multiple identities. He contends that Pan-Africanism is about offering a mental space for disparate identities to co-exist in freedom and dignity. It is a flexible, inclusive, dynamic and complex aspiration in identity making and belonging in the global community. Pan-Africanism is also defined by Adi and Sherwood (2003) as the perception by people of African origins and descent that they have interests in common and this has been a by-product of colonialism and the enslavement of African peoples by Europeans. While Sherwood’s notion is shared by many others, the one of Nyamnjoh lends credence to the differences in opinions as to what best form of pan-Africanism should be. He examines the disparate identities that co-exist with one another as Africa tries to position and or reposition itself in the so called global community. This notion is more academic and does not necessarily boil down to what Kwame Nkrumah had prescribed for Africa. He was aware of other versions of what pan-Africanism should be but argued that for Africans to rise up to the challenge of the West they needed political unity and every other form of pan-Africanism will be attained. He saw in political unity a great Africa able to take its own destiny into its hands.

Pan-Africanism within the Diaspora community was meant to dignify the black people and serve as a political and cultural link to Africa that they sentimentally wanted to be united with. For the Africans living on the African soil, pan-Africanism served as a collective platform for self-definition and an onerous struggle against colonialism (Momoh 2003, 32). Pan-Africanism was also conceived as a movement for political change with deep emphasis on the identity and oneness of Africa (Momoh 2003, 44). This notion of the

oneness of all people of Africa and those of African descent is recurrent in the views of many people who have written about pan-Africanism. The theme of colonialism also comes out clearly and shows that the struggle during the colonial period was for African people to gain their independence and freedom from colonial subjugation. Today, instead of emphasis on colonialism, the discussion is on neo-colonialism which is more damaging than colonialism. The need for the Diaspora to work together for African unity has been made difficult but not impossible by the failure of Africans in the Diaspora to work together with those who are of African descent. Ideological and other differences between them and some advocates of African unity on the continent have made it difficult for the emergence of a sustained common front against the global destruction of Africa.

Garveyism as a variant of pan-Africanism sought to root the ideas of African redemption in a concrete organisational form, that is, in the Universal Negro Improvement Association (Campbell 1988, 75). Meanwhile the pan-African movement of the 1930s focused attention on the study and understanding of pan-Africanism through African kingdoms and civilisations prior to European colonialism (Campbell 1988, 76). The 'Pan' concept in itself is considered an exercise in self-definition by those in power. Pan-Africanism as an example of the 'Pan' concept was a manifestation of nationalist consciousness leading to decolonisation of African countries. The concept is internationalist in so far as it seeks the unity of people living in a large number of juridical independent states (Campbell 1988, 78-9). During the period of the slave trade and colonialism, one of the main principles of pan-Africanism was that people from one part of Africa were responsible for the freedom of their kith and kin in other parts of the continent and all black people everywhere in the world. Pan-Africanism is also a philosophy in which Africa is regarded as the spiritual home of a united African people with emphasis laid on solidarity and 'brotherhood' between all people of African origin. It has in fact disparate origins in the political thought of African Americans and West Indians as well as the African elite educated in Europe in the 19<sup>th</sup> and early 20<sup>th</sup> centuries (Sturman 2007, 3). There is therefore convergence and divergence of views on what pan-Africanism is.

## **Kwame Nkrumah's Pan-African Vision**

The venerated Kwame Nkrumah, born in Nkroful in Ghana in 1909 influenced African history and unity in a significant way. He was the foremost and fearless advocate of the liberation and unification of Africa against western imperialism and for a series of actions aimed at total liberation and con-

solidation of this freedom (Nyamnjoh and Shoro 2011, 2-3). His thoughts took shape while he was studying in the USA. In the early years he wrote about the need for a West African Federation to enable Africans govern themselves without interference from outside as was the case in the colonial period (Sherwood 2012, 109-10). Asante (2012) has aptly argued that Nkrumah's vision was political but also more than political because it was also cultural and philosophical and above all Afro-centric. The Pan-African vision of unity was supported by the Concept of African Personality and a non-racial African Identity (Dei 2012, 42-4). Added to these was scientific socialism for all of Africa (Poe 2003, 3; Lawson 2004, vii). Africa was to learn from pre-colonial societies and not sacrifice those values for material progress (Frimpong 2012, 39).

In numerous speeches at home and abroad and in his writings, Nkrumah was clear about the nature of the African state, that is, a United States of Africa for its own stability, security and independence (Asante 2012, 17). At the philosophical level, Nkrumah in his book *Consciencism* intimated that Africa was capable of evolving its own ideology and philosophy in order to solve the crisis that affected African conscience and which was affecting society. Still in connection with philosophical pan-Africanism, Nkrumah suggested that it was necessary for Africa to harmonise the three cultural currents that now existed within African societies namely the traditional African, Euro-Christian and the Islamic (Biney 2012, 133). He believed that the cultural poles in Africa were capable of bringing about freedom and respectability among the people (Dodoo 2012, 84). Nkrumah did not mince words when he said over fifty years ago that:

*If we do not formulate plans for unity and take active steps to form political union, we will soon be fighting and warring among ourselves with the imperialists and colonialists standing behind the screen and pulling vicious wires, to make us cut each other's throats for the sake of their diabolical purposes in Africa (Quist-Adade and Chiang 2012, 1 - emphasis is mine).*

From Nkrumah's excerpt one is not left in doubt that he wanted the political union of Africa because of the diabolical actions of European countries in Africa. He was aware of the consequences that befell a divided continent and divided people. As early as in 1960, the independent Democratic Republic of Congo fell into this trap. The British also held on to Southern Rhodesia much to the chagrin of the people and the unity of Nigeria was threatened by the civil war of 1967 to 1970. Several decades after independence several African countries are tearing themselves apart and include Somalia, Libya, Nigeria, Burundi, the Central African Republic, South Sudan and Mali. The Libyan example shows how in 2011, the West assassinated Colonel Muamar

Qaddafi and threw the country into chaos. Apart from internal bickering by various factions, the Islamic State has found a safe haven in Sirte and other surrounding towns. Besides, the migrant crisis is also a fall-out of the killing of Qaddafi. These scenarios in Libya, Mali and Somalia are telling of what Nkrumah foretold several decades back but no one will listen to him. In another prophetic excerpt of his pan-African vision Nkrumah opined that:

We need the *strength of our combined numbers and resources* to protect ourselves from the very positive dangers of returning colonialism in disguised forms. We need it to *combat the entrenched forces dividing our continent* and still holding back millions of our brothers. We need it to secure total African liberation.... At present most of the *independent states are moving in directions which expose us to dangers of imperialism and neo-colonialism* (Dastile and Ndlovu-Gatsheni 2013, 123).

The vision of Nkrumah stressed the importance of strength in unity and not division. African countries were moving in different directions. Many French speaking countries were tied to their former colonial master and others in East Africa led by Julius Nyerere were defending with all might the need to achieve continental unity through regional blocs. All these and other divisive forces exposed African countries to the avarice of their enemies. Nkrumah firmly believed that in unity African people would ensure their total liberation from the pangs of imperialism and neo-colonialism which was the order of the day and has remained so in the world today. In spite of his warnings against a return of colonialism in disguised forms to destroy Africa, this call was not hearkened to. Rather, some countries like Nigeria accused him of being seek-seeking in the struggle for pan-Africanism.

Faced with the overwhelming forces of gradualism and pessimism during the historic founding of the OAU in 1963, Nkrumah passionately expressed his thoughts for Pan-Africanism in these words:

If we *do not come together, if we do not unite, we shall all be thrown out*, all of us one by one-and I also will go.... The OAU must face a choice now-we can *either move forward to progress through our effective African Union or step backward into stagnation, instability and confusion-an easy prey for foreign intervention, interference and subversion* (Dastile and Ndlovu-Gatsheni 2013, 126 - emphasis is mine).

Still at this historic meeting in 1963 Nkrumah speaking of the need for African unity he opined that:

Just as *our strength lies in a unified policy* and action and development, so the

*strength of imperialists lies in our disunity.* We in Africa can only meet them effectively by presenting a unified front and a continental purpose. *Our freedom stands open to danger* just as long as the independent states of Africa remain apart (Muchie 2000, 1 - emphasis is mine).

This was a fervent call from someone who was aware of the destabilising influence of Western European countries. He stressed on the need for coming together, uniting, moving forward to progress, a unified front if African leaders would be spared being thrown out one by one including himself. This will lead to a step backward, stagnation, instability and confusion on the African continent. This clarion call was not heeded to by Nkrumah's contemporaries. It would seem Nkrumah was too intelligent for his contemporaries because all that he predicted have come to pass. The failure to unite has slowed down development and has led to the departure of some African leaders like Qaddafi as discussed earlier. It has also led to the humiliation of former Ivorian President Laurent Gbagbo and Omar El Bashir of Sudan with threats of arrest by the International Criminal Court at The Hague. There is stagnation of African economies with many of them still relying on the production of primary products. Industrialisation remains a dream for most of them. Others have been entangled in the web of loans from the International Monetary Fund (IMF). There was confusion among member states of the AU when Muammar Qaddafi was at the mercy of the West. Instead of speaking up and condemning in the strongest terms and probably getting into the war in support of Qaddafi, many leaders were mute or confused on what to do. Many have remained undecided on a wide range of issues affecting Africa. The rise of terrorism has brought confusion on how this can be handled.

A United States of Africa would have defended the people against neo-colonialism and the threat of fragmentation or balkanisation and prevented Africa from being a pawn for Cold War politics (Lawson 2004, 122). With a common a single federal government, with one president, a common currency and a common economic and foreign policies (Sturman 2007, 3) Africa would have been stronger and be able to shape its own destiny. Like Christ the Messiah, Nkrumah foresaw his own downfall caused by the imperialists. He was not the only one. Others had and eventually faced the same fate such as Patrice Lumumba of the Congo who was virtually eliminated by the pro-Western forces in his country. His death was destabilising to Nkrumah because he was a comrade in arms who wanted the liberation of the Belgian Congo from strangulation but ended up being strangled. Sir Abubakar Tafawa Balewa, a fierce critic of Nkrumah, would never have believed that the Nigerian Civil War will end up consuming him. Nkrumah had seen this coming but Tafawa Balewa was naïve to analyse this. Nkrumah had passionately advocated

a Union Government for the economic, social and political emancipation of Africa (Wapmuk 2009, 645; Olaosebikan 2011, 218; Gassama 2008, 6). He was emphatic that no single independent African country could develop without a complete political unification of the continent for their collective benefit (Kumah-Abiwu 2013; Mei 2009; Abbas; Kimaryo 2013, 15). He was resolutely against African countries joining military alliances and the establishment of military bases and the testing of nuclear weapons on the African soil (Afari-Gyan 1991, 6). This was because it left Africans at the mercy of European countries.

Kwame Nkrumah also argued in favour of an African Personality that should disentangle Africa from attachment to European and American cultural entanglements. He advocated pan-Africanism through an approach of governance based on the black world, that is, on the unity of all black people around the world. Through this, he advocated support for the war against racism and segregation like was and is still obtained in the USA and other parts of the world. Nkrumah also emphasised the need for cultural autonomy and the personal self-esteem of black people wherever they found themselves (Frimpong 2012, 41). Nkrumah's thoughts on pan-Africanism were clearly elaborated in his books and especially in *Neo-colonialism: The Last Stage of Imperialism*. In this book he denounced the exploitative activities of multinational companies, the dependency of African countries on foreign aid which was tied with strings, rising debts of African countries and increasing poverty among its people. He wanted Africa to pursue greater economic and political integration to overcome these hurdles (Quist-Adade and Chiang 2012, 3; Gassama 2008, 333-38). Nkrumah firmly believed that western multinational companies and institutions in Africa established an economic stranglehold over its economies not in the interest of its people (Biney 2012, 128). Schittecatte (2012, 58) classifies the pan-African vision of Nkrumah, also reflected in what he hoped for Ghana, into three namely, to gain political and more importantly economic independence for Ghana and the continent. The second vision was the ability of the newly independent countries of Africa to be able to de-link themselves from the past colonial masters and the new neo-colonial ones and finally the strength and feasibility of a united African continent. Kwame Nkrumah, the visionary that he was, also warned the potential elite of colluding with external interests but to listen to the African masses who would never become agents or partners of neo-colonialism as the elite would be (Schittecatte 2012, 61). On the other hand, Doodoo (2012, 86) identify three main objectives of Nkrumah in his pan-African vision of political integration of Africa. The first was the overall continental on a continental scale; then a unified land, sea, air, military and defence strategy as well as a common for-

oreign policy for all African countries. These ideas found support among some people at the time and after Nkrumah.

## Acceptance of Nkrumah's Vision

The ideas of Kwame Nkrumah on pan-Africanism though very profound and rejected by many of his contemporaries still found a place in the hearts of many a people and institutions during the colonial period and thereafter. These ideas are being recited and given greater meaning today by those who truly want to see Africa become a single continent like the United States of America and much of Europe through the European Union (EU). One of the foremost African-American who supports Nkrumah's idea of a United States of Africa is Molefi Kete Asante. As a passionate advocate of pan-Africanism, Asante (2012, 12) intimates that a United States of Africa will preserve its resources through a common external policy and an integrated continental market. This is in line with the vision of Nkrumah before and after independence of African countries. There is wanton exploitation of African resources by Western companies with no central command to negotiate better or to mobilise the human capital necessary for the exploitation of these resources for Africa's benefit. A common external policy and an integrated continental market will rid African of divided voices when it comes to major international issues dealing with the economy, the backbone of every people's ability to provide for the basic needs of the larger community.

Among the early converts to Nkrumah's pan-African vision of continental unity were Sekou Toure of Guinea, Mali's Keita and Ahmed Ben Bella of Algeria (Adi and Sherwood 2003, ix). In contrast to Julius Nyerere's emphasis on strengthening regional groupings as a first to pan-Africanism, Ahmed Sekou Toure of Guinea shared Nkrumah's pan-African ideology of a continental union. On 23 November 1958 shortly after the independence of Guinea from France, Toure and Nkrumah signed an informal agreement pledging to create a union of West African states and solidified their pan-African efforts in the Conakry Agreement on 1 May 1959 (Wilburn 2012, 38; Lawson 2004, 123). This nucleus of a union if pursued would have seen African unite to defend itself from western domination and exploitation. Later on, following a meeting in Accra from 27-29 April 1961, Presidents Kwame Nkrumah of Ghana, Sékou Touré of Guinea, and Modibo Keita of Mali signed a charter which formally established a tripartite Union of African States. This charter came into effect upon its simultaneous publication on July 1 in the capitals of Ghana, Guinea, and Mali. This was after these leaders had met at Bamako, Mali, on June 26 to examine the extent to which decisions reached at their April meeting in Accra

had been implemented. The charter had evolved from a decision announced by the three leaders at Conakry, Guinea, on December 24, 1960. They envisioned a common diplomatic representation and the creation of committees to draw up arrangements for harmonising economic and monetary policies for their countries (DeLancey 1966).

Another person who bought the vision of Kwame Nkrumah of continental unity and who was assassinated through French and American connivance was Colonel Muammar Qaddafi of Libya. Following on the path of Nkrumah, Qaddafi made utterances and suffered the same fate of rejection and frustration like Nkrumah but unlike Nkrumah was killed. Like Nkrumah, Qaddafi argued that it was necessary to have an economic, political, social and ideological position towards the advancement of Africa. Qaddafi saw a united Africa as a harbinger of stability, security and independence. This was because it would lead to the investment of huge sums of money to improve the lives of many destitute Africans. It was this thinking that made Qaddafi during an extra-ordinary summit of the OAU in his home city Sirte Libya on 9 September 1999 to re-table the idea of a Union Government begun by Nkrumah (Muchie 2000, 7; Sturman 2007, 6). He re-affirmed this at the 4<sup>th</sup> ordinary session of the Assembly of Heads of State and Government in Abuja on 30-31 January 2005. Then at the close of the Kampala Summit of the AU on 27 July 2010 Qaddafi among other things said “We are approaching the formation of the African Authority each time we solve African problems and also move in the direction of peace and unity.” Meanwhile in another AU summit in Sirte in July 2005 Qaddafi passionately presented the urgency of a United States of Africa in these words:

*We accept from others outside Africa to reduce our sovereignty and to interfere in our internal affairs, but we do not accept the same in the name of African unity. When we talk of African unity, we say no on the grounds that it is in conflict with our national sovereignty.... Yet, we are prepared to cede our sovereignty to foreign powers. We accept that, saying this is the way things work in our own time, but when we talk of ceding part of our own sovereignty to the African Union, we say no our sovereignty is too big a thing to compromise (Sturman 2007, 7 - emphasis is mine).*

From the excerpt of his speech above, it is clear that Qaddafi made a mockery of those who claimed that they were for African unity when they would not subscribe to a Union Government in defence of their sovereignty but when it concerned foreign powers, they would forget about sovereignty. There are in fact many of such leaders in Africa who act like zombies always at the mercy of western countries. Qaddafi more than ever before ceaselessly



called for a United States of Africa comprising of a presidency and parliament and the establishment of an African military 'High Command' (Asante 2012, 18; Mei 2009). Another committed believer in African unity was Abdoulaye Wade, the former President of Senegal who said that if all African countries agreed to continental unity he was very glad to become the "Governor" of Senegal in that union (Asante 2012, 18; Dastile and Ndlovu-Gatsheni 2013, 129; Wapmuk 2009, 647). Many have never thought of giving up their positions of Presidents with all the glamour that comes with it for the position of a governor of a region of a united Africa. They pay lip service to the political unity of Africa not for the benefit of all and sundry but their selfishness.

There are other Afro-optimists from all walks of life who have accepted the ideas of Nkrumah on the unity of Africa. They are among other factors pushed by the negative consequences of colonialism and over 500 years of the vestiges of slavery, colonialism and neo-colonialism. Besides, the present global economic system is so lopsided that Africa is not benefitting from it because the countries have not closed ranks to work as a team. The Afro-optimists argue that African unity is possible because of African agency of creativity that can contribute to overcome some of their problems (Quist-Adade and Chiang 2012, 2). In addition, the strong demand today from Pan-Africanists and progressive forces for a more just egalitarian economic world order is in line with Nkrumah's vision of Africa and the world (Quist-Adade and Chiang 2012, 135). This view of Africa acting more as a continent and not as individual countries to global issues was re-echoed by the late Rev. Leon Howard Sullivan while addressing the people at an African/African American Summit in Abidjan in 1991 several years after the death of Nkrumah. During this august assembly, the venerated clergyman said that he predicted the revival of Africa as a continent (Dodoo 2012, 78). This was prophetic and could be seen as a call for the people of Africa to unite and fight against racial segregation not only in Africa but all over the world especially America and Europe. Nkrumah had stood against racism anywhere in the world especially against people of the black race.

Several other people and organisations have made statements and efforts that venerate Nkrumah as someone who had extra-ordinary force of mobilisation of the African people towards unity. The experiment of a united West Africa by the Economic Community of West African States (ECOWAS) is close to the kind of unity that Africa should pursue as a continent (Dodoo 2012, 86). Nkrumah had called for the unification of West Africa a first step to African unity while a student in the USA and if ECOWAS is still to attain that goal, it is on the right path to regional unity. In addition, Dodoo (2012, 89) argues that although Adu Boahen, a Ghanaian historian, was a fierce critic of

Nkrumah, he however recognised that Nkrumah inspired and accelerated the anti-imperialist and anti-colonial revolution to such an extent that it engulfed the whole of Africa. This author also points to the efforts of the African-Americans to organise and provide assistance to Africa so that the people should wake up or walk if they are already up. And Prof. Agyeman Badu Akosa who is the President of the Kwame Nkrumah Foundation also argues that Africans can only become self-sufficient and retain their dignity if they unite and terminate all neo-colonialist activities. Meanwhile in 1960 prior to the formation of the OAU in 1963, Emperor Haile Selassie of Ethiopia strongly supported the vision that Nkrumah had for pan-Africanism. He said that “a Union of African States is a necessity which should be pursued energetically in the interest of African solidarity and security” (Olaosebikan 2011, 222). Three years later during the formation of the OAU, the emperor further intimated that African leaders should “arouse the slumbering giant of Africa, not to the nationalism of Europe in the nineteenth century, not to regional consciousness, but to the vision of a single African brotherhood” (Sturman 2007, 4). Shivji (2009, 8) on his part has supported the pan-African vision of continental political unity and economic integration but that it could be pursued from a regional level guided by a pan-African vision. These statements are all supportive of Nkrumah’s vision for Africa when he emphasised that Africa must unite and said if the people did not come together, neo-colonial forces would set them apart or force them to fight while these forces watch and take away their resources.

If nothing else people are agreed that Kwame Nkrumah’s politics of mass mobilisation was an effective weapon of the political struggle for the liberation of Africa. It was his foresight and vision as far as revolutionary struggles are concerned in Africa. Revolutionary movements in Southern Africa like SWAPO, FRELIMO and ZANU-PF all learnt a lesson from the mobilising skills of Nkrumah in their own struggle for independence. The pan-African nationalists were proud of Ghana’s role in the African revolution and were hopeful that other African states would like Nkrumah’s Ghana devote themselves to become zones for pan-African liberation (Poe 2003, 25). This was an open recognition and support of the efforts of Kwame Nkrumah in the unity of the African continent. One of the freedom fighters who liberated Namibia from the yoke of Apartheid rule Sam Nujoma in appreciation of Kwame Nkrumah once said:

Ghana’s fight for freedom inspired and influenced us all, and the greatest contribution to our political awareness at that time came from the achievements of Ghana after its independence. *It was from Ghana that we got the idea that we must do more than just petition the UN to bring about our own independence* (Frimpong 2012, 69 - emphasis is mine).

The inspiration that Ghana gave to freedom fighters all over Africa was thanks to the pan-African vision of Kwame Nkrumah. He had stated that the independence of Ghana would be incomplete if other African countries like Namibia and Southern Rhodesia were not freed. This was recognised by Sam Nujoma, the freedom fighter who led this southern African country to independence. Similarly, Kenneth Kaunda, the first President of independent Zambia intimated that “Nkrumah inspired many people of Africa towards independence and was a great supporter of the liberation of southern Africa from Apartheid and racism” (Frimpong 2012, 69-70).

The vision of Kwame Nkrumah concerning a continental body with stronger powers has been bought by the AU. In July 2009, the AU issued a “Declaration on the Celebration of the 100<sup>th</sup> Birthday Anniversary of Kwame Nkrumah.” This declaration praised him as that advocate of pan-Africanism who played a vital role in the establishment of a continental organisation and the liberation of Africa from colonial rule (Quist-Adade 2012, 6; Olaosebikan 2011, 218). This was an open recognition of the ideals for which Kwame stood and fought for until his death. The AU had openly acknowledged and accepted this vision as good for Africa if the continent must make progress in socio-economic and political development. This recognition makes greater meaning at a time that the African fifty three or so countries are what Quist-Adade (2012, 9) refer to as “desperate, dispirited non-viable... today.” In great recognition of Nkrumah’s legacy of pan-Africanism, the AU has named its newly constructed headquarters in 2012 in Addis Ababa after him. This was because of his unremitting stance on African unity and his commitment to fight against colonial subjugation (Frimpong 2012, 70). This kind of scenario would have been avoided had African countries listened to the wise counsel of Nkrumah. They are recognising now when the web of neo-colonialism had entangled them to breaking point.

One of the fiercest opponents and contemporary of Nkrumah was Julius Nyerere of Tanzania but he came to recognise and accept what Nkrumah stood for several years after the passing on of the former. In one of his quotes during the 1997 7th Pan African Congress which also coincided with the 40<sup>th</sup> anniversary of the independence of Ghana Nyerere said “We of the first generation leaders of independent Africa have not pursued the objective of African Unity with vigour, commitment and sincerity that it deserves. Yet that does not mean that unity is now irrelevant” (Dastile and Ndlovu-Gatsheni 2013, 128). A deeper interpretation of this statement shows that Nyerere came to believe in greater unity a thing which he did not believe in the way Nkrumah first suggested it. He was an advocate of gradualism but by 1997 he had recognised that gradualism had not led to the unity that Africa needed more than

ever before. This explains why he said if they were not committed to it before, this did not mean that unity was not a necessity. He was in other words calling on the people to pursue it with greater commitment and vigour than many of them did during the colonial and early post-independence periods.

Ali Mazrui has credited Nkrumah for establishing the agenda for continental unification for Africa. Besides, he argues that no one else has made the case for continental integration more forcefully than Nkrumah ever did. Mazrui holds that through Nkrumah's books his ideas have continued to influence the notion of continental integration for Africa (Kumah-Abiwu 2013, 123). This can be considered to be one of the most important contributions of Nkrumah which is acknowledged even by his fiercest critics. They are aware that as times passes, people read his works and look at what is happening to Africa today and see in these works the need to identify with what Nkrumah had said several decades ago. It is high time to go beyond just identifying but actually working towards to a Union Government for Africa. It may not in the short term provide the much needed solutions to the problems of Africa but will be very useful in the future.

The post-Nkrumah Ghana lambasted him for the economic and socio-political woes of Ghana. Leader after leader tried to undermine all that Nkrumah had done for Ghana before and after independence. Interestingly enough, during the radical period in the early 1980s in the country, Nkrumah and his philosophy of unity was revitalised in the struggle for an African revolution. The government of Ghana exploited his image and legend for the purpose of uniting Ghana and for pan-Africanism (Iljima 1998, 171). Who would have thought that in less than two decades, Ghanaian ruling authorities would give so much attention, honour and respect to Kwame Nkrumah who was 'vomited' by the military in a bloodless *coup d'état*. This came to pass and revealed that the ideas of Kwame Nkrumah penetrated the minds of even the heart-hearted or his fierce critics within his country. Although Ghana is seen as a model for many African countries, it has not escaped the onslaught of the West as far as its resource exploitation is concerned.

African renounce musicians are not indifferent to Nkrumah's pan-African vision. Nkrumah advocated pride in the cultures, histories and peoples of Africa and African descent. This was actualised by musicians like Fela Kuti of Nigeria and Bob Marley of Jamaica. It has also been creatively appropriated by younger generation writers like Chimanda Ngozi Adichie who are constantly negotiating and navigating such myriad identity margins as epitomised by President Barack Obama of the United States (Nyamnjoh and Shoro 2011, 4). The acceptance and valorisation of Nkrumah's ideas of pan-Africanism notwithstanding, these ideas were and still have been refuted

in some circles thereby making pan-African unity to remain a mirage at a time that it is needed most.

## Rebuttal of Nkrumah's Vision

The pan-African vision of Nkrumah as compelling and realistic as it can be today's in Africa that is torn apart has persistently been opposed by divisive and anti-unity forces within and outside the continent. There are still people today like in the days of Nkrumah who have voiced very strong sentiments against a United States of Africa. They argue that the continent is too large and diverse to be united and that there are too many languages. Above all, they opine that European countries will not allow this to happen because it would mean losing grip of former colonies. Still others intimate that blacks and Arabs cannot live together on the continent and that Qaddafi like Nkrumah wanted to be the President of a United States of Africa (Asante 2012, 18-19). They define Africa in terms of colour when they talk about Arabs and blacks. The 'gradualists' since the days of Julius Nyerere have opposed 'rapidists' on the idea of continental unity. This is because they are more concerned with the false idea of the loss of sovereignty. According to them, there should be economic before political integration which is opposed to the call for political union as a means of economic integration (Asante 2012, 20). The Afro-pessimists dismiss pan-Africanism as utopic and which can never be realised. The debate which was given greater visibility on the African continent by Nkrumah has been further compounded by these views of 'anti-unificationists.' Unfortunately, many of them are steering the ship of state in their countries. They talk about sovereignty only when it come sot political unity of Africa. In their dealings with Western Europe, the United States and today China, they are virtually ribbed of their so called sovereignty. Based on this thinking at a time that all Africans including those in the Diaspora should be coming together lead one to ask which is the best approach to a continental government that would be acceptable to all? Some are for political unity, others for sovereignty and still others for a regional federation (Quist-Adade and Chiang 2012, 2 and 6; Shivji 2009, 4; Wilburn 2012, 37). Regionalism and sovereignty have failed Africa in its drive for a Union Government and it would be a logical and wise thing to try political unity.

After the independence of many African countries, instead of joining forces, many of their leaders opposed Nkrumah's call for a United States of Africa. While Nkrumah's Ghana pushed for a political union of Africa, Nigeria for example fiercely resisted it. Countries like Nigeria, Senegal, Benin, Tunisia, Kenya, Tanzania and many other French speaking states were

content with maintaining close links with the Western countries. President Julius Nyerere of Tanzania preferred a gradualist approach to pan-Africanism. Nyerere laid emphasis on the dilemmas and problems that militated against pan-African unity and criticised Nkrumah for political unity of Africa as mere propaganda. The unity of Africa was compounded by the emergence of different blocs such as the Casablanca bloc which wanted political union and the Brazzaville and Monrovia blocs that were more concerned with their sovereignty and closer ties with their former colonial masters. The Francophone speaking countries especially argued forcefully that the time was not ripe for a pan-African organisation. They wanted to remain on good terms with France and supported only sub-regional pan-Africanism. While the more radical states like Ethiopia, Guinea and Mali belonged to the Casablanca group of states and supported Nkrumah for political union, the more moderate states like Ivory Coast, Liberia, Togo, Benin, Sierra Leone and Nigeria of the Monrovia group were for economic cooperation as the best way to achieve African unity (Dastile and Ndlovu-Gatsheni 2013, 121-3; Wapnuk 2009, 646; Kumah Abiwu 2013, 123; Mei 2009; Olaosebikan 2011, 218; Akonor). In a forceful expression of denial of political union for Africa, President Sourou-Migan of Benin among other things said:

My Government feels, however, that it would be wise to maintain for a certain time the liberal conception of flexibility or organisation of our conference. We should also *abstain from giving a supranational character* to the bodies it sets up. Caution demands that the O.A.U. be maintained for the present as a multinational organisation (Olaosebikan 2011, 223 - emphasis is mine).

Similarly, the Prime Minister of Nigeria Sir Abubakar Tafewa Balewa argued very strongly against political unity of Africa in these words:

Nigeria stand is that if we want unity in Africa, we must first agree to certain essential things. The first is that *African States must respect one another*. There must be *acceptance of equality* by all the States. No matter whether they are big or small, *they are all sovereign and their sovereignty is sovereignty* (Olaosebikan 2011, 223 - emphasis is mine).

The excerpts from the speech of the President of Benin and Prime Minister of Nigeria reveal the strong opposition against political unity. Sourou-Migan cautioned that the OAU should not be turned into a supranational structure and Tafewa Balewa stressed on the equality and sovereignty of all countries. In apparent reference to Kwame Nkrumah, he talked about the need for states to have respect for one another. This could be understood

based on an earlier statement made in June 1960 in Ethiopia during the Conference of Independent African States (CIAS) by the leader of the Nigerian delegation Yusuf Maitima Sule. Sule had during this conference intimated that “If anybody makes the mistake of feeling that he is a Messiah who has got a mission to lead Africa the whole purpose of pan-Africanism will, I fear, be defeated” (Biney 2011, 139). The President of Senegal Leopold Sedar Senghor publicly lambasted Kwame Nkrumah for his support of political unity telling him to accept defeat. With this kind of thinking and behaviour which was re-echoed by Qaddafi when he challenged states to rise above sovereignty is what has made Nkrumah’s dream to remain a dream in the 21<sup>st</sup> century Africa.

While the AU as a continental body is an improvement in itself, it remains an inter-governmental organisation that is still far away from a United States of Africa as envisaged by Nkrumah before and after independence and Qaddafi at the turn of the 21<sup>st</sup> century (Mei 2009). To make nonsense of what Nkrumah all along fought against the New Partnership for Africa’s Development (NEPAD), the brainchild of the AU is still tied to the apron strings of the West. Through NEPAD, the colonial matrix of power is still active in shaping fake partnerships that do not work practically. The proponents of NEPAD did not learn any lesson from Kwame Nkrumah’s insistence that neo-colonialism was a major threat to Africa’s struggle to control its own destiny (Dastile and Ndlovu-Gatsheni 2013, 129). The AU also espouses a model of development based on liberal democracy and market principles (Frimpong 2012, v). This is a fundamental and radical break away from the thinking of Nkrumah and this is a rejection of his philosophy of pan-Africanism.

In the pursuit of pan-Africanism, Nkrumah had opponents from within his own country Ghana and also from his partners. Ghanaian nationalists argued that he was using the resources of the country or squandering them to make Ghana a base for the African Revolution. Some regionalists in his country violently opposed a central pan-African government because it undermined the sovereignty of their country and their own interests (Poe 2003, 25). Many chiefs of Ghana and their councils believed that an independent Ghana would restore ethnic power over government and this believe was in conflict with the path of African unity that Nkrumah had chosen. The argument was that before Nkrumah could create a pan-African nation he needed to tackle the entrenched regional and ethnic divisions that plagued Ghanaian society (Lawson 2004, 113). His partners like Sékou Touré of Guinea, Modibo Keita of Mali and Abd Al-Nasser of Egypt did not always see with Kwame Nkrumah. They did not always agree with his positions although this was not done violently (Poe 2003, 35). This is to show that the forces against Nkrumah’s vi-

sion were from both within his country and within his closer circle of reliable friends. It was therefore a distant dream for continental political unity to be achieved at that time. This thinking of “micro-interests” above the collective good has so dominated African leadership that it will take a new and radical generation of leaders to put the interest of Africa and the suffering masses above petty interest. Africa needs political unity to fight the many wars that it is confronted with from without and within the continent. Nkrumah’s clarion call still beckons on them to make haste while the sun shines.

## Conclusion

This paper has examined the acceptance and rejection of the pan-African vision that was propounded by Kwame Nkrumah prior to and after the independence of many African countries in the 1960s. We began the paper through an introduction and then examined different views about the best possible ways that pan-Africanism can become a reality in and between Africans and those of African descent. These views have their roots in the past. While some authors have traced the pan-African vision to several years before the birth of Jesus Christ, others have argued that pan-Africanism began with the slave trade that took place between Africa and the Arab world and later on between Africa and Western Europe. The colonial period is also highlighted as having contributed to the development of pan-African ideas among Africans especially those of African descent in the diaspora. The different pan-African views is a clear indication of how diverse Africans are with regards to the best way to express a common position that will contribute to the independence of African states from the ‘invasion’ of Europe and the United States of America.

There has been a focus on the vision of Kwame Nkrumah and how it was and has been acknowledged and accepted as the way to save Africa from dismemberment. Early attempts were made by Nkrumah and the leaders of Guinea and Mali to make political unity a reality. His ideas were also bought by writers, musicians, Muamar Qaddafi, the AU and others. Sceptics who found in Nkrumah’s pan-Africanism a dream are beginning to see the need for a united Africa more than ever before because of the destruction that is going on in the continent today. The resources of the continent are exploited with reckless abandon; European countries intervene and further exacerbate the problems of fragile states like Mali, Ivory Coast and Libya.

In as much as Nkrumah’s ideas have found fertile ground in some circles, it has been out-rightly rejected in others. The Afro-pessimists are more concerned with safeguarding the territorial integrity of African states.



They also point to diversity in languages and historical experiences that will make it near impossible for a United States of Africa to be achieved. Their arguments fail to take into account the fact that regionalism and sovereignty have not helped Africa close ranks and defend the collective good. It is high time Nkrumah's vision of a political union be given a try so that Africans will be given the opportunity of comparing these and make their judgements as to which of these has been more successful.

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**ABSTRACT**

This paper focuses on the pan-African vision of Kwame Nkrumah, the first president of independent Ghana, and how this vision has been appreciated over time. Nkrumah was the greatest advocate of the political unity of Africa. This was to enable the continent to ward off exploitation by the West and then build a continent self-reliant. This paper examines the divergence in the acceptance and rebuttal of his vision for Africa through a content analysis of written works.

**KEYWORDS**

Pan-Africanism; Kwame Nkrumah; African Unity.

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# RESURGENCE OF MILITANCY IN OGONILAND: SOCIO-ECONOMIC PERSPECTIVE

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## Introduction

Militancy in Ogoniland, an area of Southeast, Nigeria continues to shock humanity in its impunity, frequency and severity. The struggle against local militants by the Nigerian government raises unsettling and urgent questions concerning the efficacy of efforts to curb this struggle. To address this issue, this discourse turns the question around: What can be done to arrest the myriad factors responsible for militancy in Ogoniland? Answering this question is crucial in order to identify who or what is to blame, and consequently the strategies to use to solve the challenge. Interestingly, following a prolonged national debate on militancy, the Ogonis feel powerless, they distrust leaders and are frustrated as they cannot legitimately benefit from the oil resources in their land.

Militants have been responsible for crude oil pipeline vandalism and oil bunkering in Ogoniland, including dozens of attacks on oil company workers, and both local and foreign expatriates in their communities. Nigeria, like many other countries, has been confronted with militancy during the past few years. At first, many in Nigeria could hardly believe that the country would become a focus of militancy attacks. However, with the surge in the number of attacks and kidnapping between 1990 and 2015, and with very little or no success from the security agencies in deterring the threat, it now appears to many that militancy has firmly set up shop and is expanding business in Ogoniland. The Nigerian government has made fundamental mistakes in respect of the Ogoniland, and it is beyond doubt that the mistakes, according to critical ob-

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servers, are sometimes to be compared with socioeconomic crimes. Because security challenges in Ogoniland are multidimensional, overcoming them requires a multidimensional strategy. There is no doubt however that whatever strategy is adopted should reinforce “good political governance”. This is because the majority of the challenges are consequences of lack of transparency and accountability in governance, poorly observed rule of law, gross violations of fundamental human rights, environmental degradation, high incidence of corruption, and demands for environmental, socio-economic and political justice. In addition, Nigeria’s political and criminal justice institutions have become very weak, while our social and moral values have been degraded. Instead of focusing on the debate on this politically sensitive, controversial, and highly polemical issue, this chapter discusses militancy as a socioeconomic dilemma, not a primordially-driven political issue. Economic explanations and socially faceted intellectual examinations of militancy in Ogoniland are quite prominent and features frequently in national discourses. Several experts and analysts argue that militancy in Ogoniland is a socio-economically motivated issue—that it is a means to reaching some socio-economic goals.

Therefore, the militancy in Ogoniland is an issue for debate that stems from social and economic-ideological considerations at national levels. This discourse will be limited to socioeconomic issues, and will, it is hoped, create an avenue for further debate in the political arena. Politics can never explain, let alone justify, the kidnapping of multinational oil workers and killing of security officers in cold blood anywhere, with the murders planned and thought out beforehand. Given the perceived injustice of not benefiting from their own resources yet having to face the negative consequences of extraction, different militant groups have emerged. Many are socio-economic in nature though use violent tactics to demand greater local control, more transparent management of oil revenues, and adequate compensation to those affected by oil extraction and exploration. Other groups have taken advantage of the situation to operate as militant gangs, resorting to activities such as kidnapping foreign expatriate oil workers for ransom, oil theft etc. The two groups are not water-tight categories, and lines between them often blur. The security situation in Ogoniland has deteriorated considerably in recent years. The most visible forms of insecurity have been the various attempts by militant groups and gangs to disrupt oil exploration and production in Ogoniland and to create an atmosphere of fear by kidnapping both foreigners and Nigerians.

## Theoretical Approaches to Resurgence of Militancy in Ogoniland

There are better explanations of why deprivation and marginalisation have become an essential “tool” in social and economic domains, and its militant manifestations. For instance, Ted Gurr’s model of relative deprivation, mobilization and grievances is extremely relevant to understand the intrusion of deprivation and marginalisation in socio-economic circles and the phenomenon of militancy. However, those who are most deprived, oppressed, and most in need are those who usually violently rebel. In fact, all the big names in the list of the culprits in recent history have turned out to be those who were deprived and marginalized and not relatively well off. While there have been food riots and peasant uprisings, most often, revolutions and violence have occurred when conditions are not better or have not been improving, and by those who are the most deprived. Explanations vary, but generally focus on two propositions.

First, deprivation is subjective and a function of a person’s perception, needs, and knowledge. To nail deprivation to an objective or absolute lack of something such as freedom, equality, or sustenance, is to ignore the fact that the definition of these shifts according to historical periods, culture, society, position, and person. The second proposition deals with these norms. It asserts that we take our presently perceived or expected position, achievements, gratifications, or capabilities as a base of comparison against our wants or needs, or what we feel we ought to have. The gap between wants or ought and gratifications or capabilities is then our deprivation, or relative deprivation, in the sense that it depends on our basis of comparison. The literature on these two principles and on relative deprivation is well organized in Ted Gurr’s *Why Men Rebel*, which merits discussion. The idea of relative deprivation has been used either to measure fairness, inequality, and social justice, or to explain grievance, socio-economic hostility, or aggression. Gurr’s (1970) concern is relative deprivation as a cause for aggression. Gurr (1970) articulated models, suggesting that the gap between expectations and achievement would contribute to the willingness of the people to rebel. In particular, Gurr (1970) observed that rebellion was most likely to be fuelled by movements on the basis of perceived deprivation. In this discussion on Ogoniland’s militancy, the aggressive, violent phenomenon of militancy attests to Ted Gurr’s theory that it is actually the gap between the expectations of an administration based on “true” reality of an “adulterated” administration that leads these self-proclaimed custodians to use violence in the name of deprivation and marginalization. The basic thesis of this article is based on two theories: one that

grievance born of deprivation (social and economic) is an individual's concern that manifests itself collectively. Quite often, social and economic deprivation is aggregated within specific groups with a homogenous cultural identity.

For example, an ethnic minority might suffer disproportionately in a given society, and this form of grievance can lead to unrest across the social and economic lines that distinguish the minority groups (Gurr 2000). In most regions of the world with ethnic movements, which sometimes are of a violent nature, are minorities rebelling against the system. Gurr, for example, explains:

In summary, the primary source of the human capacity for violence appears to be the frustration-aggression mechanism. Frustration does not necessarily lead to violence, and violence for some men is motivated by expectations of gain. The anger induced by frustration, however, is a motivating force that disposes men to aggression, irrespective of its instrumentalities. If frustrations are sufficiently prolonged or sharply felt, aggression is quite likely, if not certain, to occur. To conclude that the relationship is not relevant to individual or collective violence is akin to the assertion that the law of gravitation is irrelevant to the theory of flight because not everything that goes up falls back to earth in accord with the basic gravitational principle. The frustration-aggression mechanism is in this sense analogous to the law of gravity: men who are frustrated have an innate disposition to do violence to its source in proportion to the intensity of their frustrations (Gurr 2000, 36-7).

This brings us back to the thesis, which argues that to understand the intrusion of deprivation and marginalization in socio-economic life of a people and the phenomenon of militancy in Ogoniland, southeast region of Nigeria, one need to understand the element of 'fear'. The common thread that weaves violent social and economic movements together is fear. This is true in the case of Ogoni militancy. The fear of being deprived of something drives one to act aggressively, while the fear of being left out drives militancy against prevalent forces. Although it is neither the only motivating factor for the social and economic manifestation of militancy in Ogoniland, nor necessarily the most obvious; it is conspicuously present at all times. Whenever we ask why people harbour hatred, or why they are willing to kill or die for a cause, the answer invariably is 'fear'. Ogoni militants are united by fear. Some groups fear change, modernization and loss of influence for physical and material gratification. They are especially fearful of deprivation and marginalisation. They fear a future they will have little control over and the one they cannot even comprehend. Therefore, if relative deprivation can explain the phenomenon of militancy among Ogoni minorities, the fear of being de-



prived the expected status and the inability to achieve a 'desirable' society can explain the rising militancy among the ethnic minority. Ogonis as minorities group suffer from such fear that has often led to Ogoni militancy group unleashed in the Northern region of Nigeria waging war against the government security forces and foreign oil workers in the Ogoniland. This article is founded on the theory of relative deprivation as Gurr (2000) suggests or the element of fear that pushed the Ogoni minority group into a cycle of ethnic militancy due to the intrusion of deprivation and marginalisation in social and economic contexts. The social and economic forces "feared" losing the identity on the basis of which the state was carved out, in addition to the vast minority of people who live on the margins of society and feel deprived of social and economic power, leading to the politicization of socio-economic life of the people and its extreme manifestation in the form of militancy.

## The Historical Antecedents of Militancy in Ogoniland

Ogoni is an ancient indigenous ethnic minority group living in the southeast part of Nigeria. Economically viable petroleum was discovered in Ogoniland in 1957, just one year after the discovery of Nigeria's first commercial petroleum deposit, with Royal Dutch Shell and Chevron Corporation setting up shop throughout the next two decades (Boele, Fabig, and Wheeler 2001). They number about one million people and live in a 404-square-mile (1,050 km<sup>2</sup>) homeland which they also refer to as Ogoni, or Ogoniland (National Bureau of Statistics 2006). Traditionally, Ogoniland consists of six kingdoms: Babbe, Eleme, Gokana, Ken-Khana, Nyo-Khana, and Tai (Carr, Douglas and Onyeagucha 2001). The Ogonis occupy an alluvial plain bounded on the north by Imo River and their Igbo neighbours; on the South by the littoral flats inhabited by the Obolo (Andoni); on the east by the Opobo River and the Ibibio; and on the west by the Ikwere which stretches into the large city of Port Harcourt, Rivers State. Their occupation consists mainly of farming and fishing (Opukri and Ibaba 2008).

The Ogonis are a distinct people who have lived for more than 500 years. The Ogoni is an agricultural and fishing society, living in close-knit rural communities in one of the most densely populated areas of Africa. The Ogoni people attracted international attention and worldwide sympathy in 1990, when Ken Saro-Wiwa, an internationally acclaimed radical, activist and environmentalist from Ogoniland, began mobilizing his people, the indigenous Ogonis, for nonviolent protest against the Shell Oil Corporation (African Network for Environment and Economic Justice (ANEEJ) 2004). While in the early 1990 under the leadership of Ken Saro-Wiwa, a radical or militant

group, the Movement of the Survival of the Ogoni People (MOSOP) planned to take action against the Nigerian government and the oil companies operating in Ogoniland. In late 1990, MOSOP presented The Ogoni Bill of Rights to the Nigerian government (Association of Nigerian Scholars for Dialogue 1990; Ebeku 2001). The Bill hoped to gain political and economic autonomy for the Ogoni people, leaving them in control of the natural resources of Ogoniland and to protect the environment from further degradation.

In 1993, following protests that were designed to stop contractors from laying new pipelines for Shell, the security agencies raided the area to quell the activities of that militant group. In the chaos that followed, it has been alleged that 27 villages were raided, resulting in the death of 2,000 Ogoni people and displacement of about 80,000 others. For more than 60 years, oil spills and gas flares from the multinational's oil explorations had destroyed the environment and the health of the indigenous Ogonis, causing thousands their lives and livelihoods (Brown 2006). Five years after the start of his campaign, Saro-Wiwa and eight other indigenous Ogoni militants including Baribor Bera, Saturday Dobe, Nordu Eawo, Daniel Gboko, Barinem Kiobel, John Kpuinen, Paul Levura and Felix Nuate were brutally hanged for their peaceful protest on the orders of Late General Sani Abacha, the then military dictator of Nigeria.

Beginning in 1997, this militant group was very active in pressuring the Nigerian government for a greater share of oil revenues, and for greater political and economic control over their land. They are often militant, seizing oil installations, vandalizing the crude oil pipelines and kidnapping multinational oil workers. Their actions against the Nigerian state itself are rarely violent, though their members are often involved in violence against rival ethnic groups.

In 1999, there were reprisal killings by military and police units in the Ogoniland. Torture and rape was used against the Ogonis in the area (Amnesty International 2005). The Nigerian military effectively sealed off the area to outsiders after the Ogonis became vocal and unrelenting in their demands, and Ogoniland became a militarized area. As of the end of 1999, at least 2,000 Ogonis had been killed since their protests against Shell Oil began. In the period 2001-2015, the level of repression against the Ogoni militant group seemed to have increased (Okechukwu 1999).

## Drivers of Militancy in Ogoniland

Militancy in Ogoniland is not to be thought of as political vendetta un-

leashed by individuals or a group; rather, it is genuinely a socioeconomic issue. In this respect, the indeterminate circle of immediate objects of militant acts and the use of violence in relation to an indeterminate group of innocent oil workers for the sake of achieving an ultimate objective – the satisfaction of economic and social demands – are the most relevant indicators. For, “of militancy one can speak only when the sense of an act is defined as the creation of fear and terror. This is the fundamental characteristic of Ogoniland militancy” (BBC News Africa 2007). Now, how can militancy be differentiated from liberation violence, or from the battle for national liberation? Are they (Ogoniland militants) not fighting for socioeconomic freedom for their land? Since dealing with militancy requires a multidimensional approach, it is necessary for Nigerian government to re-examine the socioeconomic conditions in Ogoniland, the main operational area of the militants.

In Nigeria, the Ogoniland is the worst hit in terms of poverty, economic marginalization, unemployment, underdevelopment, lack of access to education and environmental degradation due to oil spills, gas flaring, and deforestation (Climate Justice Programme/ERA 2005). The people are the most essential pillar of the country’s productivity and development. It is the fundamental duty and responsibility of the state to fulfil the basic needs of its people. Basic human needs comprise shelter, food, and clothing. When these needs are not fulfilled, socioeconomic problems are bound to arise. Ogoniland has been suffering from such problems. The real issue is not the problems in the area, rather, it is the extent to which the problems are being given attention and tackled. When grievances of the Ogoni people are not rapidly addressed, they often turn out to be a menace for the country (Omeje 2000). They would resort to actions that would exert a negative impact on society; a people deprived of basic necessities of life are either ignorant of or may be spiteful of their duties and obligations toward the country.

This results in deviant behaviour such as violence and restiveness. It also breeds poverty, illiteracy, impunity, and many other socio-economic evils including militancy. A country beset with socioeconomic crises fails to attract investment. Low foreign direct investment (FDI) results in economic slowdown and absence or weakness of competitive local industries and causes a decline in exports, tumbling stock markets, and inflation. Ogoniland has been facing a range of socioeconomic problems since the discovery of oil in commercial quantities at Oloibiri in 1957. At the start, there were the problems of inadequate funds, poor infrastructure, and widespread poverty among the Ogoni people.

In 1990, Ken Saro-Wiwa and his group wrote the Ogoni Bill of Rights, which catalogued the people’s demands for environmental, socio-economic

and political justice (Amnesty International 2005). Ken Saro-Wiwa and nine Ogoni members tried their best to solve these socioeconomic problems and to get the community machinery working. Owing to their sudden death they could not fulfil their mission. Unfortunately, Ogoni leaders in the community after them did not give considerable attention to finding solutions to the various socioeconomic problems. Subsequently, the problems got worse with time and have become social evils, transmuted to militancy. Ogoniland is a minority community and faces a wide range of social problems, along with political instability which further aggravates the problems. Currently, Ogoniland is faced with many challenges in the form of social and economic problems.

### **Environment and Livelihoods**

The first is environmental degradation. The Ogonis are confronted with both demographic and ecological disadvantages. Compared to the majority of other groups in Nigeria, the area is without basic infrastructure; due to continually declining health conditions, many of them have a lower-life expectancy, and face environmental problems due to the high levels of pollution in Ogoniland (Igbara 2010). Due to the repressive actions taken by the Nigerian government in the past and present, many Ogonis have left the area entirely. Many of the restrictions which the Ogoni faced have been removed since the elections of 1999 and international awareness of their plight. In the past, nonetheless, the group was excluded by the majority in political and economic matters due to historical neglect, and no policies were in effect to remedy the situation. Environmental degradation due to oil spills, gas flaring, and deforestation have had severe effects especially on the economically and socially marginalized. It has brought Ogoni people into conflict with the government and multinational oil companies. Moreover, the depletion of natural resources has both increased the levels and depth of poverty as the most vulnerable are the most dependent on environmental incomes. Given the dependence of local livelihood systems on natural resources (almost 90% of the inhabitants in Ogoniland depend on the natural environment), destruction of the environment from oil spills, gas flaring and deforestation has made the poorest Ogoni communities vulnerable and has had direct deleterious impacts (Ubong 2010). Hence protecting the natural environment of Ogoniland is closely linked to the protection of the rights and economic wellbeing of its citizens.

### **Lack of Access to Quality Education**

Perhaps the greatest disadvantage comes in the field of education: Lack of access to quality education by most inhabitants renders Ogoniland incapable of dealing with the growing challenges of the 21st century. School buildings are collapsing with the classrooms and laboratories empty. Ogoni people affected by poverty are unable to afford quality education and decent upbringing for their children. In addition, negligence on the part of the Nigerian government aggravates the situation, especially in the area of mass education for youth in Ogoniland. Despite various steps taken by a former governor of Delta State, Dr. Emmanuel Uduaghan, in the promotion of quality education, the illiteracy rate has hovered around 72% over the years (Izeze 2015). The Ogonis spend a meagre amount of its gross domestic product (GDP) on this vital sector. Owing to low investment, state government-run schools in Ogoniland are deprived of basic facilities such as standard classrooms, well-equipped libraries and laboratories, water and sanitation facilities, and electricity. The oil private sector is not doing a commendable job in this regard in setting up privately run schools. However, owing to the profit objective of this sector, education remains beyond the reach of the poor. The estimated completion rate of primary education in Ogoniland is 30.7% in females and 50% in males, which shows that the majority of Ogoni people in the six kingdoms are unable to get basic education (National Bureau of Statistics 2015).

### **Widespread Poverty in Ogoniland**

Ogoniland's agricultural production has now been severely reduced. This is partly due to loss of farmlands through oil pollution and partly to soil fertility problems arising from acid/alkaline rain caused by gas flaring. Large areas of fresh and salt water resources as fishing grounds have also been rendered unproductive by oil spills (National Bureau of Statistics 2015). Food is becoming increasingly expensive and potential farmers are too poor to pay for seeds and labour. Poverty has worsened in the Ogoni areas during the last years. Nearly all multinational oil workers are people coming from outside the area with whom the Ogoni people have had to compete with for basic commodities. There are hardly any government projects to address the problems of development in the place. Attracting foreign aid to Ogoniland has been difficult and a couple of community self-help initiatives by the people were branded 'MOSOP-inspired', and thereby stopped (Akunna 2006). Ogoniland is in total economic isolation by the government, and most roads have been left to wear, making transportation extremely difficult. Available data shows that poverty incidence increase between 1956 and 2015 across

the communities, and current poverty levels in Ogoniland are the highest in Nigeria. However, poverty incidence figures alone do not explain the disaffection among the inhabitants of Ogoniland. The volatility of Ogoniland is mainly due to a sense of injustice driven by the depth of poverty, levels of inequality, and subjective assessments of poverty. Poverty statistics show that the level of poverty in the Ogoniland has increased. However, levels of self-assessed poverty and perceptions of inequality indicate strong feelings of economic marginalization. It is rightly said that poverty anywhere is a threat to prosperity everywhere. Some 70% of the population of Ogoni people live in rural villages (International Crisis Group 2006). According to some sources, poverty has increased roughly in Ogoniland, with the highest incidence of poverty ranging between 60.9% to 70.1% during the past few years (Nwilo and Badejo 2001). By another account, 60% of the population Ogoniland is living below the poverty line (Ukeje 2001). In such conditions, large numbers of Ogoni people are deprived of basic necessities of life. Quality education and healthcare are distant from them. They are forced to think of their survival only.

### High Rate of Unemployment in Ogoniland

Levels of unemployment and underemployment are high in Ogoniland, and limit the avenues available for the Ogoni inhabitants to move out of poverty. Youth unemployment in particular is a cause for concern as it has provided a recruiting base for militant groups. The massively increasing population has almost outstripped resources and job opportunities; the Ogoniland is faced with the twin problem of unemployment, underemployment and unemployability; many youths in the area including graduates do not even have employable skills in today's labour market and many are not making the best of opportunities around them (like during the dry season), so remain underemployed or underutilized. The existing unemployment rates are: Babbe Kingdom 32.1%, Eleme Kingdom 34.2%, Gokana Kingdom 23.3%, Ken-Khana 26.8%, Nyo-Khana 35.6%, and Tai 34.8% (Bassey et al. 2002). Ogoniland is confronting cyclical, technical, structural, and seasonal unemployment, which is economically and socially devastating. Besides the oil installations and refineries, there are no manufacturing industries in Ogoni to reduce unemployment. This situation increasingly results in psycho-social degradation. The most horrible part of the situation is that unemployment increases every year in Ogoniland, which in the long term will be harmful not only to the economy of the area but for the entire country. It creates frustration and a revengeful attitude among the deprived. It leads to an increase in

the incidences of militancy.

### **Marginalization of Women and Vulnerable Groups**

There has not been a phenomenal change in Ogoniland since the discovery of crude oil in 1956. More than 60 years after independence, 80% of Ogoni women are still subject to violence. One in three has to endure rape, honour killing, immolation, or acid attacks from their radical and militant husbands (Opejobi 2016). Women in Ogoniland have suffered for years from systemic abuse of human rights in the hands of the multinational oil workers operating in the area.

### **Ineffective Dispensation of Justice**

The violation of human rights can be attributed to the absence of timely justice to the Ogoni people; justice delayed is justice denied. Dispensation of timely justice is the core essence of a welfare society. It is the duty of the Nigerian government to promote justice and to provide avenues for justice. However, this has been a daydream for the poor people of Ogoniland. Since the discovery of crude oil in their land, the judiciary has not lived up to expectation. A compromised and inefficient judiciary will be unable to redress the grievances of the people. Ogoni people are increasingly defending their land and property rights. Under such conditions, Ogoni people resort to violent behaviour like militancy.

### **Dislocation of Ogoni Peoples and Social Support Systems**

Militancy have emerged as a monster for the world in general and for Ogoniland in particular. The Nigerian government using security forces against the militants in Ogoniland has proved a nightmare. As at March 2016, militants had sacked several multinational oil companies in their homeland and other towns in Ogoniland, dethroned their local and expatriate workers, and had successfully attacked security agencies. The image of Ogoniland as peace-loving kingdom has been tarnished. Thousands of people living in Ogoniland have lost their lives while millions have lost everything they had and are either displaced to safer but less welcoming locations in neighbouring towns and states.

## Militancy in Ogoniland: Exclusion-Inclusion

The interest of a mass of excluded (marginalized) minority group in Ogoniland are directly or indirectly, tacitly or obviously, represented by militant organizations and individual militants working in conflict with formal organizations or groups (Okonta 2006). The polarization between the very rich and powerful minority (itself associated with the relative erosion of the middle class, “the guarantor” of the social system’s solidity), and the very poor and powerless majority culminates in conditions of national economics, into a nationwide split between included/excluded people in Ogoniland—an issue that puts humanity at existential risk.

## Militancy in Ogoniland: Human Rights and Poverty as Central Phenomena

Celestine AkpoBari speaks at a vigil for the nine Ogoni that was killed, he said “Not long ago, the Governor of our state in Nigeria said to the Ogonis: ‘Why can’t you people move on?’” (Arubi and Onoyume 2016). The simple answer is that since Ken’s death in 1995 nothing has been done to stop the devastation brought about by unwanted, dirty oil extraction in our homeland” (Arubi and Onoyume 2016). The ruling elite (that is, the rich, or political gladiators) are insufficiently aware of this national process of violation of human rights and poverty in Ogoniland. In this respect, the Nigerian government’s aggression towards the militants (no matter how “bad” Ogonis may have been) and the actions of Ogonis (no matter how ruthless the Ogoni militants can be) are eloquent examples.

No matter who started it, humanity is now paying for its political games with mountains of innocent corpses. Quoting Liddel Hart, Badmus (2006), revealed that: A campaign of this kind is more likely to continue because it is the only kind of struggle that fits the conditions of the modern age, while being at the same time well suited to take advantages of social discontent, radical ferment and nationalist fervours (Badmus 2006). Generally, two fundamental challenges have confronted Ogoniland since independence: lack of national integration (rooted in economic and social marginalization) and underdevelopment (largely due to environmental degradation as a result of oil spills, gas flaring, and deforestation). History has often shown that in cases where basic freedom has been denied, the oppressed will turn to primitive, aggressive actions such as militancy. The turning point in the militancy in Ogoniland therefore would be the ability to convert the potential for violence



into what appears to be a charismatic socioeconomic struggle.

To do this, the local militants must present themselves as advocates of social justice or protagonists in supporting the realization of human rights. First, based on human rights, national security and public interest became related in such a way that the two are the main or primary responsibilities of any democratic government to its people. Section 14 (4) (b) of the Constitution of the Federal Republic of Nigeria 1999 provides that “the *security and welfare* of the people shall be the primary purpose of Nigerian government.” Human rights are primary and inalienable rights (Articles 1, 2, and 3 of the Universal Declaration of Human Rights; United Nations 1949) (Nwabughio 2016). Violations of human rights breed violent reactions, namely militancy. Demands for the curtailment of human rights for the sake of the war against militancy are absurd. First, because human rights constitute ideologically the most powerful support for Ogoniland people’s act of militancy; it is the ideological basis for the legitimization of militancy. Second, there is an increasing risk for the Ogoni people to become the victims of human rights violations. This observation applies in particular to Ogoniland: We are all, to a large extent, hostages, not of militants, but of the power structure. Human rights and the risk of crime are inversely related: the more reliable the respect for human rights, the lesser the probability of crime. The history of political repression (radical) and militancy in the form of political assassinations goes back many years (Nwabughio 2016).

However, some researchers have pointed out that the most distinctive character of militancy in contemporary Ogoniland is the fact that it has become “an integral part of Nigerian state militant – one of the forms of state power”; that it constitutes a systematic violent intimidation of Nigerian society generally; that it presents a mass character; that the number of militant acts and their victims is constantly increasing; and that militancy is to be thought considering localization. Militants present a significant challenge for the Nigerian government working to advance human rights, self-determination, individual freedom, and stable societies. Yet, they must continue to seek solutions and dedicate resources to removing the social, economic, and political conditions that create an environment where militancy can flourish. It is incumbent on policymakers, analysts, and scholars to continue dissenting from local militant in an effort to better understand ways to combat the threat and to strive to improve the quality of life for all people in Ogoniland. Second, every human being, as a living organism with feelings, aspirations and ego, loathes imposed pain and suffering. Ogonis cannot abide with injustice, indignity, to be insulted, discriminated against, cheated, humiliated, or intimidated. Politically, people of Ogoniland hunger for relevance, to participate

in decision making, to be consulted on issues of common destiny, especially issues affecting them, their loved ones in particular, and the society they are part of. In Ogoniland today, the people are suffering untold socioeconomic hardship in the midst of plenty. Everywhere, hardship, hunger, and disappointment are worn by Ogonis on their faces. These failures on the part of the Nigerian government create the conditions for militancy, especially given the pockets of socioeconomic injustice in Ogoniland. As Ogoniland is under severe economic hardship resulting from natural or other causes, there tend to be growing challenges to security. This is because the deepening socioeconomic crises tend to generate social cleavages. In such contexts, social cleavages mean divisions that are based on ethnicity, language, gender, class, and even caste, and often a complex combination of some of the above. As the economic fortunes of Ogoniland shrink, these class and cultural pluralist cleavages tend to increase, and the struggle for scarce economic resources becomes more intense.

## Poverty and Militancy in the Ogoniland

Poverty is one of the most pressing socioeconomic issues facing humankind today. In the past few years in Nigeria as a whole and in Ogoniland in particular, there have been monumental changes in the poverty indices. National economic wealth has increased seven fold between 1957 and 2015 and average incomes have tripled also between 1980 and 2015. Yet, poverty has increased to record high levels in lands (like Ogoniland) where oil was discovered. The main factor is that wealth is concentrated in the hands of a few elite while the majority in Ogoniland live in abject poverty. Between 1957 and 2015, poverty has increased disproportionately in Ogoniland. And between 1999 and 2015, the situation was completely a continuing trend with the incidence of poverty becoming highest in Ogoniland. Again, by 2015, the situation completely changed with incidence of poverty highest in Ogoniland due to serious environmental degradation.

## The Poverty-Militancy Nexus

There is a direct relationship between increasing poverty and militancy. Whenever poverty increases, incidence of militancy increases. Increased poverty fuels militancy; militancy further pauperizes people, and the vicious cycle continues. The National Poverty Eradication Programme notes that only 15% of the Nigerian poor populace live in stable, low-income areas; 40% in

middle-income areas; and 45% live in fragile and conflict-affected areas. The data suggests that poverty is low in stable low-income Nigerian areas but high in conflict-affected areas. It also suggests that poverty is prevalent in middle-income areas because of inequality and marginalization. A review of the Millennium Development Goals in Nigeria, especially as it applies to its implementation in Ogoniland, shows that the challenge is huge and there is the need for urgent intervention. All official reports indicate that Ogoniland is not likely to achieve goal one: reduction of extreme poverty and hunger. In order to achieve goal one, Ogoniland is supposed to reduce the proportion of their people living on less than one dollar a day to half the level as at 2015, which means reducing poverty from about 32% to 23%. However, data from the National Bureau of Statistics indicates that the poverty level as of 2015 had increased to 61.1% (Nwabughio 2016). It is important to point out that Ogoniland has the highest level of poverty in the country. Taken together, the poverty level in all the oil-producing areas in Nigeria is probably the highest in the country, comparable only to other areas. The reasons for the situation include: environmental degradation, insecurity, inequality and marginalization, and lack of effective programming by the government to support the poor, especially among Ogoni rural dwellers. Ogoniland presents an ample example of impoverishment as demonstrated by widespread poverty, unemployment, infrastructural decay, and environmental stress. All these factors, while directly the cause of militancy, nonetheless foster a breeding environment for militancy operations. Despite Nigeria's socioeconomic growth in recent period, poverty and income inequality are high in Ogoniland. The Environmental Assessment of Ogoniland Report reveals that 112.5 million Nigerians (70% of the population) are classified as either "poor or absolutely poor" (Izeze 2015). Areas where there is high occurrence of militancy like Ogoniland have the worst poverty rate (Obi and Rustad 2011). This is compounded by illiteracy and unemployment in Ogoniland. Education in Ogoniland is poorly funded and even so, schools are scarce in Ogoni Kingdoms. Due to the fact that many children are sent to public schools where they are left to live for their survival, in the context of widespread poverty and social decay, such practice is open to abuse by militant groups.

## Implications of Militancy in Ogoniland

There is no doubt that the burden of militancy on the security agencies and foreign oil workers has been extremely heavy. First of all, Ogoniland has lost a few thousand people in the last few years while more than fifty thousand Ogonis have been displaced. This number includes both victims

of militant attacks – inhabitants of Ogoniland, police officers, and military personnel – as well as unknown armed men killed in shootouts. In addition to the casualties (not only the dead but also the wounded, incapacitated, be-reaved, or deprived), the economic burden of militancy has been significant. Nigerian government alone spent over 100 million dollars to deal with militancy between the year 1995 and 2015 (Nwabughioogu 2016). And Nigeria's security budget for 2015 was 921 billion naira, which is equivalent to only 6 billion U.S. dollars, as a result of insecurity generally in the country.

Considering additional resources which were paid out to deal with other militancy groups, the structural losses to militancy, and other uncal-culated burdens, it is quite apparent that militancy forced the Nigerian gov-ernment to allocate most of their economic resources to deal with militancy, thereby further weakening other sectors of the economy. In addition to the many causalities and enormous financial burden, the psycho-social and so-cio-cultural effect of militancy on the population of Ogoniland is another vital aspect. The high number and recurrence of militant incidents caused wide-spread fear and panic especially between 1990 and 2015. Also, the incidence remains high after the year 1995 despite a military crackdown and declaration of amnesty for the militants in Ogoniland (Opejobi 2016). What happened during those years, deeply affected the collective psyche of the Nigerian soci-ety, and militants made advances toward reaching their goals of spreading fear and panic, weakening the area's economy, and making Nigeria as a whole an unstable country. Localized militants carried out many attacks against securi-ty agencies and expatriate oil workers. Consequently, Ogoniland received its share of different kinds of short- and long-term losses and burdens – there is no doubt that militancy have weakened the country's economy for the past 60 years.

## The Tragedy of Militancy in Ogoniland

The tragedy of militancy has become a terrible symbol of the new real-ity of the 21st century. The strategies of militancy in Ogoniland are innumera-ble, and lead to innumerable victims and unimaginable suffering. It is a form of criminal activity (“crimes against humanity” and “war crimes,” the worst form of crimes imaginable) and deserves severe punishment. But the socioec-onomic essence of militancy and the desire to fight militants require a multi-dimensional approach rather than a simply militaristic or juridical one. From one point of view, there is no justification for militancy. However, Ogoniland's militancy is nevertheless a special type of crime. From the point of view of lo-cal militant organizations and movements using local militant strategies, the

demands are “just”, and have no less value than those that are shared by those against whom they perpetrate their acts. Therefore, the war on militancy in Ogoniland, which has a social (ethnic, confessional, ideological) character is not effective. Violence breeds hate, and forms the ideology and perpetration of “hate crimes”. Therefore, “the art of civilized life consists in not breeding unhappy, resentful ‘martyrs’ but in building the well-being of people in the context of their long-term relations with one another” (Opejobi 2016).

The Nigerian state in particular must take steps (political, economic, social) towards addressing and removing the conditions which breed militancy and finding nonviolent means of dealing with economic conflicts, oil-related conflicts, and social conflicts. Of course, it is much easier to propose nonviolent, preventive measures to counter long-standing problems and conflicts than it is to actually make them work in practice. A simple solution to the complex social problems of Ogoniland does not exist. The so-called “simple solutions” (amnesties and heavy weaponries and military combats) are either unworkable or lead to further complication of the situation. It is possible (and necessary) to do battle with individual perpetrators of militant acts. But we cannot use the law and prisons, and eradicate the causes and sources of Ogoniland’s militancy when it is used as a strategy of “solving” social (economic, political, ideological) oil-related conflicts. There is no panacea for preventing Ogoniland’s militancy and solving the complex problem which lies at its root. The Nigerian government needs to pursue some form of accountability and judicial deterrence aggressively or else no one will ever take its warnings seriously. People responsible (especially the political sponsors, traditional heads, and clerics) for environmental degradation or destruction of Ogoni’s homeland and the killing of Ogoni leaders in the past have never been brought to book. Even when arrested, nothing was ever heard concerning trials and sentencing. Even when some are arrested, it is usually random arrests, since clear-cut intelligence is absent, thus making it even more difficult in gathering connected evidence weighty enough to separate the guilty from the innocent. The number of militants is increasing. Recruits in Ogoniland seem easy to find, especially among those that have no sympathy or patriotism for their nation, who blame the government for their poverty and unemployment, and who despise other people’s way of life. These people need to be educated and oriented to see that poverty and unemployment cuts across all ethnic groups and areas in the country.

More so, nobody has a monopoly on the use of violence. Disproportionate violence can be used by any groups or individuals that fail to control their emotions, and therefore should not be seen as a weapon of the strong (Nwabughio 2016). In sum, nobody or group, irrespective of ethnic or

class, is born to rule, or has the monopoly of power. Ogoniland is too large, diverse, and cosmopolitan for any single individual, group, or interest to try and dictate the way and life or culture of everybody else, as protected in Nigeria's constitution. With the capability of Ogoni militants to beat security measures put in place by state agencies, and with rumours about attempts by some government officials to negotiate a truce, government should never let itself be seen to be negotiating from a position of weakness.

As Nwabughio (2016) admonished, "a nation has security when it does not have to sacrifice its legitimate interest to avoid war, and is able, if challenged, to maintain them by war". In militancy studies, it is an established fact that a country can be dissatisfied about conditions at home or in international politics, but if it lacks the military capability to change the situation, it is likely to remain relatively passive and to confine itself to diplomacy rather than force. If amnesty is handed out to those who are suspected to have committed militant acts, it should be done because the hostile groups (i.e. the Ogonis) are all well aware that the Nigerian government has the capability, the will, and the popular support to crush the militancy but refuses to do so in order not to prolong the crisis, cause more bloodshed, or put innocent civilians in harm's way. Military strategy and amnesties are not the sustainable solution to Ogoniland's militancy crisis. This author overheard one military officer saying that the militants operating on the side of Ogonis in the area are well armed and have better mastery of the creeks. These enable them to successfully fight the defence and security agencies sent to the area. Nigerian government needs to quickly diffuse the current upswell of Ogonis' anger against them. The present administration of President Muhammadu Buhari must understand the essence of Ogoniland's militancy so that it can intelligently locate how to effectively engage with it. All Nigerians must insist on putting an end to the practice of marginalizing certain minority or vulnerable groups in the country. We must all insist on justice, equality, and fairness in the distribution of natural resources.

## Conclusion

Militancy in Ogoniland have become a critical issue of increased complexity, sometimes heightened by inequality and marginalization. Overcoming the challenges of the security situation in Ogoniland requires a multidimensional approach because there have been some failures. First, there is the urgent need for good democratic, people-centred governance with leadership that is transparent and accountable, in which the rule of law is respected and fundamental human rights are guaranteed. Second, no society can guarantee

its security without effective and efficient law enforcement institutions. The Nigerian Police is charged with the maintenance of law and order, crime prevention and control. It needs to be strengthened in terms of training, equipping, professionalism, structure, and welfare. Following the strengthening of the police, it should be made a priority of the security forces to acquire intelligence through information to be provided by the public. For now, there is an apparent lack of trust and confidence by the public towards security agencies, especially the police, and this situation makes it difficult for the public to participate, especially to provide information towards crime prevention and control. The situation has become even more complicated in the current efforts aimed at countering militancy. Third, the major drivers of militancy in Ogoniland are small arms and light weapons which are smuggled with ease through our porous water-ways. While arms may not necessarily cause oil-related conflicts, they catalyse conflicts and make them more violent and destructive. The role of immigration and customs in regulating the movements of goods and persons cannot be overemphasised. Like the police, there is a need to strengthen these two services to ensure that Nigeria's territorial integrity is not violated by arms cartels. In addition to that, Nigeria needs to clean up the arms already trapped within the country and those circulating around Ogoniland tip of the country which create havoc for many communities. Lastly, fighting while “standing on quick sand,” must stop instead of comprehensively facing our common enemies which are the issue of desertification, loss of farmlands and grazing lands, loss of livelihoods, and their link to youth unemployment, poverty, and ignorance—otherwise we may end up at the bottom of the quick sand.

## Workable Measures to Peacebuilding in Ogoniland

To address the problem of Ogoniland's militancy, research and action need to pay more attention to the evaluation of the poverty situation of Ogoni kingdoms and measures to eradicate extreme poverty. For Nigerians to ensure that Nigeria not only survives but also grows, thrives and fulfils its Vision 20:2020 which seeks to make Nigeria one of the top 20 economies in the world by the year 2020, the country needs to take the following steps:

- Inequality should be dealt with through pro-poor intervention programmes. There is a need for massive programmes targeted at the poor in Ogoniland. Such programmes must include an agricultural revolution, education, health and mass housing for the poor.

- All efforts must be made by the Defence Ministry, Ministry of Interior, the police, the National Security Council, the Office of the President (as C-in-C) and the concerned state governors (as the CSOs in their states), and so forth, to address the insecurity in Ogoniland. If the insecurity is not addressed, progress and development will elude Ogoniland for a long time, which would deeply affect the entire country.
- Quick dispensation of justice should be ensured by strengthening the judiciary and access to the courts for all by the National Judicial Council, the Ministry of Justice, attorney-general, director of public prosecution, and so forth.
- There is a pressing need to have a clean-up of pollutants generated by oil exploration companies from Ogoniland. Their children should be further empowered, trained and equipped.
- There is the need to develop critical and independent thinking and collaborative problem-solving approaches.
- Free or affordable primary healthcare and healthcare education should be provided to all Ogonis, especially those in rural areas.
- Equal rights should be provided and guaranteed for all Ogonis, especially women, the vulnerable, and minorities, and poverty alleviation programmes should be initiated to reduce poverty and child destitution in Ogoniland.
- The endemic energy crises must be resolved as a priority to revitalize the economy, encourage local industries and foreign direct investment, and create jobs in Ogoniland.
- Youths in Ogoniland should be equipped with professional, technical and vocational education opportunities at all levels and private sector investment especially small and medium enterprises should be promoted to provide employment for the teeming youths. One key thing will help Ogoniland in solving their problems: focus on human development and improvement of each and every person living in the area. Ogonis should be patriotic, honest, and hardworking. All should respect the laws of the country and perform their civic duties, including aiding law enforcement agencies and the military in ridding the area of violence and militancy so as to create an environment for sustainable development.



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**ABSTRACT**

Militant activities, which are mostly localized in Ogoniland, Nigeria, have remained a threat to the security of the country since the death of Ken Saro-Wiwa and nine Ogoni members when they were hanged during military rule. As a way of drawing attention to itself, the militant Ogoni group initiated violence campaigns which resulted in the massive killing of many multinational oil workers and security forces. To understand how militancy came to be such a Gordian knot in Nigeria's contemporary security situation, one should have an understanding of Ogoniland's reality as well as the social and economic history.

**KEYWORDS**

Militancy; Ogoniland; Socio-economic Dilemma; Nigeria.

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# RELATIONS OF BRAZIL WITH SOUTH AFRICA AND ANGOLA: EFFORTS FOR THE MAINTENANCE OF SECURITY IN SOUTH ATLANTIC

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## Introduction

The present work studies the bilateral relations of Brazil with South Africa and Angola, in its political, economic, and defense-related aspects during the 2003-2014 period. More specifically, it addresses these countries' defense cooperation and its effects on the maintenance of South Atlantic security. Regarding methodological procedures, qualitative bibliographic and documental research was made, as it is the paper's objective to identify, describe, and assess the present study's subject.

The sea has always been related to Brazil's progress. It was the pathway to the country's discovery and colonization, to foreign invasions, to its independence, and to foreign trade (Guerra 2011). Even with the advance of technology and with the rise of post-industrial societies, this physical environment remains a significant element for the understanding of politics and international relations (Dougherty and Pfaltzgraff 2003). In this sense, the relevance of the maritime space is explained — among other aspects — by the fact that it covers about 70% of the earth's surface and, mainly, for being

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a source of wealth and the means of communication among continents (Silva 2014, 199).

The South Atlantic Ocean is an essential communication and transport line for Brazil, being of utmost importance for the coastal states. To its strategic relevance, it is added its natural resources<sup>3</sup>, its size and range, as well as its role as a commercial route through which about 90% of Brazil's foreign trade is done (Neves 2013).

In recent times, security concerns and defense-related issues have been gaining attention in Brazilian strategic thought. The growing importance attributed to maritime resources as a subject of national defense can be seen in the main documents of Brazil's contemporary defense, such as the National Defense Policy (PND), the National Defense Strategy (END), and the White Book of National Defense (LBDN)<sup>4</sup>. The documents define the Atlantic Ocean as vital for the country and outlay the path for assuring Brazilian sovereignty over its maritime space<sup>5</sup>.

Among the main objectives of this new strategy for the international scenario defined in the PND and in the END,<sup>6</sup> the Brazilian government proposes a new foreign policy, which would fully integrate its diplomatic actions with its defense policy and economic development, including a new concept in Brazilian history: the strategic surrounding<sup>7</sup>. Regarding Brazil's relations

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3 It is worth noticing the fact that more than 90% of the oil produced in Brazil come from offshore platforms (Abdenur and Souza Neto 2014a).

4 The PND (Política Nacional de Defesa) and the END (Estratégia Nacional de Defesa) were conceived in 2008 and updated in 2012, the year of the publication of the LBDN (Livro Branco de Defesa Nacional).

5 As stated in the PND, Brazil conceives a strategic surrounding that goes beyond the South-American region, comprising the South Atlantic Ocean and the coastal African states, as well as the Antarctic. According to the END, Brazil shall focus its capacities in power projection and create the conditions to control — in the extent necessary for its defense and inside the limits of international law — the maritime areas and the internal waters of strategic, political, economic, and military importance, as well as its sea lines of communication.

6 Among the strategic goals defined by the END for the Brazilian Navy, one can point out “the readiness to respond to any threat, by an State or by non-conventional and criminal forces, to maritime paths of trade, and the capacity to participate in international peace operations, under the command of the United Nations or multilateral organism in the region” (BRASIL, 2012b, 10). It should also be stressed that a relevant part of the END is the Submarine Development Program (PROSUB), in cooperation with France, that intends to build four conventional submarines and one with nuclear propulsion in national ground. Once the Program is finished, the country would have a significant strategic gain in the defense of the Brazilian coast, since it will enhance its power projection as well will enable the Navy better conditions to perform the control of maritime areas. (Gonçalves and Corbelini 2014)

7 Strategic surrounding refers to the regions where Brazil is willing to exert its influence and diplomatic, economic, and military leadership. According to the LBDN, these regions would be

with the countries in this space, Abdenur and Souza Neto (2014a, 5) argue that:

During the last years, the Brazilian government has intensified its cooperation effort — including in defense — with the countries in the South Atlantic perimeter. Highlighting its condition as a South Atlantic country, Brazil seeks to get closer with countries of the African western shore, not only with historical partners, such as Angola, Nigeria and South Africa. Facing a scenario in which the South Atlantic acquires a new geopolitical importance, for external as well as for regional actors, Brazil uses cooperation to promote the construction of a regional identity that starts to alter power relations in this space.

The Brazilian government intensifies its cooperation initiatives with countries of the South Atlantic perimeter, such as Angola and South Africa. Brazilian diplomacy has been showing that cooperation with developing African countries can bring positive outcomes for Brazil, mainly in issues related to its strategic surrounding in this continent. As stated by Abdenur and Souza Neto (2014b, 232)

The Brazilian government has been struggling not only to enlarge its bonds and partnerships in a concrete way, but also to strengthen the formation of a common identity with the countries of the African west coast [...] These efforts, bi and multilateral, occur in parallel to the ones aiming at modernizing the Brazilian military power — a program endorsed, in its maritime dimension, by the argument that it is necessary to protect the natural resources (whether already discovered or not) in the South Atlantic.

Recent oil discoveries in Brazil, as well as the increase in the African coast production, have been raising the importance of the South Atlantic in the external realm. For Brazil, this ocean represents a fundamental element of its defense, besides being a way for international maritime projection, thus implicating in security-related subjects that involve the country (Nasser and Moraes 2014, 14).

In this scenario in which the South Atlantic Ocean earns a new geopolitical importance, cooperation between Brazil, South Africa, and Angola contributes to a greater political understanding and creates possibilities for economic development — besides strengthening the discussion of defense-related issues that are considered important for these countries (NASSER, 2014). Surely, the South Atlantic became a factor of even greater relevance

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South America, the coastal states of Africa, the Antarctic, and the South Atlantic basin.

to the relations between the countries above-mentioned (Penha 2011).

## Brazilian power projection in the South Atlantic

The South Atlantic, besides being a crossroad and an important geoeconomic space, is, also, a pole of development. This fact may result in an environment of intense competition for the control of its resources, including other traditional or emergent powers (Pereira and Barbosa 2012, 61). Due to this space's importance — and also as a means for claiming more resources to its defense — Admiral Roberto de Guimarães Carvalho created in 2004 the term “Blue Amazon”.

Accordingly to Wiesebron (2013), the area of the Blue Amazon comprises the Exclusive Economic Zone (EEZ) of 200 nautic miles, with a 3,539.919 km<sup>2</sup> surface, while the Continental Shelf (CS), with a 350 nautic miles range, encompasses 960.000 km<sup>2</sup>. Adding both, the area comprehends practically 4,5 million km<sup>2</sup>, a maritime area equivalent to more than 50% of Brazil's territory (Brasil 2012b and Brasil 2013). The Brazilian government claimed recognition for its CS in the 253<sup>o</sup> United Nations Commission on the Limits of the Continental, presenting its proposal in 2004 (Wiesebron 2013, 109).

From a national strategy perspective, this passage from a continental projection to a maritime projection was the result of the foreign policy process, which, in last decades, pursued at all costs objectives that aimed at assuring rights and interests in the maritime space of the Brazilian regional strategic surrounding — namely, the South Atlantic (Costa 2012).

The conquest of the CS extension involved decisive moments in two main fronts. In the external realm, intense diplomatic negotiations inside the UN were necessary. In the internal ambit, this initiative involved the Program for the Evaluation of Sustainable Potential of the Live Resources of the Brazilian Economic Exclusive Zone (Revizee) and the Plan for Assessing the Brazilian Continental Shelf (Leplac), both led by the Navy, supported directly by Petrobras, and with the participation of other national institutions (Costa 2012, 5).

This integration — aggregating actions developed by the Brazilian Foreign Ministry, Navy, and other research institutions — was responsible for generating important outcomes that allowed the country to guarantee its rights and the consequent legal possession of a significant maritime space in the South Atlantic.

As a means of legitimating its claims and also of projecting power in



a “collaborative” way, Brazil has been helping the Community of Portuguese Language Countries (CPLP)<sup>8</sup> in assessing their continental shelves and in the preparation of proposals to be made to the United Nations Convention on the Law of the Sea. As stated by Abdenur and Souza Neto (2014a, 15):

Most of the CPLP members are located in the South Atlantic region or are close to it. In March 2010, the organization launched the project of an atlas for the CPLP oceans, and propositions of cooperation among its member-states for the extension of their continental shelves were made, with Brazilian assistance, according to the model of the Plan for Assessing the Brazilian Continental Shelf (LEPLAC). New areas of cooperation include research programs regarding the maritime bottom, such as the Program for the Prospection and Exploration of Mineral Resources of the International Area of the South and Equatorial Atlantic (PROAREA) [...] Finally, there are initiatives for the identification of strategic areas and of common interest regarding security and maritime.

This way Brazil diffuses its approach in the South Atlantic, using defense cooperation as a way for emphasizing common concerns (Menezes 2015).

Besides the diplomatic efforts made, as well as the increase in initiatives aiming at fostering economic development, Brazil also invested in defense cooperation programs as a means for amplifying relations with some countries in the South Atlantic. Although the main effort of the Brazilian South-South cooperation is to emphasize historical and cultural bonds with the Lusophone Africa, agreements and initiatives in the defense realm reached a much broader universe, even stating the intention to develop more and more naval cooperation with several African countries (Visentini 2011).

Another important factor that contributed to the approaching of Brazil and African countries was the creation of the South Atlantic Peace and Cooperation Zone (ZOPACAS)<sup>9</sup>. It consists in an alliance based on South-South cooperation, with the mission of promoting regional cooperation and keeping peace and security in the South Atlantic. The Zone has been working as a means for regional integration, also with the objective of assuring the de-

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8 The Community of Portuguese Language Countries (CPLP) was founded in Lisbon, in July 1996, with the aim of gathering all the seven Portuguese-speaking countries then existing [...] over three general objectives, defined in the Community Statutes: politic and diplomatic coordination between its members; economic, social, cultural, legal, and techno-scientific cooperation and the promotion and diffusion of Portuguese Language. After its independence, on May 20, 2002, East Timor joined the Community as its eighth member-state (Saraiva 2015).

9 It is composed by Brasil, Argentina and Uruguai and 21 countries from the west coast of Africa (Aguilar 2013).

fense and security of the member states' interests in the region, fostering the development of naval power, outlining responsibilities and seeking to avoid external interferences (Aguilar 2013).

The Brazilian discourse at ZOPACAS stresses not only the common interests of the Atlantic countries of South America and Africa, but also the need for minimizing the presence of external actors. As already pointed by Miyamoto (1987), even in its original version the official discourse of ZOPACAS already emphasized peace and cooperation without giving up the possibility of increasing the member-states' naval power.

With the development of cooperation between Brazil and African countries, investments in this continent became a lot more attractive, either through direct investment, financing, or donations. In the defense realm, the situation was no different, as it can be noted a relative increase in the presence of Brazilian companies of military equipment in Africa, many in partnerships with the governments.

The database from the Brazilian Agency for Cooperation (ABC) — which is a department of the Ministry of Foreign Affairs — indicates that the Brazilian government has been acting alongside the Armed Forces for the training of the military personnel of several African countries, among them Angola and South Africa. The summary of projects evidences that South-South cooperation in defense is significantly diversified, gathering different sectors of the Armed Forces in conceiving and implementing training programs, arms and equipment supply, and research collaboration — mainly regarding the assessment of continental shelves, science and technology — and in bi and multilateral exercises (Pereira and Barbosa 2012).

Cooperation with Africa also aims at consolidating support for Brazil's role in the reform of global governance, including its bid to a permanent seat on the United Nations Security Council. In 2003, in the beginning of the Lula government, Angolan authorities had expressed support for Brazil in this matter (Heleno and Martins 2014). Through the following years, other countries from the African Atlantic coast did the same, such as South Africa and some CPLP member states.

From the African side, the interest in cooperating with Brazil — in or out the military scope — is growing. Moreover, as African support to the Brazilian bid for a permanent seat in the UN Security Council is a strategic element for the Brazilian diplomacy, this country has been seeking to intensify its negotiations and amplify its support base through bilateral relations with these emergent countries.

## Brazil–South Africa relations

South Africa has the best infrastructure and the second economy in the African continent (Kornegay 2013). Cultural and historical bonds, added to the economic possibilities and its promising political scenario in the international context, raised in Brazil the will to expand its relations with that country in the politic, economic, and military fields.

Lula's government foreign policy directed its efforts attributing to Africa a strategic dimension of great importance. During his term, the axis of the Brazilian international policy moved in part towards the Southern Hemisphere. Without abandoning its traditional allies, Brazil sought to amplify its range of partnerships, turning with greater emphasis on South Africa, where agreements and cooperation treaties were implemented (Visentini 2011).

Therefore, still according to Visentini, South-Africa became one of the most notable regions to Brazil in its strategic surrounding, representing an important axis of the country's foreign policy in the first decades of the 21st century regarding the development of South-South cooperation.

On that account, aiming to find options for raising their negotiation power, the two developing countries started to create new frameworks for technical and financial cooperation in order to substitute the traditional North-South model of development association. As a result, a progressive increase in trade agreements and a stimulus to bilateral cooperation were perceived between the two countries.

Accordingly to Visentini (2011), « the South-African democratic transition, consolidated in 1994, launched a new period in Brazil–South Africa relations. From 2003 on, bilateral relations became deeper, which made joint initiatives possible ». The cooperation agreement with South Africa, signed on June 4, 2003, was one of the most comprehensive document of the kind that Brazil made with an African nation. It established, among others, experience-sharing in the research and development of defense equipment, including an Unmanned Aerial Vehicle (UAV); joint training and the acquisition of military equipment and; meetings and trainee programs between equivalent defense institutions (Neves 2014).

In the political realm, the deepening of diplomatic relations was perceived with the promotion of alliances. In 2003, the India–Brazil–South Africa Dialogue Forum (IBSA) was created, conceived as a space for knowledge exchange and the strengthening of common interests among the member-states. This political forum enabled closer relations between Brazil and South Africa, also comprehending relevant aspects to foment dialogue, consultations, and

trade in the South-South realm, as well as to tackle poverty and to promote technology and information exchange between the members.

After five summits and ministerial meetings, the group reached a considerable repository of common stances. Through the political capillarity reached by this alliance, for instance, it was possible for IBSA to pledge help to Guinea-Bissau, Haiti, and Palestine. Moreover, the IBSA Fund, besides aiding South countries, is very important to the group's actions. Brazil's intention to acquire a permanent seat in the UN Security Council, aiming at a multilateral global governance, is just one of the reasons for fostering alliances in the South-South axis (Pereira and Barbosa 2012, 64).

Since 2005, Brazil and South Africa increased their diplomatic and military interaction under the scope of IBSA<sup>10</sup>. Both countries aligned their South-South cooperation policies, as a means to reach more autonomy and international prominence (Pereira and Barbosa 2012, 73). The Declaration of Strategic Partnership Brazil-South Africa, signed during President Lula's official visit to South Africa, in June 2010, consolidated this process of deepening relations, to which a new level of excellence was rendered (Visentini 2011).

Regarding security bilateral relations, Brazil and South Africa had already signed, in 2003, a Military Cooperation Agreement, in the Joint Defense Committee Brazil-South Africa. The countries exchange official for instruction, undertake military exercises, and develop technological projects together. At the time, the main Brazilian products and services offered to South Africa were: Patrol Aircrafts (Embraer), Astros Rockets (Avibras), Patrol Ships (EMGEPRON), and the SIVAM<sup>11</sup> Management Technology, through the Atch<sup>12</sup> company (Martin et al. 2014).

In South Africa, military cooperation includes, besides military instructions and joint naval exercises, the technological dimension. One of the most highlighted aspects of this bilateral agreement is the construction of a

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10 The IBSA Forum, besides contributing to the construction of new international architecture, seeks also to deepen its countries' knowledge in specific sectors, such as Agriculture; Science and Technology; Trade and Investments; Culture; Defense; Social Development; Education; Energy; Environment and Climate Change; Health; Information Society; Transport; Tourism; among others (Costa Vaz and Flemes 2011).

11 Amazon Surveillance Systems (Sistema de Vigilância da Amazônia): a project designed by the Brazilian Ministry of Defense, aiming at monitoring the Amazon airspace.

12 The Brazilian defense industry, during 1980 and 1990 decades, faced moments of slow-down, experiencing a though decline at the end of the referred period. The year of 2003, nonetheless, was a watershed point, with the beginning of the Lula Era. From this point on, Brazilian foreign policy regaining its military exports policy, again privileging the government directives on relations with emerging countries, among them South Africa and Angola (Abdenur and Souza Neto 2014b).

system for the surveillance of the South Atlantic through an oceanographic satellite and the A-Darter prototype — which is one of the most important projects abroad kept by the Brazilian Air Force. Its strategic importance is due to the effective transference of technology and accessory knowledge that may have civilian application in several areas, such as agriculture, sensors, radio communication systems, and unmanned aerial vehicles (Escosteguy 2011).

The A-Darter missile project is a result of the aerospace partnership between the two countries, reached in late 2003. The main companies involved in the project are Brazilian privates Mectron, Avibras, and Opto Electronics; and South African Denel Dynamics. This company belongs to Denel Ltd., which develops and produces weapons for the South African government. It also set a subsidiary factory in Brazilian soil, enhancing bilateral cooperation between the two countries (Martin et al. 2014, 32).

The development of this new prototype began in 2007 and was then agreed that the program costs would be shared between the two countries. The A-Darter is currently in its final stage of development, and the first missiles were supposed to be delivered to Brazilian and South Africa air forces in February 2016, with a six-month delay relating the initially-previewed deadline.<sup>13</sup> These missiles would be employed in the Brazilian and South African Air Force planes (Martin et al. 2014). The relevance and success of this project, helped to strengthen the relation between the defense industries of both nations.

Embraer has earned an important participation in Brazil-South African relations, regarding trade as well as the diffusion of technical knowledge for the countries' joint projects. Besides A-Darter, Embraer also is involved in studies for the development of a cargo aircraft and UAVs. In the naval field, both countries participate, alongside India, of naval exercises in the scope of the India-Brazil-South Africa Maritime (IBSAMAR), promoting a greater integration of the Brazilian and South African navy and also the training and enhancement of capacities through joint naval exercises (Albuquerque 2010).

The second edition of the IBSAMAR naval exercise was undertaken in 2010, again in South Africa — the closest point for the countries — involving several units (helicopters from the three navies, 12 ships, submarines, among others). Besides, the exercised envisaged Anti-submarine Warfare

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13 Due to technological secrecy, the electronic site of companies and agencies involved in the development of the A-Darter present few information. The sites that were used to complement information were: "Defense Industry Daily" (<http://www.defenseindustrydaily.com/south-africa-brazil-to-develop-adarter-sraam-03286/>), and "*Defesa Aérea e Naval*" (<http://defesaareanaval.com.br/missil-a-darter-primeiras-entregas-ocorrerao-em-fevereiro-de-2016/>) to complete information about the A-Darter.

actions, offshore search and seizure operations, high-sea refueling, and anti-aerial defense. More than enabling the contact with new naval techniques and technological equipment used by South Africa and India, this kind of exercise contributes to consolidate the Brazilian navy's presence in the South Atlantic (Pereira and Barbosa 2012).

The effective involvement of Brazil in IBSAMAR has helped to prepare its Armed Forces for its growing responsibilities in international actions in support of the Brazilian foreign policy. This participation not only fulfills one of the END directives but also strengthens the collective security system, contributing to world peace and to the national defense<sup>14</sup> (Heleno and Martins 2014).

The Brazil–South Africa partnership comprises also an intention protocol to produce the 40 mm Multiple Grenade Launcher, between Brazilian public company IMBEL (*Indústria de Material Bélico do Brasil*) and South African Rippel Effect Weapon Systems Ltd. Despite the agreements and intentions settled by the two countries, according to the SIPRI Arms Transfer Database, there was no purchase contract signed between the two countries up to the moment (SIPRI 2016). Historically, South Africa has as main military suppliers Germany, the United States, France, and the United Kingdom. Moreover, recently, import negotiations with Canada, Finland, and Switzerland are noteworthy (Martin et al. 2014).

## Angola–Brazil relations

After suffering for centuries with Portuguese colonialism and decades with its civil war, Angola now rises as one of the most prosperous African countries<sup>15</sup> (Saraiva 2015). The post-civil war scenario was favorable to the foreign policy adopted by the Lula government in Brazil (Saraiva 2012). The “cooperation among equals” speech evoked language identity bonds for the harmonization of interests on both sides of the Atlantic Ocean. Bearing

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14 It is notable that India, Brazil, and South Africa celebrated an agreement on nuclear cooperation to peaceful objectives, seeking nuclear disarmament and the use of defense technology to the civilian scope only. This agreement was achieved through the G3 group (created by the three abovementioned countries in 2003, comprising political, strategic, and economic aspects) (Neves 2014).

15 Data from the Brazilian Development, Industry, and Trade Ministry registers a 189% increase in Angolan exports, which raised from US\$ 22,1 billion to US\$ 63,7 billion between 2005 and 2014. This generated high growing taxes for the Angolan economy, due to the oil sector expansion and the resuming of economical activities mainly interrupted by 40 years of armed conflict (MDIC 2014).

this in mind, Chaves (2014) appoints that “Brazil–Angola relations began to consist of both soft and hard power, from the Brazilian side, and an optimistic reception by Angola.”

One of the most remarkable aspects of Brazil–Angola relations were the technical cooperation agreements. Just in the first year of Lula government, twelve agreements of this kind were signed in the most diverse areas, but most notably in health and education (Visentini 2011).

Angola, which signed a strategic partnership with Brazil in 2010, counts on important traits in bilateral relations that have eased negotiations between the two countries: the presence of Angolans in Brazil and of Brazilians in Angola; the activity of multinational Brazilian companies; the Brazilian participation in the assessment of the Angolan continental shelf, through Leplac–Angola and the active role Angola has been playing in the revival of ZOPACAS (Kornegay 2013).

Besides bilateral cooperation in the political and economic fields with Angola, the Brazilian government intensified its actions and strategic partnerships in the defense realm, contributing to the growing of the sector’s industry and to the technical and professional enhancing of both countries’ military (offering Angolan officials and soldiers room in preparatory schools; training for Angolan officials aiming at their participation in peace missions; naval exercises; among others) (Escosteguy 2011). Still regarding industrial relations between the two countries in the defense sector, Brazil has fostered arms export to the growing Angolan market. The sale of A–29 Super Tucano aircraft, produced by Embraer, to Angola, Burkina Faso, and Mauritania is an important example of this trend (Silveira 2012).

Abdenur and Souza Neto (2014b, 229) highlight that “the Angolans’ main interest is that Brazil helps the country to develop its own national defense industry, reducing its Armed Forces dependence on foreign production. » The subject was discussed in February 2013, during the visit of Celso Amorim — then minister of Defense — to the Angolan capital. At this occasion, the Minister was accompanied by representatives of the Brazilian defense industry.

Brazilian cooperation in defense also grows through multilateral platforms. The international agenda of Brazil and Angola kept the CPLP as an important reference for political and diplomatic coordination, using it also for technical cooperation, goods and services exports, health and science, defense and security, among others (Chaves 2014). The CPLP works also as a forum for discussion on the maritime potential of the South Atlantic Ocean for trade, economic, and security partnerships. Some projects within this area were already formally incorporated, such as the CPLP Council of Ministers’

recommendation about the ocean space, in 2007 (Jorge 2011, 124).

Within the CPLP scope, cooperation among these countries' navies became an important bond for getting the group closer. In 2010, for example, the II Navies Symposium of the Portuguese Language Countries was done, in which several representatives of the African countries launched the basis for a greater cooperation with the Brazilian naval industry (Neves 2013).

The III Symposium of CPLP Navies took place in May 2012, in Rio de Janeiro, having piracy in the Guinea Gulf as the main subject, as well as the necessity of the member-states to tackle this kind of crime. During the event, the navies of Brazil and Portugal offered help to their counterparts of Angola, Cape Verde, and Guinea-Bissau to combat the illegal activity above-mentioned, including the providing of assistance and vessels such as patrol ships. One of the representatives of the Brazilian delegation, moreover, suggested that this country's navy could establish a credit line for the African navies to buy vessels developed in Brazil (Abdenur and Souza Neto 2014b, 231).

In 2013, Brazil hosted a joint Portuguese-speaking countries: *Operação Felino*<sup>16</sup> (Operation Feline). Created in 2000 under the CPLP scope, this military exercise aims at training a Joint Combined Task Force and enabling interoperability between the CPLP member states armed forces, in order to participate in UN peace and humanitarian assistance missions (Aguilar 2013). The training brought the involved armed forces closer, contributing to enhance their techno-scientific capacities in the military field, besides strengthening cooperation among the participant countries (Brasil 2013).

Angola, one of the major oil producing countries in the African continent, signed with Brazil a Joint Declaration of Strategic Partnership and a Defense Cooperation Agreement in 2010. This fact was expected to strengthen relations between the countries' Armed Forces and to bring the Brazilian industry and the Angolan government closer, generating several export opportunities for the countries — besides the technical and military cooperation in subjects of mutual interest, which contributes to the development of the Brazilian defense industry (Brasil 2014; Saraiva 2015).

Research in the SIPRI Arms Transfer Database shows the agreement in question generated, to the moment, little effect on the arms transference between the two countries (SIPRI 2016). In 2011, Angola bought six Super

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16 The operation was undertaken in the Brazilian state of Espírito Santo, coordinated by the Joint Military Staff of Brazil from the Ministry of Defense, and was planned and executed by the Brazilian Navy. About a thousand military personnel from the navies, arms, and air forces of Brazil and of other CPLP countries, employing 57 units participated in the exercise: an Assault Vehicle Landing Ship, an Oceanic Patrol Ship, two Super Puma and one Esquilo (Ecureuil) helicopters, 44 vehicles, and eight Amphibious Lagarta Vehicle (AAV-7A1) (Brasil 2013).



Tucanos aircraft from EMBRAER, recalling contracts signed between the country and the company during the 1980, 1990, and 2000 decades. Angola, which had in the 1970 and 1980 decades the USSR and Portugal as main military suppliers (mostly secondhand), in the 1990 and 2000 decades started to import its weapons from Russia and other ex-Soviet republics (also secondhand). In 2013, nonetheless, Angola bought more than 40 armored vehicles from South Africa, equipped with Chinese motors. This data points to a “partnership” of Angola with the BRICS countries, rather than with Brazil only.

## Conclusion

Brazil’s bilateral relations with South Africa and Angola, in politics, economy, and defense, have been developing as planned in the PND and in the END, although with a lesser intensity than expected. That being so, the South Atlantic, besides being a ground for Brazil’s economic expansion and for political coordination with the mentioned countries, is also a strategic area for the development of the Brazilian Armed Forces’ military capabilities — the Navy in special — strengthening the projection of Brazil to the international scenario.

The impacts of the discovery of the pre-salt oil reserves significantly increased expectations regarding Brazil’s role in international trade, making South Atlantic stability a vital factor for the country’s defense. Furthermore, bilateral relations of Brazil with Angola and South Africa reinforce the importance of securing this strategic surrounding, in order for the commercial, diplomatic, and military connections to continue in the peaceful way it has been in last years.

In the case of Brazil, its increased presence in the South Atlantic is done with no conflicts with neighbors, and according to strategies that combine principles and effective movements either in cooperation or dissuasion. This situation is streghted by Brazil’s presence in ZOPACAS, which has been seeking, among other objectives, the commitment to keep the South Atlantic out of military conflicts, contributing to the security of this strategic surrounding.

This inflection towards the South Atlantic in Brazil’s development path, in the last years, expresses the combination of vectors of wide specter and long duration. This achievement is being processed by the application of a strategy that integrates continuous actions in the diplomatic realm, a national research effort in the broad maritime sciences field, and investments that aims at strengthening the country’s military capabilities, in order for it

to face its security and defense challenges in general and specifically in the South Atlantic.

In the IBSA scope, Brazil's relations with South Africa (alongside India) are increasingly strengthened. This new reality may constitute a new distribution of power that could contribute to the security of the South Atlantic. Military exercises undertaken through IBSAMAR confirm this project. Besides, the strengthening of relations between the South Atlantic countries may help the expansion of commercial and military trade, even making use of routes to the Indian Ocean.

The support of the Brazilian government, either through defense agreements or official visits undertaken in the period in question, has displayed a more progressive stance towards the country's role in the international scenario, fostering the rise of opportunities for the reborn defense industry in the African market. On that account, the growing relations among the armed forces of Brazil, Angola, and South Africa create a culture favorable to the employment of Brazilian military material by these countries, contributing to the development of the Brazilian industry as it provides scale gains to the arms production.

With the reformulation of military capacities proposed in the PND, END, and LBDN, especially in its maritime component, Brazil will expand its possibilities for its power projection and insertion in the South Atlantic scenario. Therefore, it is needed that foreign policy keep up with this development and be flexible regarding its historical conceptions without abandoning its conciliatory character, at the same time as it becomes aware of the new military level that Brazil aims to reach in next decades.

The search for the improvement of Brazilian military power is important to provide the country with alternatives for its actions, in addition to reinforcing its national sovereignty and international autonomy — always emphasizing actions that seek security and stability in the South Atlantic. Thus, bilateral relations with South Africa and Angola have acquired a core position, as they are a means for engagement and deepening of bonds. These countries may cooperate significantly to shape the regional and international strategic environment, in order to contain, solve, or avoid conflicts that may occur in this region.

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#### **ABSTRACT**

With a view towards the defense of their vital spaces (South Atlantic) and seeking greater international prominence, Brazil has intensified its relations with the African continent. Thus, the present study aims to analyze the bilateral relations between Brazil and both South Africa and Angola, highlighting these relationships effects on the maintenance of security in the South Atlantic. It is studied the growing interconnection between the foreign policy and the Brazilian defense policy, the military cooperation agreements and joint naval exercises.

#### **KEYWORDS**

South Atlantic; Security; Brazil; South Africa; Angola.

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# INVESTMENT REGULATION BETWEEN BRAZIL AND ANGOLA: INTERNAL FACTORS, INTERNATIONAL CONTEXT AND THE DESIGN OF THE AGREEMENT FOR COOPERATION AND FACILITATION OF INVESTMENTS (ACFI)

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## Introduction

Angola and Brazil are deemed to have different levels of economic and social development. These countries have, nevertheless, a history of political and economic proximity, which has been highly regarded by the foreign policies of both countries. A similar proximity exists in regard to the regulation of foreign investment in these countries: distinct domestic positions and regulatory policies whilst attempting to regulate bilateral relations on the basis of a common axis of concessions.

The purpose of this article is to contextualize the regulatory scenario with regard to foreign investments in Angola and Brazil, in their individual and joint activities. This analysis is part of a wider project named “Empirical evidences of the regulation of International Trade and of Foreign Investment

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in Brazilian Perspective: the case of Angola”<sup>4</sup>, which seeks to identify the regulatory patterns of economic relations between Angola and Brazil, as part of a South-South cooperation project.

This paper relies upon a comparative analysis between the parallel activities of foreign investments’ regulation in Angola and Brazil, in order to argue that the divergences between these countries in relation to both the international investment agreements (IIAs) and the domestic legal reforms appear to have been reconciled with the negotiation of the Cooperation and Facilitation of Investment Agreement (CFIA), in April 2015.

The article is structured in four other sections, besides this introduction and the conclusion. In the second section we present an overview regarding foreign investments and their regulation in Angola and Brazil, as well as some historical remarks about the international regime of foreign investment regulation in order to demonstrate the context that created some similarities but many differences between the two countries. In the third section, regarding the regulation of foreign investments in Angola and Brazil, we argue that the Bilateral Investment Treaties (BITs) signed by these countries in the late nineties and in the beginning of the 21<sup>st</sup> century are an example of a divergent policy approach of the two countries. This divergence was also reflected – as we discuss in the fourth section – in the internal legal reforms enacted by Angola and Brazil, during the first decade of the 21<sup>st</sup> century. Finally, in the fifth section, we demonstrate that these countries have adopted a critical approach towards the foreign investment international regime and ended up reconciling their policy views due to the conclusion of the CFIA in early 2015.

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## The significance of foreign investments for Angola and Brazil: general remarks

### Brief history

In November 2015 Angola and Brazil celebrated forty years of mutual diplomatic relations. The fact that Brazil was the first country to recognize Angola's independence in 1975 was a milestone in the redefinition of significance of both countries' bilateral foreign policy, with both sharing a common colonial past, having Portugal as their historical colonial metropolis. However, the processes of colonization by Portugal seemed to be different in these countries, what has triggered specific cycles in their histories of economic reorganization.

Brazil, on the one hand, was a seat of the Portuguese Crown and, after being promoted to a united kingdom with the metropolis, achieved its independence in 1882. Later, Brazil underwent an imperial period and, still within the 19<sup>th</sup> Century, became a republic. After the independence, free initiative and the right to private property<sup>5</sup> have always been acknowledged, even though the distinction between foreign and national capital has varied according to the historical and the economic sector.

Angola, on the other hand, due to the fact that it remained a colony during the neo-colonialism period until 1975, gained its independence in the context of the Cold War and reflected this conflict's polarities. In the first years following its declaration of independence, Angola decided to implement a socialist economy – which led to the nationalization and confiscation of a number of foreign investments at that time. However, this process was marked by certain anachronisms, including its relation with the foreign capital. In the 1<sup>st</sup> Republic (1975-1991) there was a coexistence between the protection of private property, even of the one belonging to foreigners under Article 10 of Constitutional Law of 1970, the 'economy of resistance' with the appropriation by the State of the productive assets under Law No. 3/76 and the mandatory association between national and foreign capital according to the Foreign Investment Law No. 10/79<sup>6</sup>. Between 1979 and 2002 Angola was

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5 For instance, the political constitution of the Empire of Brazil of 1824, art 179.XXIII already states that: "XXII. The Right to Property is fully guaranteed. If the legally verified public good demands the use and the usage of the Citizen Property, he will previously receive an indemnity that corresponds to its predetermined value. The Law will define the cases in which this exception should be applied and will define the rules that will determine if there is going to be an indemnity or not."

6 According to Manuel Ennes Ferreira: "These assertions clearly appeared as being contradic-

plunged into intense civil war and its economy was heavily degraded. Such an unstable situation favored gradual reforms in its economic system until the beginning of the opening process in 1985, which was later incorporated in the scope of the Program of Economic and Financial Restructuring (known as SEF, in Portuguese) in 1988 and, finally, consolidated under the reform of the Constitution in May 1991<sup>7</sup>.

In Brazil, foreign capital has always been present and has had a significant level of contribution to the gross domestic product<sup>8</sup>. Whereas, from the 19<sup>th</sup> century until 1930, foreign investment had a relevant role in Brazil's participation in international trade, from the 1940s onwards, Brazil clearly adopted an industrialization policy aiming at the employment generation and the transfer of technology. Additionally, up to the nineties the Brazilian measures for promotion and protection of foreign investment were essentially adopted by means of domestic and unilateral legislation<sup>9</sup> and <sup>10</sup>. This develop-

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tory, paradoxical and even absurd. Contradictory because, once seeking to banish private industrial activity (...) they contradict the Constitution (...). Paradoxical because at a time when the country needed to recover its economy obstacles for the operation of the private sector arose. Absurd because in (...) 1979, the Law of Foreign Investment was published (...)." (Ferreira 2002, 50). Angolan Carlos Teixeira describes this phase as "an almost uncontrollable presence of the State in the Economy, highly administrative, with bureaucratic barriers and rigid plans" (Teixeira 2011).

7 Catarina Antunes Gomes makes a detailed analysis of Angola's economic opening process as well as its internal and external determining factors (Gomes 2009). The author claims that the Angolan economic dependence on petroleum was detrimental to the organization of a centralized economy (page 233) and that the international petroleum crisis led Angola to a financial crisis. When resorting to multilateral financial institutions, Angola became subject to their conditions (page 236 et seq). and the author illustrates this situation with a quote by Ennes Ferreira, which qualifies "the SEF as a 'Letter of Intentions' addressed to the IMF and the World Bank, to which the government immediately manifested its interest in adhering" (Ennes Ferreira 1993, 13-4 apud Gomes 2009, 239).

8 Regarding the cases of Angola and Brazil it is very difficult to obtain precise data on investments that were based on similar methodologies in the periods prior to 1990, the year when the UNCTAD (United Nations Conference on Trade and Development) base began to standardize and systemize investment data (<http://unctad.org/en/Pages/Statistics.aspx>). In Brazil's case, some literature references strengthen the perception of the continuity of the importance of foreign investment and its relation to Brazilian development programs, e.g. (Gonçalves 1999) (see specifically pages 236-46), (Almeida 2003), (Caputo and Melo 2009).

9 The only exception to this rule was the Investment Guarantee Agreement executed by Brazil and the United States, in the 1960s, published by Decree No. 57.943, of March 10, 1966. With regard to the particularities of this agreement as well as its differences in relation to a traditional agreement of promotion and protection of the investments, see Nusdeo 2007.

10 As examples of Brazilian unilateral measures, regarding specific legislation, in the commercial, banking, foreign exchange or insurance sectors, see (Almeida 2003), (Gonçalves 1999) and (Caputo and Melo 2009). The most specific legislation in this combination is Law

ment favored the later revival of Brazil's traditional strategy of domestically regulating foreign investment, as presented in section 4 below.

In a different way, Angola has, almost fifteen years after its independence, adopted standards and practices of a market economy, including opening itself to foreign capital in the late 1980s and early 1990s. This opening engendered international pressure for Angola to adopt international standards of promotion and protection of foreign investments<sup>11</sup>. However, considering its historical transition from a planned economy to a market economy, the reliance of foreign investment regime upon a series of administrative controls and conditions as provided in Angolan domestic legislation is likewise noticeable.

As from 2002, according to Law No. 05/02 on the Delimitation of the Sectors of Economic Activity, Angola consolidated three general regimes for foreign investment, based on the relevant economic sectors (i) Angola reserved, according to Articles 11 and 12 of Law No. 05/02, some sectors for exclusive operation by the Angolan government (control or integral reserve regime); (ii) it established some sectors that, in spite of the exclusive property of the government, could be exploited by means of a concession agreement (relative reserve regime, according to Article 13 of Law No. 05/02), including, among others, the exploration of petroleum and diamonds, which have specific treatment by Angolan legislation; (iii) remaining economic sectors were eligible to receive tax benefits, depending on their classification by Angolan law as priority sectors or priority regions<sup>12</sup>. Even though free initiative is protected

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No. 4.131, of September 3, 1962, modified by Law No. 4.390, of August 29, 1964. At the time of its drafting Law No. 4.131/62 had the purpose of ensuring security for foreign capital, assuring non-discriminatory treatment for non-resident investors, attracting and stimulating the entry of investments in the country and defending the Brazilian interests, as per (Dias 2010, 82). To access the full text, see Law No. 4.131, of September 3, 1962, which it regulates the application of foreign capital and the remittance of funds abroad and provides on other measures (Brazil 1962).

11 It is worth noting that the historical relationship of Angola with foreign capital was ultimately constructed in the 1st Republic, starting from a system of exception, ensuring positions and rights for foreign investors that were not even considered for domestic private agents. This led the Law of Foreign Investment, in its various editions, to assume a role that went beyond that of a guarantee instrument against domestic instabilities, incorporating exceptional rights within the general legal system. Thus the foreign investment legislation was outlined as an extensive legal statute, with provisions on investor's rights and duties and on matters involving foreign exchange, corporate issues, assignment and succession of rights, taxes, penalties, administration (as for the operation of government agencies of the government). This, or at least vestiges thereof, can be observed in the various laws enacted for investment in Angola: Law No. 10/79, Law No. 13/88, Law No. 15/94, Law No. 11/03, Law No. 20/11 and Law No. 14/15. For a presentation of these systems up to 2003, see (UNCTAD 2010).

12 In relation to the current regulations on tax benefits and their levels, see Law No. 14/15, of

as a rule in the third regime, for the foreign investment in certain sectors, there is a requirement of mandatory partnership with Angolan companies (Article 9, Law No. 14/15). This requirement suggests that the attraction of foreign capital to Angola aimed not only at its insertion in international trade, most notably in the cases of the petroleum and diamonds industries, but also at the development of the domestic industry as a result of the combination between traces of control mechanisms, which were emblematic in planned economies, and more modern initiatives aiming at integrating foreign investment in the framework of national development policies<sup>13</sup>.

## International scenario

The regulation of foreign investments started to gain importance under the framework of international investment agreements in 1950. UNCTAD has, therefore, recently systematized IIAs historic evolution, identifying four periods: (i) 1950-1964, the birth of the agreements; (ii) 1965-1989, the era of the dichotomy between the protection of investors and the establishment of obligations to investors; (iii) 1990-2007, the era of agreements proliferation; and (iv) 2008 until the present, the era of political re-orientation, based on complaints and revisions of the IIAs. (Unctad 2015, 121).

These four periods may also be seen as cyclical processes. Whereas, during the first phase (1950-1964), there was a prevalence of the position of capital-exporter countries in creating rules to protect their investments in less developed and high risk economies, the second phase (1965-1989) was driven by a contrary movement consolidated in the General Assembly of the United Nations by host States that sought to defended the principle of sovereignty over natural resources and the establishment of a new international economic order<sup>14</sup>. As aforementioned, Angola and Brazil did not take part in the crea-

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August 11 (Attached).

<sup>13</sup> This is a perception from the reading of (Gomes 2009), as well as from the explanatory statement of Law No. 14/15, of August 11. We highlight this part of the explanatory statement: "Private investment together with public investment, continues to be a strategic focus of the Government, for the capture and mobilization of human, financial, material and technological resources, aiming for the economic and social development of the country, for the diversification of the economy, for an increase in the competitiveness of the economy, for the growth of the employment offer and for the improvement of the population's living conditions" (our emphasis).

<sup>14</sup> These first periods are closely related to the process of decolonization of many of the current countries of the African and Asian continents, as well as to their subsequent alignment against the oppressive regimen of the international economic system. In relation to their manifestations within the sphere of the UN, see specially Resolutions of the General Meeting of the UN No. 1.803/1962 and No. 3.201/1974. Access to such documents can be obtained on <<http://>

tion of international rules for foreign investments: Angola was still a colony of Portugal and Brazil kept reacting to the internationalization of investment regulation with unilateral rules that provided for the promotion of foreign investments and accorded certain guarantees to them.

The following phase of the development of the IIAs (1990-2007) was driven by forces of economic liberalization and globalization. Further than the 404 IIAs existing in the previous phases, 2,663 new IIAs were signed in the third phase, including bilateral, plurilateral and multilateral agreements<sup>15</sup>. In relation to the investment promotion objective, some doubts were raised about the effectiveness of these agreements and, concerning the investment protection objective, the rules contained in IIAs were associated with a reduction of policy space from host States, which became more exposed to international investor-State dispute settlement mechanisms. This antagonism between policy space and investment protection illustrates the fourth phase (2008-onwards), which has resulted in specific reforms of the existing rules as well as in the termination of IIAs by some capital-importing countries.

Angola and Brazil participated in the last two phases of the evolution of international regulation of foreign investments in an attempt to combine their development policies with the promotion of foreign investments. In the nineties, both Angola and Brazil signed IIAs known, in these countries, as Agreements for Reciprocal Promotion and Protection of Investments (BITs). Angola also signed such agreements in the first decade of the 2000s. However, similarly to other capital-importing countries, Angola and Brazil have revised their policies in recent years, taking a more proactive position in the definition of their commitments. These points will be analyzed in sections 3 and 4 below.

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[www.un.org/en/sections/documents/general-assembly-resolutions/index.html](http://www.un.org/en/sections/documents/general-assembly-resolutions/index.html) (last consultation in December 2015).

<sup>15</sup> Notable examples of this diversity of arrangements, are: (i) the creation in 1994 of the World Trade Organization, containing rules that are applicable to foreign investments in some of its agreements; (ii) the conclusion of the Energy Charter Treaty, with detailed provisions on investments in this sector, among its members; and (iii) the completion in 1992 of the North American Foreign Trade Agreement (NAFTA), which, inter alia, creates specific rules for foreign investment and submits its disputes to the system of solutions of investor-State controversies. For further clarification on these systems, in the context of the IIAs, see (Unctad 2015, 126).

## Responses to the proliferation of regulations for foreign investments

### Brazil and the BITs (1994-1998)

During the nineties Brazil signed a total of fourteen BITs<sup>16</sup>. The Brazilian Constitution was approved in 1988, some years before the beginning of negotiations of investment treaties, and it provided, in the chapter addressing the economic and financial order, that ‘the law shall regulate, based on national interest, foreign capital investments, shall provide incentives for reinvestments and shall regulate the remittance of profits’ (Article 172). However, in the subsequent years, no such law on foreign investments was passed and the previous legal framework established under Law No. 4131/1962 remained in force. At the time the negotiations, BITs followed the orientation of a model draft proposed by an Inter-Ministerial Working Group, created in 1992, with the participation of representatives of the Ministry of Foreign Relations and of the then existing Ministry of Finance, Treasury and Planning<sup>17</sup>. This model text was subsequently ‘adapted to more realistic standards, which were the closest possible to those recommended by the Organization for Economic Cooperation and Development (OECD)’<sup>18</sup>.

Nevertheless, structural and substantial similarities of the BITs signed by Brazil prevailed. Quite alike provisions can be found in the totality of the agreements celebrated by Brazil on the matters of: (i) definition of investment, investor and territory, (ii) admission of investment, (iii) promotion of investments, (iv) safeguard standards for investments, (v) nationalization, expropriation and compensations, (vi) freedom to transfer and to repatriate investments, (vii) solution of controversies between state parties, (viii) dispute resolution between investors and states, and (ix) validity and withdrawn from the treaty.

In Brazil, the President has forwarded to Congress six out of fourteen

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<sup>16</sup> The APPIs were executed with Chile (1994), Portugal (1994), United Kingdom (1994), Switzerland (1994), Germany (1995), South Korea (1995), Denmark (1995), Finland (1995), France (1995), Italy (1995), Venezuela (1995), Cuba (1997), Netherlands (1998) and Belgium/Luxemburg (1999). The full texts of the APPIs executed are accessible in the database of the System of International Acts of the Ministry of Foreign Relations (<dai-mre.serpro.gov.br>, last access in December 2015).

<sup>17</sup> As per Message 1.158, of December 15, 1994, which submitted the agreement executed with Portugal to examination by the Legislative Branch.

<sup>18</sup> As per Message No. 8, of January 5, 1995, which forwarded to the National Congress the agreement executed with the United Kingdom.

BITs celebrated for ratification<sup>19</sup> – i.e., the agreements executed with Germany, Chile, France, Portugal, United Kingdom and Switzerland. These treaties have faced significant reluctance during the ratification process<sup>20</sup>.

During the negotiation process of the BITs with the United Kingdom, the Foreign Relations and National Defense Commission (CREDN, in Portuguese) of the Brazilian House of Representatives highlighted two controversial points which have drawn attention in the domestic debate. The first point concerned the compensations in cases of expropriation: the Constitution admits its payment through instruments of public debt or in instruments of land reform, which could contrast with the commitment to free and prompt transfer of funds, regardless of whether or not the foreign currency was available in the country<sup>21</sup>. If there were to be an assurance of an exception to the constitutional precept to the foreign investor, this would be classified as a differentiated treatment for the latter in relation to that offered to the domestic investor.

With respect to the provision of dispute settlement between the Government and the Investor, the CREDN's opinion was that such provision would violate the "exhaustion of domestic remedies", a rule of customary international law traditionally adopted in Brazil (Brazil 2000, 21.693). Furthermore, the direct access of foreign investors to the international arbitration procedures would result on a leveling of the private entities in equal terms with the Brazilian State, which would represent a "protection of international investors with detriment to the national policies and interests" (Alves 2014). Similarly, through a parliamentary opinion, members of the house criticized the possibility to shift the venue during the course of the action by choice of the investor since, as an outcome of the most favored nation clause, the same prerogative could be extended, regardless of express provision, to other countries with which Brazil could celebrate BITs with. (Brazil 2000, 21.693)

Some part of the criticisms directed towards the BITs celebrated by Brazil ended up leading to amendments of the proposals by the House of

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19 The bills were the following: PDC No. 396/00 (Germany), PDC No. 366/96 (Chile), PDC No. 395/00 (France), PDC Mo. 365/96 (Portugal), PDC No. 367/96 (United Kingdom) and PDC No. 348/96 (Switzerland).

20 Concerning these proceedings and the particularities of the debate in their negotiations, see (Scandiucci Filho 2007)

21 According to the parliamentary manifestation, the "form of compensation defined in the text must be confronted with some of the constitutional precepts concerning the expropriation of urban and rural real estate" in force. In addition to the establishment of compensation payment for expropriation of land for purposes of agrarian reform in convertible currency, when the payment is made, in the same case it would be in instruments of agrarian debt that are redeemable in twenty years (Brazil 2000, 21.693).



Representatives<sup>22</sup> which, later on, resulted into the withdraw of the BITs documents for ratification by the Executive Branch while at the House's processing<sup>23</sup>. Besides considering that the BITs had granted an "excessively wide-range set of rights and prerogatives" to the foreign investors, the documents of the Brazilian Executive Branch<sup>24</sup> asserted that these Agreements were not necessary to Brazil, which maintained its position of a privileged destination for foreign capital<sup>25</sup>.

## Angola and the BITs (1997-2011)

Angola began to sign BITs in 1997, before the civil war period (1992-2002). During the 1980s and 1990s, Angola went through some domestic economic reforms, which have foreseen certain elements of the BITs by introducing it in its national legislation. For instance, the Law on Foreign Investment No. 13/88, in its eagerness to attract capital, had offered beforehand guarantees for foreign investors which upheld a dialogue with the clauses of protection for the investors in the BITs, of which we highlight the following: (i) fair and equitable treatment, (ii) protection and safety, with a commitment to do not create difficulties for its operation, (iii) the transfer abroad of the net

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22 For example, the amendments proposed for the legislative bill that would approve the text of the agreement executed with Germany. The bill contained the following provisions: "Article 2 The provision in Paragraph Two of Article 4 of the Agreement [on expropriation] may only be applied to whatever does not conflict with the cases provided in the Federal Constitution, particularly item III of Paragraph Four, of Article 182, and Article 184. Article 3. The expression "at the request of the investor", contained in Article 10 of the Agreement [concerning the solution of conflicts between the Government and the investor], is construed in the sense that the appeal for international arbitration necessarily depends on the approval of the Brazilian Government, when the investments are implemented on Brazilian territory. Article 4 The commitments assumed in this Agreement must be submitted to the regulations provided in Article 172 of the Federal Constitution". (Brazil 2003, 37795-6).

23 The decision to remove the BITs from being processed in the National Congress derived from a proposal made by the commission created in 2002, during the presidential transition between Fernando Henrique Cardoso and Luiz Inácio Lula da Silva, in order to assess the BITs around the country (Alves 2014, 423-46).

24 "The non-existence of agreements of this kind had not affected Brazil's position as an important receiver of international investment, particularly of direct investments, the inflows of which are among the highest in the group of developing countries. The stability of the legal rules within the domestic ambit and the intrinsic strength that the Brazilian economy began to demonstrate since 1994 explain this notable performance." (Brazil 2002, 54.414).

25 It is worth stressing that, according to UNCTAD data, Brazil, in 1994, the year of execution of the first BIT, recorded an inflow of foreign investment of US\$2.15 billion, and in 2000 this amount had reached the figure of US\$16.6 billion (while in 2000 it had reached the peak of US\$32.8 billion) (Unctad s.d.)

profits, by means of the Ministry of Finance's authorization, (iv) the provision for a fair compensation, in case of expropriation, and (v) the suppression of the control limit by foreign investors in Angolan companies (Angola 1988)<sup>26</sup>. However, as part of a planned economy, this legislation still established a range of conditions and counterparts of the foreign investor.

Likewise, at the beginning of the 1990s, Angola agreed with the main international economic organizations – the Multilateral Investment Guarantee Agency, (1989), the International Monetary Fund (1989, with representation established in 1997) and the World Trade Organization (1996) – which strengthened the awareness for the need of investor protection. Taking into consideration that the amount of capital attracted was yet unsatisfactory; in 1994 the new Foreign Investment Law No. 15/94 was adopted, mainly aiming to reduce the bureaucracy involved in the inflow of foreign capital into the country.

Out of a total of ten BITs signed by Angola, eight were celebrated between 1997 and 2008<sup>27</sup>. Thus, in parallel with the signature of certain BITs during the years 2000, Angola, immediately after the end of the civil war, sought to modernize its foreign investment related legislation. Thereby, the Law No. 11/03, known as the Basic Private Investment Law (PIL), was adopted, which sought to treat both national and foreign private investments equally (Angola 2003a). Although the purpose of the PIL had been to address, in a broader sense, the contractual, tax and monetary aspects of the national and foreign capital flow, it specifically aimed to incorporate certain foreign investors' demands, which are normally present in the BITs. Accordingly, the PIL adopts a broader concept of foreign investment which establishes,, assuming that the amount is equivalent to or greater than one hundred thousand dollars

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26 Comments on the impacts of this Law are presented in (UNCTAD 2010, 8-11).

27 According to the UNCTAD base, Angola executed nine BITs and other eight IIAs. Of these nine BITs only four became effective. The nine BITs are: Cape Verde (executed and effective since 1997), Italy (executed in 1997, and effective since 2007), Portugal (one executed in 1997 and the other in 2008), United Kingdom (executed in 2000), Germany (executed in 2003 and effective since 2007), South Africa (executed in 2005), Spain (executed in 2007) Russia (executed in 2009 and effective since 2011) see <<http://investmentpolicyhub.unctad.org/IIA/CountryBits/5#iiaInnerMenu>> (last access in December 2015). In addition to these BITs, we had an access to another BITs executed by Angola with Cuba, a version that was published and has been effective since April 14, 2009, in the Official Gazette of the Republic of Angola I Series, No. 68. Thus, we assume that there are ten BITs executed by Angola so far, five of which are effective. On the contrary, the last report of revision of the commercial policies of Angola, by the OMC, shows that there are thirteen BITs executed by the country, with no reference to the agreement with South Africa, and including agreements with France, Guinea-Bissau, Holland, Namibia and Switzerland (WTO 2015, 26). However, we found no references to these latter agreements.

(Article 9.3): (i) national treatment (Article 4(c)); (ii) fair and equitable treatment (Article 12); (iii) free access to the markets, except in state monopoly areas (Article 4(a)); (iv) protection and security (Article 4(b)); (v) freedom to transfer profits (Article 13); (vi) fair, prompt and effective compensation in cases of expropriation due to justified public interest (Article 14.2); (vii) access to the Angolan courts (Article 14.1) access to arbitration held in Angola with application of Angolan Law (Article 33); and (viii) observance and full compliance with the international agreements (Article 4(d)). From the foreign investor's point of view, the PIL required compliance with Angolan laws (Article 17) and the recruitment of Angolan work force for positions on the operations carried out in the country (Articles 18 and 54), alongside with other specific remaining obligations from the conditions and counterparts of the planned economy era.

The regime established by Law No. 11/03 was supplemented by Law No. 17/03 which created development zones, dividing Angolan territory into three zones, in which the quantitative standards for investment, repatriation, granting of tax incentives and reinvestment would vary according to the zone; and by Decree No. 44/03, through which the National Private Investments Agency (NPIA) was created with the responsibility to monitor investment policy, management of procedures corresponding to capital flows and the authorization to grant investment incentives. (Angola 2003b; Angola 2003c).

The general structure of the ten BITs celebrated by Angola essentially reflects the following content: (i) a general purpose to protect the foreign investments by fixing traditional treatment standards, including national treatment, the most favored nation treatment and fair and equitable treatment; (ii) a broad definition of the covered foreign investments; (iii) a general clause establishing the prohibition of the foreign investments expropriation, except for public interests, case in which compensations must be paid and due process of law must be respected; (iv) provision for *ad hoc* or institutional arbitration between investors and the state, as well as the possibility of appealing to Angolan Tribunals and arbitration between states.

Thus one observes that the agreements signed and ratified by Angola practically followed the general format of the BITs, which have also been presented to Brazil. The difference in relation to Brazil is that, since 1988, Angolan domestic legislation had already directly interacted with the language of the BITs, particularly concerning the provisions for investor's protection. On the other hand, it is worth noticing that relevant elements of the system for foreign investment in Angola were not incorporated into the BITs signed by the country. At this point, We refer to the duties, conditions and counterparts, established for the foreign investors, (e.g. to hire local work force). The

assumption for this situation is that Angola's international bargaining power was too fragile to incorporate such commitments on the BITs basic general structure<sup>28</sup>.

## The genesis of the reorientation

### Reforms in the Brazilian legislation

Considering that Brazil has maintained its historical position of non-adherence to the IIAs, the subject remained fully regulated by domestic norms after the 1990s. Nonetheless, many of the demands included in the BITs were incorporated into the national legal system by means of domestic reforms. As Lemos and Campello ironically affirm, only the provisions for the resolution of investor-State controversies were not incorporated (Campello and Lemos 2015, 1078)<sup>29</sup>.

Effectively, throughout the 1990s, as a result of the process of re-democratization, some important institutional reforms for the Brazilian economic environment were implemented<sup>30</sup>. These changes, however, were not performed by the National Congress through law reforms, but rather by regulatory actions of certain Government bodies (Salama 2010, 172)<sup>31</sup>. Additionally, in some specific ways, the change in the interpretative consensuses of the bodies responsible for normalizing and supervising the foreign exchange transactions contributed to update – albeit with a lower degree of legal secu-

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28 Interestingly this provision is also valid for the BITs executed between Angola and Cuba (2008) and between Angola and Russia (2009). On the contrary, the Angola-Cuba BIT, as well as those executed with Germany and Italy, contain a clause (Article 20) in which it is stressed that if the domestic legislation has treatments that are even more favorable, they should prevail. A possible interpretation of the conditions and counter-parts of Angolan legislation is that they are treatments that are more burdensome for the investors and thus should not be required.

29 One observes that not even Brazil made changes in relation to the expropriations of foreign investments or of an update of the system of expropriations, perhaps because the country does not have a significant history of confiscating property from foreign investors.

30 There was a progressive liberalization of the system of control of foreign exchange, particularly by means of infra-legal rules deriving from the National Monetary Council (CMN) and the Central Bank. Since the end of the 1990s, for example, the entry of foreign capital began to be carried out by means of a declaratory record, not requiring any kind of authorization, on the terms of CMN Resolution No. 3.844/10 (Brazil 2010).

31 In this sense the author acknowledges that, although one could say that the measures implemented by the Government are “mechanisms that are procedurally complicated and have legal base on a questionable measure”, because it concerns an abuse of infra-legal regulatory power, the vision that ultimately prevailed was that “the legislation of origin in the Congress effectively opened the possibility of the Government implementing the changes that it made” (page 172).

riety – the Brazilian regulatory environment in relation to foreign investment (Salama 2010, 176).

In a broader sense, the structural developments of the Brazilian economy, which can be seen in areas such as the increase in the volume of business in the stock market, the increase in initial public offerings (IPOs), the modification in accounting legislation in order to align it with international standards, the minimization of investment risk and the increase of transparency and security in business transactions have contributed, by incorporating certain guarantees that are – by other means – sought by the investors, to the creation of a favorable economic and institutional environment for foreign investments in the country.<sup>32</sup> In general terms these regulatory and institutional changes, combined with the economic policy and the international scenario, nearly tripled the volume of foreign capital received by Brazil between 2000 and 2015<sup>33</sup>.

Despite the satisfaction with the new investment figures received, this was not enough, in Brazil, to completely settle the issue of IIAs apart from the Brazilian government. After the withdrawal of the BITs from the National Congress in 2002, the Foreign Trade Chamber (CAMEX) created an inter-ministerial taskforce to present options to move the Brazilian policy on this matter forward. At that point in history Brazil had already begun to register a much more significant volume of capital export, and a debate regarding the internationalization of Brazilian companies had already entered the national agenda<sup>34</sup>. The taskforce recommended the renegotiation of the agreements with Brazil's strategic partners, so that in August 2005, CAMEX established a new inter-ministerial taskforce to define alternative wordings for the IIAs' central clauses. Other initiatives seeking an alternative model for the investment agreements continued in various Government bodies, but the negotiations remained without tangible outcomes for more than a decade (Brazil 2008, 18-21).

It was only in 2012 that CAMEX conferred a formal mandate to the

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32 Among certain data on these matters, see the Stock Market index that, after 2005, proceeded to reach levels between 33.000-65.000 points (<http://www.bmfbovespa.com.br>); the Brazilian Securities Commission, from 2004 to 2013, recorded an annual average of 23 notices of public offerings of stock (<http://www.cvm.gov.br>). Electronic pages last accessed in December 2015. Concerning the changes in the legislation, see (Brazil 2007, 2), (Brazil 2011, 2) and (Brazil 2013, 1).

33 Whilst in 2000 Brazil recorded an inflow of US\$ 22.5 billion, in 2014 this figure was of US\$ 62.5 billion (Unctad s.d.)

34 In 2002 Brazil recorded US\$ 2.5 billion of exported capital, as opposed to US\$ 624 million in 1990 (Unctad s.d.). On the internationalization of Brazilian companies (see Camex et al. 2009).

Technical Group on Strategic Foreign Trade Studies (GTEX) to explore, among other topics, the development of a new investment agreement that was sensitive to Brazil's necessities, limitations and international aspirations.

Since the beginning of the negotiation process, Brazil envisioned a different agreement from those negotiated in the 1990s. In parallel with an international contestation movement against the asymmetry of investment relations and its regulations, the investment agreement designed by Brazil was equally influenced by the lessons learnt from the negotiation process of the 1990s, along with domestic demands for access to markets and some protection for Brazilian investors and investments. Hence, the GTEX began a consultation process with the private sector regarding the main challenges facing the internationalization of Brazilian companies – this process resulted in the publication of a report<sup>35</sup>. A draft of this agreement, addressing the demands of the private sector and Brazilian foreign policy positions, was available in 2013, when it was approved by the CAMEX for subsequent bilateral negotiations.

Following the strategy managed by the GTEX, the Brazilian Ministry of Industry, Foreign Trade and Services (MDIC) started to present this agreement model to countries that received Brazilian investments, as part of a “Brazilian initiative to establish investment agreements with countries of the African and South American continents” (Brazil 2013)<sup>36</sup>. Mozambique and Angola were the first countries to execute this new agreement format with Brazil, followed by Mexico, Malawi, Colombia and Chile, all in 2015 (Brazil 2015a; Brazil 2015b).

The Agreements for Cooperation and Facilitation of Investments (ACFIs) negotiated so far present the following fundamental characteristics: (i) the design of the agreement's institutional management; (ii) the system to prevent and solve any controversies within the scope of the agreement; (iii) the rules for foreign investor protection, (iv) the incorporation of sensitive issues in the context of the agreement, and (v) the inclusion of thematic agendas, conceived to be a more dynamic part of the agreements. Even though it is possible to identify a standard structure for the ACFIs signed up to the

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35 The consultations with the private sector involved the Federation of Industries of the State of São Paulo (FIESP) and the National Confederation of Industry (CNI). The results were to a major extent consolidated in the report (CNI 2013). We describe a little more of this process in another article (Morosini and Sanchez Badin 2015).

36 According to the information of the Secretary for Foreign Trade, “these agreements that we are seeking are instruments of support for Brazilian investors for their actions abroad. We are proposing to address relevant and practical day-to-day themes, such as the granting of visas and others that affect the process of decision on the investment”.

present date, we recognize that there are variations between such agreements, which can be explained by the different demands presented by different partners. Our analysis, starting from section 5, will focus on the specific traits of the investment agreement with Angola.

## The reforms in Angolan legislation

Historically, in Angola, the process of re-orientation has consisted of a combination of new reforms in its investment law, the continuity in the negotiation of traditional BITs and the search for appropriate standards for the IIAs. Since 2005, in contrast to Brazil, Angola has presented figures of disinvestment in the country and an increase in its own exports of capital<sup>37</sup>. In some way this data indicates some concerns of the country with regard to its legislative reforms, which led to the adoption of the Private Investment Law No. 20/11, recently substituted by Law No. 14/15.

Law No. 20/11 has brought some significant innovations to the Angolan foreign investment system. Whilst the previous Law (No. 11/03) sought to maximize investment attraction to a country that had recently come out of a civil war, the philosophy of the Law No. 20/11 was to subject investments to Angolan development, attracting foreign investments in greater volume, preferentially for the defined strategic areas. For this reason the law was one of the most extensive laws on investment, providing numerous details on investors' commitments and procedures. For this reason, the PIL of 2011 established the principle of political and legal conformation and introduced the requirement of prior approval of all the investment projects by the National Agency for Private Investment (NPIA) (Article 52), extinguishing the system of tacit approval that existed in the previous law. Additionally, but also as an echo of the international movement of protest regarding the BITs, an important alteration was the suppression of the clause prohibiting expropriation (Article 14 of Law No. 03/11, in contrast with Article 16 of Law No. 20/11).

In 1994, in parallel with the PIL reform, Angola approved a paradigm for the BITs, with the purpose of creating a model of agreement to be used by the country in negotiations with other countries. A noteworthy feature of the Investments Paradigm (Angola 2014) is the reference it makes to domestic law of contracting States for purposes of – for example – (i) definition of investor and investments (Articles 1.2 and 2); (ii) the policy for admission of

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<sup>37</sup> If in 2003, the year of approval of Law No. 11/03, Angola recorded an inflow of foreign investment amounting to US\$3.6 billion, in 2011, the year of the new legislative alteration, there was a negative record, a divestment of approximately -US\$3 billion. This figure was practically maintained in 2014 (Unctad s.d.).

foreign investments (Article 3.1); (iii) determination of areas reserved for the Government (Article 3.2) and (iv) transfer of funds (Article 7). In addition, the granting of fair and equitable treatment and the guarantee of protection and security are conditioned to the “social realities” of the contracting States (Article 4.1).

In relation to the guarantees for the investor, the Investments Paradigm maintained (i) the prohibition of arbitrary measures (Article 4.2); (ii) the observance of obligations expressly assumed by the States towards the investor (Article 4.3); (iii) the treatment of the most favored nation (Article 4.4); (iv) the national treatment (Article 4.8); and (v) the payment of a fair, adequate and effective compensation in cases of non-discriminatory expropriation due to public interest, with the possibility of appeal to national courts by the party responsible for the expropriation (Article 5). As for investor’s obligations, the Investments Paradigm establishes that “the investment must focus on the protection of the environment and on sustainable development” (Article 10.2), in addition to “promoting recruitment of a national workforce” (Article 10.3).

Another noteworthy provision of the Investments Paradigm is related to the system of conflict resolution, which is different from those provided by other BITs executed by Angola. As regards conflicts between investors and States, the Investments Paradigm expressly forbids the appeal to international arbitration, determining that conflicts must be resolved “on the terms of the respective national legislations” (Article 14.5). In relation to the conflicts between States, there are provisions for consultations and negotiations, with possible participation of the private sector (Articles 14.1 to 14.3). In the case of such negotiations being unsuccessful, the controversies can be taken to the International Court of Justice (Article 14.4).

To a certain extent, the Investments Paradigm sought to reproduce some of the guidelines existing in domestic Angolan laws, including by directing mentioning them. Distinctive aspects of Angolan law – such as the need to contract national labor – finally found echo on the Angolan international agreement model. In turn, the paradigm also reverses many of the traditional concessions of BITs, which had already been previously integrated into the Angolan PIL.

Lastly, among the most recent legislative activities in Angola, one finds Law No. 14/15, of August 11. The new PIL has reinforced the previous proposals of associating investment regulation “with the economic and social development of the State, with the diversification of the economy, with the increase in employment offers and with the improvement of the population’s living conditions” (list of reasons). Imbued in this spirit, Law No. 14/15 elim-



inated from its text the general principle of national treatment and of respect and full compliance with the IIAs. The new PIL also associates investments' incentives and approvals with projects taking place on the country's economic and special zones, duty-free zones and development centers (Articles 35 et seq.) – part of a national project for industrial and regional development. By means of this law, the National Private Investment Agency (NPIA) was extinguished and will be replaced by another body in the near future.

One can observe that such responses to the international investment system are quite recent and thus there is not enough time to understand the impact they will have on Angolan foreign capital, as well as on Angolan capital exportation to other countries. After all of these amendments in its internal legislation, Angola has not signed any new BITs. The only new investment agreement that has been executed was the one with Brazil, which sprung from the initial proposal of the ACFI structured within the sphere of the Brazilian government. For this reason and for the sake of political-economic interest, an analysis of the agreement executed between Angola and Brazil can be an interesting test to verify the alignment of proposals or the concessions that burdened each of the parties.

## The bilateral conciliation: the Angola-Brazil ACFI

Angola and Brazil, as already mentioned, have a very emblematic political relation and a quite meaningful economic tie. The asymmetry between their economies reflects, however, their relationship, as noted in their investment ties that shows a larger flow of investments from Brazil to Angola than the other way around. This flow increased from US\$ 73 million in 2007, to US\$ 1.3 billion in 2014. In contrast, the inflow from Angola to Brazil varied from US\$ 739 million, in 2010, to US\$ 803 million, in 2013<sup>38</sup>. All in all, this flow has been growing in both directions and, as a consequence of the two countries disposition and interest, entailed on the negotiation of a bilateral investment agreement.

The agreement executed between Angola and Brazil on April 1<sup>st</sup>, 2015 assumed the ACFI basic structure – which differs from the structure that emphasizes the protection of BITs investments as well as of the Angolan Investments Paradigm. As previously noted, the celebration of ACFIs is recent and does not present many cases in Brazilian history. Also, the Angolan ACFI

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38 This is official data systematized and published by the Central Bank of Brazil. For the data on Brazilian investments in Angola, see (BACEN s.d.a). For the data on Angolan investments in Brazil, see (BACEN s.d.b).

agreement was one of the first to be celebrated. This limits the inferences that can be made concerning the particularities of the ACFI celebrated with Angola. Below, we present an essay that focuses on: (i) demands that already existed for the regulation of foreign investments in each one of the countries; (ii) particularities of the ACFI in relation to other agreements celebrated by the parties in the past, and (iii) a brief context with five other agreements of the kind signed by Brazil up to December 2015, to analyze their possible impacts.

By possessing a general language and basic structure, the ACFI emphasizes a reciprocal investments facilitation in the economic relations between the parties and focuses on the discourse of the Angola-Brazil mutual strengthening. However, in addition to the discourse and the form, the Angola-Brazil ACFI also includes in its obligations some of both countries' domestic demands in relation to the international investment system. The first point to be stressed – and this point distinguishes the Angola-Brazil ACFI from others celebrated by Brazil – concerns the attribution of the concept of investment to national legislation (Article 3). This is particularly interesting in the case of Angola, which has altered the concepts of investment in its domestic legislation and that, above all, excluded the principle of respect and full compliance with international treaties from the PIL.

The ACFI between Angola and Brazil also revisits the international investment system's most sensitive points – in the particular case of the BITs – for both countries: (i) the theme of expropriation and (ii) the conflict resolution system for investor-State conflicts. With respect to expropriation, it is granted to the State the possibility to expropriate, as long as it concerns the public interest or utility, and provided that it is not discriminatory and it observes the principle of due process of law<sup>39</sup>; yet and lastly, it must be accompanied by payment without delay of fair, adequate and effective compensation equivalent to the enterprise's market value (Article 9 of the ACFI).

In contrast to the BITs ratified by Angola, the ACFI does not provide to the investor the right to review the legality of the expropriation act or equivalent measure and the amount of the compensation – it should be noted that this provision was also integrated with the Angolan Investment Paradigm, published a few months after the execution of the ACFI (Article 5 of the Paradigm). It is also worth mentioning the provision, related to a Brazilian constitutional provision, that establishes the possibility of compensations through government bonds (Article 14.1(v) of the ACFI).

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39 One must note that the inclusion of the clause concerning the need of observance of the principle of due legal process is a recent requisite in the investment agreements executed by Angola. Actually, it began to exist in the Paradigm of Reciprocal Promotion and Protection of Investments, of 2014, and the ACFI with Brazil is the first treaty that inserts this requirement.

In the dispute settlement part, three main points must be emphasized. The first concerns the valuation of the prevention and consultation mechanisms. The ACFI creates the focal points that provide support for the investments and to the investors, including addressing issues related to the investment in the receiving country (Article 5.1 of the ACFI). The focal point, in turn, performs also the role of contributing to the joint committee (Article 5.4(iii)), which acts as a space of debate between state representatives (Article 15). Thus, this structure also takes into account the restrictions made by Angola and Brazil regarding the investor-state clause. Which is to say that it assures to the investor an institutional space to maintain dialogue with the state, however in case of litigation the investor is granted access to the national courts (Article 11.7). The third outstanding point, however, is more sensitive. It concerns the mechanism for government-to-government conflicts resolution. Until April 2015, Angola had the possibility to choose for arbitration as a standard in its BITs<sup>40</sup>, but in August of the same year the Investment Paradigm established the preference for the International Court of Justice (Article 14.4 of the Paradigm). It is not correct to say that international arbitration is prohibited in Angola. On the other hand it is clear that the provision of the ACFI differs from the one of the Paradigm<sup>41</sup>.

In addition to these specific issues, the ACFI also brings certain particular concerns that have always been associated with the developing countries demands, whether in thematic issues or whether regarding procedures in the regulation of foreign investment. The thematic agenda of the ACFI between Angola and Brazil provides for programs of payments and transfers, environmental legislation and technical regulations, visas for entry into the country, development of human resources and local labor force, technology transfer and cooperation in matters of sectorial legislation and institutional exchanges<sup>42</sup>. The thematic agendas enable the parties to negotiate special

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40 The most disseminated mechanism in the BITs executed by Angola is the ad hoc arbitration - either by the use the UNCITRAL rules or the Regulations of the International Chamber of Commerce. Except for the agreements with Cuba and the United Kingdom, the others provide alternatively on the possibility of appealing to the International Center for Arbitration of Disputes on Investments (pursuant to the English acronym ICSID), of the World Bank. Although Angola is not a member of the ICSID, the BITs that establish this clause show the possibility of the use of the additional mechanism, formally adopted by the Administrative Council in 1978, in order to administrate procedures outside the scope of the Washington Convention of 1965 that established the ICSID. For access to the agreements, see references in previous footnote.

41 It is worth stressing that none of the ACFIs actually defined the government-to-government arbitration procedure. This is a competency attributed to the Joint Committee (Article 4.4(vi) Angola-Brazil). Such procedure will probably be established as soon as the internal processes for ratification of the ACFIs are completed.

42 In June 2014 Angola and Brazil executed a Protocol for Facilitation of Visas, which was

commitments, in additional lists, and other supplementary agreements as a party of the main agreement, whether to deepen or to expand their relations<sup>43</sup>. In this regard the ACFI seeks to reinforce symmetry beyond the formal rules, incorporating the idea of cooperation within the investments international regime and, thus considers the domestic needs of both the importing and exporting capital countries.

Some of these commitments were already included in Angola's PIL as a condition for the authorization of foreign capital and as legal obligations of the foreign investor. One of the points mentioned above is the training and employment of local labor force, known as the process of *Angolinization* of labor, with emphasis on managerial and leadership positions (e.g. see Articles 24 (b) and 51 of Law No. 14/15 and Article 10.3 of the Paradigm). The ACFI recognizes and interacts with these concerns at the same time that it expands them (Exhibit I ACFI, thematic agendas for cooperation and facilitation).

Another concern of this kind is the authorization of restrictive measures for transfers that are implemented aiming to protect the equilibrium of the balance of payments by one of the parties, or to fulfill obligations with the International Monetary Fund (Articles 14.2 and 14.3 of the ACFI). This protection had already appeared in Brazilian foreign capital legislation (Article 28 of Law No. 4131/62, as amended) and it is a common concern to Angola and Brazil, which historically underwent periods of economic imbalance with severe restrictions for the free flow of capital.

In addition, the second appendix to the agreement brings a combination of standards and principles of corporate social responsibility (RSC), among which the respect for human rights, the strengthening of the local human resources, the adoption of good corporate governance practices and the abstention from interference in the involved countries domestic policy are emphasized. This concern appeared to be already included in Angola and Brazil's domestic regulation, even in the Angolan PIL, but its structure as an IIA is innovative. Brazil, specifically, has not presented a regulation referencing the language of foreign companies' duties in this area<sup>44</sup>. Angola, on the

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taken into account in the thematic agenda on visas in the ACFI, as per Exhibit I, sub-paragraph 1.2(i).

43 Daniel Godinho, current Secretary of the Foreign Trade Office (SECEX) and one of the Brazilian civil servants that had a main role in the formulation and negotiation of the ACFIs, explains that the existence of such thematic agendas transform the ACFIs, in this way, into dynamic agreements that develop and are perfected according to the investment relations between the Parties. Daniel Godinho Interview on April 28, 2015 (on file with the authors).

44 Until then there was only the coordination of the OECD for Multinational Companies, within the ambit of the Ministry of Finance.

other hand, due to its history of planned economy, with the necessary definition of duties for the investors, would already have elements in its domestic legislation in this sense. The RSC as part of the text of the Angola-Brazil ACFI conferred strength in an international agreement to these commitments. In addition, the RSC is a precept that obtained distinct nuances in the ACFIs executed by Brazil so far. If in the Angola-Brazil ACFI only a generic reference is made to the obligation (Article 10), which is detailed in the Exhibit in the Brazil-Mexico ACFI and in subsequent ones, the obligations came to be part of the main body of the agreement. However, the expectation of the “force of law” disappears in the Brazil-Colombia ACFI, specifically when the RSC was excluded from the conflict solution mechanism (Article 23 Brazil-Colombia ACFI).

Over time the differences between the ACFIs are appearing, and it is natural that this should occur according to the interests of the parties involved. However, the Angola-Brazil ACFI’s structure may be a window to the unknown, considering the provision about the most favored nation treatment (Article 11, items 3 and 7). This principle is extended “to the defense of such investors rights”, which could lead to a possible allegation of the more favorable treatment clause application granted in a subsequent agreement (e.g. as mentioned above, an opportunity for this kind of understanding is found in the case of RSC).

In the principle-related field, it is worth commenting on the application of the national treatment, as provided in Article 11.2 of the Angola-Brazil ACFI. The new Angolan PIL excluded its provision on national treatment and indirectly discriminates national from foreign investment. This may be another point of future questioning of the ACFI, if ratified by the parties, and it is perhaps the most mismatching point in this new legal relationship between Angola and Brazil and their bilateral investment flow.

## Final comments

This is not an article that leads us to final conclusions on the contrary, it enables us to assess the joint construction movement behind the ACFI and also relevant elements for its future implementation through identifying historical determining factors of foreign investment regulation in Angola and Brazil.

In their condition of developing countries, it is reasonable that for Angola and Brazil the attraction of foreign capital constitutes an important factor in the promotion of their development policies. Both countries show,

by their regulatory experiences, a greater understanding – in comparison with that in the 1990s and the beginning of the 2000s – of the viability of their commitments in the international arena taking into account their public policies' necessities and ambitions.

The Angola-Brazil ACFI does not respond to all of the countries' new demands – mainly because it still needs to be regulated, to some extent (e.g. the dispute settlement mechanism) – but interacts with a significant number of them. So far, the particularities of the ACFI celebrated between Brazil and Angola, as opposed to those celebrated with other countries, show that beyond the Brazilian demands, except for the principle of national treatment, the main Angolan demands regarding foreign investment and its system are taken into account by the agreement. Specifically, the Angola-Brazil ACFI delegates several definitions to national legislation. This requires special attention both of the private investor and the national governmental agencies, in the ACFI and beyond.

With regard to the countries' domestic legislation developments, it can be noted that Angola has modified its foreign investment legislation approximately every five years with revision of guarantees and important conditions. Brazil, on the other hand, has issued regulations that are subject to changes in the Federal Executive Branch's administrative bodies. These definitions by domestic legislation can lead to inconsistencies with the ACFI, as it is the case in the discrimination found in the Angolan PIL as opposed to the principle of national treatment in the ACFI. Therefore, in case of the ACFI's approval by the domestic incorporation processes of international agreements, a new way of dialogue for domestic regulatory spaces will be opened.

In this respect, the agreement itself still presents relevant points to be developed, for instance which institutions will manage the agreement. It is expected that the Joint Committee, the Focal Point and the current dispute settlement mechanism will have their operations regulated. These will be decisive spaces for the agreement's effective implementation and coordination with other national spaces. Not less relevant will be the construction of the continuous thematic agenda, which will depend on such bodies and their coordination capacity.

Thus, the ACFI has been introduced as a forum for effective coordination between the parties and their similar national peers in regard to bilateral investments, and for the institutional design and agendas that attend and respond to the common aspirations of domestic and bilateral relations.

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## ABSTRACT

The goal of this article is to contextualize the regulation of investment in Angola and Brazil, contrasting their distinctive approaches during the 1990s and the beginning of the years 2000, and analyzing how their divergent approaches were reconciled with the signature of the ACFI, in the beginning of 2015.

## KEYWORDS

Foreign Investment; Regulation; Angola; Brazil.

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# BRAZILIAN FOREIGN POLICY AND INVESTMENTS IN ANGOLA<sup>1</sup>

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## Introduction

The change of presidency from Fernando Henrique Cardoso to Luiz Inácio Lula da Silva is understood as a turning point in the orientation of Brazilian foreign policy (Vigevani and Cepaluni 2007). During Lula's mandate, Brazil experienced steadily increase of the flow of direct investments. In this context, Brazilian multinationals started operations and services provisions in developing countries. In Africa, Angola emerges as the main destination of Brazilian investments. The connections between foreign policy and firms' internationalization are central to understand the recent pattern of the economic activities of Brazilian companies in Angola. This paper argues that the internationalization strategies of Brazilian companies in the country are related to the movements of the Brazilian foreign policy. Therefore, we posit the hypothesis that changes in foreign policy paradigm and government incentives have significant weight in the recent profile of Brazilian foreign direct investments.

African countries are often considered as places of insecure political institutions for foreign direct investment (FDI) (MIGA/World Bank Group 2013)<sup>4</sup>. However, many countries in these regions have undergone a process

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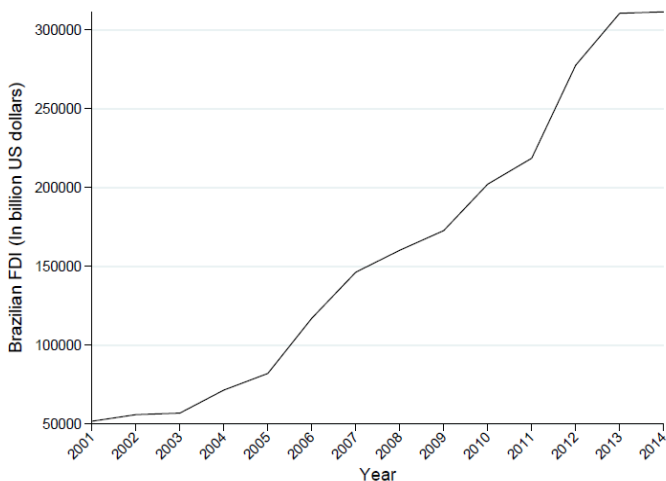
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4 One of the main political risk rankings can be found here: "Political Risk Index"

of democratization in the 1970s, which resulted in more attractive environments for foreign investors (Pandya 2014). These processes, as a rule, incorporated social sectors in political institutions, also expanding the role of business in the economy. Despite the growth of investments has accelerated since the 1990s in countries as South Africa, many others have not benefited from investment flows, much because of historical political instability, beyond the difficulties faced by economies (Asiedu 2002; Collier and Gunning 1999). Therefore, good relations with international sources of FDI are an important aspect of many African countries to foster development through international investments.

Brazil is a traditional receiver of foreign investment and only on the beginning of the XXI century became a significant foreigner investor in comparison with developed countries (Motta Veiga and Rios 2014; Fleury, Fleury, and Borini 2013). The first destinations of the Brazilian investments were Latin American countries, much due of the cultural proximity and similar socioeconomic characteristics (Fleury, Fleury, and Borini 2013). In recent years, especially since the Lula’s government (2003-2010), Brazilian companies began to penetrate other regions and are now present in most countries (Arbix and Caseiro 2011), surpassing the boundaries of its neighbours. As we can see in the figure above, Brazilian foreign direct investments faced a dramatic growth since 2003.

**Figure 1: Evolution of Brazilian Foreign Direct Investments (2001 – 2014)**



Source: the authors. Based on data from Brazilian Central Bank.

<https://www.prsgroup.com/category/risk-index>

What make Brazilian investments go to the Global South? Some suggestions in literature arise the hypothesis that the shift in Brazilian foreign policy motivated by the end of bipolarity in the 1990s had the distinctive feature of strengthening South-South cooperation (Milani and Carvalho 2013; Souza 2012). This could mean also the increase in economic flows. If the change in the direction of Brazilian foreign policy is expressed by the quest to reduce its dependence on a few countries (mainly North) and by the greater autonomy of their choices in international matters (Vigevani and Cepaluni 2007), may there be consequences to Brazilian investors.

As detailed by Milani and Carvalho (2013, 13), the first signals of Global South's counterpoint to the North dominance can be traced back to the Bandung Conference, occurred in Indonesia in 1955. Since then, until the creation of the Brazilian Agency for Cooperation, many initiatives have been done by the Brazilian government to strength its position as a regional leader, not automatically aligned to traditional powers. This trend was revived in the 2000s, during the Lula's government, who sought to expand ties with the southern countries, through bilateral and multilateral mechanisms, as international institutions (Vigevani and Cepaluni 2007, 290). The promotion of investments and trade flows are some of the main instruments to strength bilateral relations and, in this sense, it is plausible to think this redirection in political terms may be related to the emerging pattern destination of Brazilian FDI.

Among the actions undertaken by the Brazilian government in the context of South-South cooperation, one that stands out most is the International Cooperation for Development (ICD)<sup>5</sup>. In the official discourse, it is characterized by the relationship's horizontality between the donor and a partner in order to preserve the autonomy of the recipient country. It is characterized by the absence of conditionalities and by the understanding that development promotion mechanisms are im-

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5 For the Brazilian Cooperation Agency (ABC), the International Technical Cooperation (term used by the Agency) comprises " financial aid, technical support, training of human resources, technology transfer process, donating equipment and materials, among other mechanism. They were - and still are - widely used in the operationalization of cooperation" (ABC). However the definition of ICD is still object of controversy (Souza 2012).

portant to closer relations between countries<sup>6</sup>. According to Milhorce (2013), the Brazilian ICD has contributed to the increasing recognition of the confidence of countries in the southern hemisphere, especially in countries of Portuguese-speaking Africa (Lusophone Africa).

Even though fully justifiable through the lens of the foreign policy paradigms shift, Brazilian cooperation in Africa has been questioned due the lack of insularity of the initiatives in relation to national private interests (Duarte 2014). In the view of Souza (2012), the ICD granted by developing countries, like Brazil, is similar to that of OECD countries<sup>7</sup>. In the author's view, "both are used as political and diplomatic instrument and promotion of economic interests, and are not intended exclusively or primarily for the development of partner countries or 'receptors'" (2012, 91). Similar point of view is proposed by Apolinário Junior (2014), who demonstrates how the Brazilian cooperation could be linked to the support gained by Brazil in the board of directors of important international financial institutions such as the IMF and the World Bank.

Major recipients of cooperation for the Brazilian development in Africa, Lusophone African countries are also some of the most frequent destinations of investment by Brazilian companies in the Continent. The foreign policy in direction to the South, in this regard, may be an important drive to the expansion of Brazilian multinationals towards the region. When comparing the practices of international cooperation of Brazil, India and China, André de Mello e Souza (2012), points out that the motivations of South-South cooperation are similar to those offered by OECD countries. By conclusion, the author argue that it can be understood as a political-diplomatic instrument and, at the same time, and instrument to promote its economic interests (2012, 91).

Once Brazilian companies are diversifying their investment location, this requires new explanations about what are the reasons for their choices. We hypothesized that the relationship between foreign policy and foreign direct investment is critical to understanding the role of policy on business decisions and the incentives for the internationalization of Brazilian companies. Among the possible new inter-

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6 From the official website of the Brazilian Cooperation Agency. <http://www.abc.gov.br/>

7 This view is shared by Milani (2012).

pretations, we argue that the type of relationship Brazil has with other countries, the support of the Brazilian government, cooperation agreements and international political affinities are important instruments for the internationalization of Brazilian firms in Angola.

The proximity between states can affect the behaviour of investors by facilitating interactions between economic agents and thereby reduce information asymmetries, diminish risks of expropriation and favour investments (Gupta and Yu 2007)<sup>8</sup>. In the case of US investments abroad, there is evidence that the political proximity of the host countries with the US reduces entry barriers and costs for American business (2007, 05)<sup>9</sup>. Similarly, the proximity policy may also reduce seizure of risks. When evaluating Chinese investments, Duanmu (2014) argues that the magnitude of the risk to which these companies are submitted is associated with the strength of political relations between the Chinese government and the recipient countries. These explanatory mechanisms may also be true in the case of Brazilian investment in Angola.

Foreign policy is an important inductor of Brazilian investments in Africa. With the increasing volume of FDI in recent years and the expansion of state aid dedicated to them, the questions about the connections between international business and politics gained relevance (Caseiro and Masiero 2014) . This article seeks to address this issue by providing information that contributes to the understanding that geopolitical interests expressed in Brazilian foreign policy may be linked to economic interests. The case of Angola is illustrative in this sense. The intricate relationship between international development cooperation, business internationalization and political and ideological interests of an autonomous foreign policy are central to the comprehension of the economic ties between Brazil and Angola. In this article, we will examine some of the main approaches to the role of the political dimension for business internationalization processes and analyse suggestions from literature about the changes in Brazilian foreign policy and its possible economic effects. The last step of this article is dedicated to

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8 The authors make a wide systematization of literature which binds the influence of politics relations on the economic flows, as investments.

9 The reduction of information asymmetries can also facilitate process of merger and acquisition, as it favors articulation between foreign and domestic actors.

expose some of the data supporting the argument.

## Brazilian relations with Angola

After a long period of low intensity relations, interaction with Lusophone Africa countries became more frequent. The creation of the Community of Portuguese Language Countries, in 1996, during the Fernando Henrique Cardoso's government, is an important example of the evolution of the relations (Vigevani, Oliveira, and Cintra 2003). However, circumstances and intensity of the relations between Brazil and African Countries would only change during Luis Inácio Lula da Silva administration. As pointed out by Visentini and Silva (2010), the change in government from Cardoso (1995 - 2002) to Lula (2003 - 2010) represents a new chapter in terms of the importance of developing countries to the Brazilian Foreign Policy.

African countries represent possible strategic alliances to the country's weight and aspirations in multilateral arenas as well opportunities for Brazilian market (Visentini and Silva 2010). These favourable characteristics have been better explored only during Lula's government, to whom many attributes his own personal engagement in approaching Africa as an essential element of the strengthening bonds with these countries (Visentini 2014; Oliveira 2015). During his government, Lula officially visited Angola three times (2003, 2007 and 2010)<sup>10</sup>, signed 45 bilateral agreements with the country<sup>11</sup> and has been an active interlocutor between South America and African Countries (e.g. IBAS and Africa-South America Summit).

According to Barbosa et al. (2009), economy and politics are needed to understand the Brazilian foreign policy in Africa. As reported by the authors, opportunities for Brazilian exports and internationalization of firms influence Brazilian disposition to cooperation in the continent. However, from their point of view, the fact that Brazilian firms are continually going to Africa is not enough to say that Brazil is

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<sup>10</sup> Having chosen to visit the country in its first year of government is indicative of the strategic importance that Angola now has for the government.

<sup>11</sup> The data can be found in the Brazilian Ministry of Foreign Relations database (<http://dai-mre.serpro.gov.br/>)



taking advantage as an emerging power in the area. There is still some regional dependence regarding China and USA in particular that put Brazil in a fragile position to exert geostrategic interests in the region.

A slightly different comprehension about the Brazilian presence in Africa is discussed by White (2010). To the author, the Brazilian approach towards the Continent is relatively successful because it is based in the broad components. Combining (1) economic interests through the internationalization of its firms with (2) visits, strategic partnerships (e.g., IBSA) and (3) cooperation projects, Brazil reached to increase its influence as an emerging power in Africa. However, points the author, its position is still low in comparison to India and China. What differentiates Brazil presence from the Indian and Chinese is the plurality of actors involved and the mix of agencies, firms and governmental actions. More than *de facto* presence, these characteristics improve the Brazilian soft power in the continent, and assure a crescent good image. The consequences of this disposition can be seen in the frequent support from African countries to Brazilian positions in multilateral forums (White 2010).

Among the African countries, Angola has a prominent role in Brazilian foreign policy. In 1975, after emancipation movements, Brazil was the first country to recognize the independence of Angola. According to Lima (2005), the recognition of the first Angolan independent government, during the Brazilian military government, is a landmark of Brazilian autonomous and active diplomacy in Africa (2005, 28). Nonetheless, the relationship only became more intense in the 1990s, with the visit of Fernando Henrique Cardoso to the region and the beginning of trade negotiations between Brazil and the Mercosur with the SADC (Southern African Development Community)<sup>12</sup>. During Cardoso's government, sending military troops to a peace keeping mission in the country is considered by Vigevani et al. as a step towards the resumption of interest to Brazilian companies in the country (Vigevani, Oliveira and Cintra 2003, 55).

Angola has experienced high economic growth rates in the last decade. With an average economic growth of 10 % p.a. between 2001

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<sup>12</sup> Composed by South Africa, Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe.

and 2013<sup>13</sup>, at income per capita Angola reached US\$5.17 million in 2013<sup>14</sup>, owing to these factors the fifth largest African economy has received attention from Brazilian companies. Due to business opportunities in critical areas to the country, such as oil and gas - which accounts for 46 % of its GDP and 96 % of its exports (World Bank, 2013) -, mining, agriculture and infrastructure (Iglesias and Costa 2011) large Brazilian companies had been easily seduced. With these characteristics, Angola has received Brazilian investments in the oil and construction sectors since the late 1970s (Iglesias and Costa 2011)<sup>15</sup>, and has become, in recent years, the main recipient of Brazilian investments in the continent (US\$ 1.3 billion in 2013).

The attractiveness of the Angolan economy to Brazilian companies is also reflected in opportunities for exports. From 2001 to 2014, exports to the African country grew by more than 8 times<sup>16</sup>. For this reason, the country has become the second largest Brazilian trading partner in sub-Saharan Africa (Ministério das Relações Exteriores 2013). The increase in the economic flows also affected Angola's view about Brazil. According to Iglesias and Costa (2011, p.16), Brazil figures among the three most important countries in terms of relevance and influence<sup>17</sup>.

The Brazilian trade model in Angola has as one of its foundations the financing guarantees of the National Bank for Economic and Social Development (BNDES) to finance exports of goods and infrastructure services. According to Vilas-Bôas (2014), Angola is not the only country to receive this type of guarantee, but it is the only country to have a special account for it (the "oil account")<sup>18</sup>. The BNDES financing incentives for exports of goods and in-

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13 The Angolan economy showed a growth rate of around 18% in 2006, 23% in 2007 and 14% in 2008. After the 2008 crisis, which affected oil prices and the inflow of FDI to the country, the growth has decreased. However, regained momentum in 2011 (4%) and in 7% in 2013.

14 Compared to US \$ 7.604 million, which is the average of upper-middle income in developing countries. Source: The World Bank (<http://data.worldbank.org/data-catalog/world-development-indicators>)

15 Petrobras started its operations in the country in 1979. Odebrecht begins its activities in Angola in 1984.

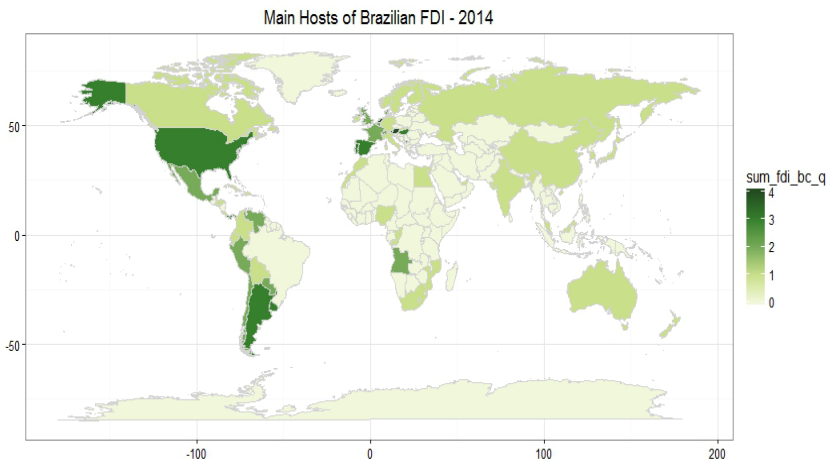
16 Which represent an amount of US\$1,2 bi in 2014 (MDIC – Brazilian Ministry of Development Industry and Trade).

17 Odebrecht is the biggest private employee of the country (Vieitas and Aboim 2012).

18 A especial report about the issue can be seen in Valor Econômico (02/05/2012). Accessed May 20, 2016. [http://www.valor.com.br/brasil/2640008/brasil-quer-replicar-com-outros-pais-](http://www.valor.com.br/brasil/2640008/brasil-quer-replicar-com-outros-pais)

frastructure services in Angola has benefited, at least since 2007, some of the most important companies in the construction sector as Odebrecht, Camargo Correa, Queiroz Galvão and Andrade Gutierrez. While that consolidates the participation of Brazilian companies in the region, as suggested by Vilas-Bôas (2014), it is interesting to note that the main contractors of the engineering companies are governments. Thus, the construction companies in Angola, by reason of the oil account existence, have been directly benefited by the relations between the Angolan government and the Brazilian government.

Figure 2: Map of the distribution of Brazilian Foreign Direct Investments - 2014



Source: the authors. Based on data from Brazilian Central Bank. Light green (no or very low stock of FDI) – Dark green (high volume of capital stock)

## Political determinants of brazilian Investments in developing countries

Foreign investment in general, and the internationalization of companies, in particular, are objects of study in various areas of the humanities and are even the basis of an area of knowledge, the so-called *international business*<sup>19</sup>. Although the international business area has no exclusivity on the issue, the field is common reference for most researchers. It is from the de-

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es-da-africa-modelo-de-comercio-com-angola

<sup>19</sup> The area holds a broad debate on the issues and has researchers of different fields, such as Administration, Economics, Political Science, International Relations, Sociology, Anthropology and Psychology.

bate in the area that the main explanatory theories about the trajectories, strategies, causes and effects of internationalization are formulated.

The most common way of understanding the internationalization of Brazilian companies is considering it as a later step to exports. In situations where certain markets have significant share in company's exports, to open subsidiaries, representative offices and / or technical assistance are natural steps (CNI 2013, 45). Among other explanations often cited as reasons for the internationalization of Brazilian companies are the diversification of strategies and minimization of risks in relation to Brazil's economic cycle (Hirataka and Sarti 2011), access to new technologies (Arbix, Salerno, and Negri 2005), reduction of costs and learning to cope with international competition (Cyrino and Tanure 2009), the improvement in macro and microeconomic domestic environment (Casanova and Kassum 2013) and the incentives and financing schemes of host countries (Caseiro 2013).

As soon as examples of companies internationalization from developing countries began to proliferate, the main explanatory approaches about the determinants of internationalization started to be questioned about their suitability for emerging markets contexts (Cuervo-Cazurra and Ramamurti 2014; Cuervo-Cazurra 2012). Although disseminated, this kind of explanation is subject to controversy. The authors working with the Uppsala model, in which the Brazilian investments abroad are seen as a result of gradual strategies began to be questioned much because of the profile that Brazilian investments took from 2004 on (Arbix and Caseiro 2011; Casanova and Kassum 2013)<sup>20</sup>. In the opinion of Arbix and Caseiro (2012), recent governmental policies to internationalization altered the strategies of Brazilian multinationals. Among the explanations provided by the authors, there is the state support for the creation of large business groups, the national champions. The public support via institutions such as the BNDES intensified the internationalization of Brazilian companies and has been essential to the creation of large and competitive multinationals.

The new approaches emphasize innovative strategies of market entrance (Mathews 2006), the skills developed to deal with institutional environments uncertainties (Guillén and García-Canal 2009), the comparative advantages derived from the country context (Fleury, Fleury, and Borini 2013; Rugman and Verbeke 2004) and adaptation strategies that value specific advantages and at the same time reduce the liabilities of being foreigner (Ra-

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20 For these researchers, the companies first settle in neighboring countries (Latin America) and then proceed to more remote areas (Fleury, Fleury, and Borini 2013; Parente et al. 2013). These explanations are based, as a rule, in the argument that the cultural and geographical proximity reduces the risk of business investments.

mamurti and Singh 2009). Looking at the origin context of emerging multinationals brought to attention the role of institutions in business decisions (Kostova and Zaheer 1999; Kostova 2002), enlarging the political dimensions considered important to the international behaviour of firms. This and other aspects cited have been incorporated to international business studies, albeit it is still very detained to the incentives and relations between companies and bureaucracies in origin and host countries.

The Brazilian literature of international relations has given increasing attention to the role played by Brazilian transnational corporations in the international insertion of Brazil (Jank and Tachinardi 2007; Sennes and Mendes 2009)<sup>21</sup>. On many occasions, partnerships between the Brazilian government and firms succeed to increase the international presence of the country by promoting the expansion of the productive activities of Brazilian companies abroad.

Public incentives for internationalization are often linked to programs of cooperation for international development in regions in which the country seeks to increase its influence<sup>22</sup>. The internationalization of public corporations and national research institutions like Embrapa, Fiocruz, Sabe-sp, among others, seems to be encouraged through incentives generated from technical cooperation projects promoted by the Brazilian Cooperation Agency<sup>23</sup> (Barbosa 2012). In general, these programs seek to replicate the national expertise in projects in the areas of sanitation, agricultural development and housing construction - knowledge which many developing countries can benefit by taking advantage of the experience gained by these companies in Brazil.

In regional integration issues, the internationalization of Brazilian companies is often encouraged by the government in order to strengthen its regional presence from large projects. Private companies in the area of infrastructure, as important Brazilian construction companies - Odebrecht, Camargo Correa, Andrade and Gutierrez and Queiroz Galvão, to name some

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21 Examples in literature (Alem and Cavalcanti 2005; Alves 2011; Campiolo and Pesavento 2013; Carvalho 2012; Iglecias 2011; Menezes 2012; Vasconcellos 2014; Vianna 2010; Caseiro e Masiero 2014).

22 See (Guimarães 2001; Sennes and Mendes 2009)

23 Example is the Pro-Savana program, in which the Brazilian government (through the Brazilian Cooperation Agency in partnership with Embrapa) seeks to develop agricultural production in savannah areas in Africa based on the successful adaptation of the “Cerrado”, a kind of biome found in the Center-West of Brazil (which has similar conditions to African savannas). The potential of this program, in addition to externalities for some African economies, could result in investment opportunities for entrepreneurs of Brazilian agribusiness sector. See: <http://www.cnpmf.embrapa.br/destaques/Mocambique.pdf>

the most known - are important agents in projects related to regional energy integration, infrastructure, logistics and transport (Castro 2012; Couto 2008; Luxemburg 2009; Vasconcellos 2014; Vilas-Bôas 2011). Other domestic companies are part of the group benefited by the Brazilian government in these areas, as are examples Petrobras and Vale do Rio Doce.

Also in strategic areas for the national development as the technology-intensive industry, the Brazilian government's actions have fulfilled an important role in the internationalization of Brazilian companies (Arbix, Salerno, and Negri 2005). Those with a high degree of technological expertise and innovation potential as Embraer, Marcopolo, Weg and Braskem are supported by government institutions<sup>24</sup>. The aim is to obtain access to knowledge and technology, while ensuring the competitive insertion of Brazilian companies in these sectors. The international presence of these companies ensures the Brazilian government participation in strategic global markets in the areas of security and defence, transportation, energy, among others.

As pointed out, Brazil has put forward institutions to promote Brazilian trade and investments overseas, such as the Brazilian Export and Investment Promotion (APEX) and the National Bank for Economic and Social Development (BNDES) that occupy essential roles in support the internationalization of Brazilian companies<sup>25</sup>.

It is in the interest of the business community that the Brazilian government establishes agreements in search of investment opportunities and credible commitments for Brazilian investments abroad, with particular attention to its role in developing and planned economy countries (CNI 2013). From businesses point of view, in addition to the guarantees of ownership and property rights, the advantages created by the Brazilian government presence may represent real market opportunities. Obtaining operational permissions and access to knowledge, technologies and strategic assets can be facilitated to Brazilian companies depending on the kind of presence the Brazilian government has established with the investment host country. In particular, technological development agreements and technical cooperation can promote the activities of Brazilian companies, increasing their competitiveness or mean-

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24 Sometimes BNDES is a shareholder of these companies. Case studies about the trajectories of internationalization of them can be seen in (Parente et al. 2013)

25 The "Report of the Brazilian Investments Abroad 2013" organized by National Industry Confederation (CNI) prescribes some desirable attributes of being adopted by the Brazilian government in order to promote the internationalization of companies. Among the recommendations are: a) the coordination of investment promotion initiatives (economic diplomacy); b) the defense of the interests of Brazilian companies in relation to governments of host countries (especially in developing countries) and c) the negotiation of agreements to promote and protect investments (BITs) in order to mitigate political risks (CNI 2013, 12).

ing privileged business opportunities.

## Brazilian Foreign Policy and Investments in Angola

Understood as political risks for investments, the possibilities for discretionary actions of countries are linked to the characteristics of their political and institutional environment. Such practices and decisions can occur due to the diffuse understanding about the impacts of foreign investment (Jensen and Lindstädt 2013), and they may be related to institutional quality indicators (Buchanan, Le, and Rishi 2012). Political risks, according to Henisz (2000), impact the decision of going abroad and the entrance mode of companies in a country, and “is a function not just of the structure of the institutional environment but also of the characteristics of the investment” (2000, 335). When going to places where institutional uncertainties are high, as in Angola, political connections and international agreements between governments may have an important function in diminishing political risks (Büthe and Milner 2012; Guerin and Manzocchi 2009; Jensen 2008)<sup>26</sup>. Domestic institutions are important for attracting FDI (Jensen 2003) and inconsistencies in attracting investments may occur due to lack of investor guarantees that the governments will not undertake measures that affect them negatively (Büthe and Milner 2012, 35) as are examples the forced nationalization of companies, taxing profit remittances, corruption, among others (Busse and Hefeker 2007; Xu and Shenkar 2002)<sup>27</sup>. In addition, according to Schneider and Frey (1985), the ideological affinity of recipient and origin governments can change variable costs for business, encouraging the flows of investments between the countries as it facilitates the opening of communication channels, promotes cooperation between the parties and reduces information asymmetries.<sup>28</sup>

From the many suggestions in the literature about how the policy choices of countries affect the investment and trade provision of national companies and observing the behaviour of some Brazilian companies in Africa, we argue that this kind of relation is a central part of the internationaliza-

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<sup>26</sup> According to Buthe and Milner (2012), the more democratic a country is, the greater is the effect of preferential agreements and free trade agreements on the level of investments received by the country. Similar explanation is found in the works of Tuman and Emmert (2004), for whom firms seeking to expand market may be attracted to a country when it participates in regional free trade agreements or custom unions.

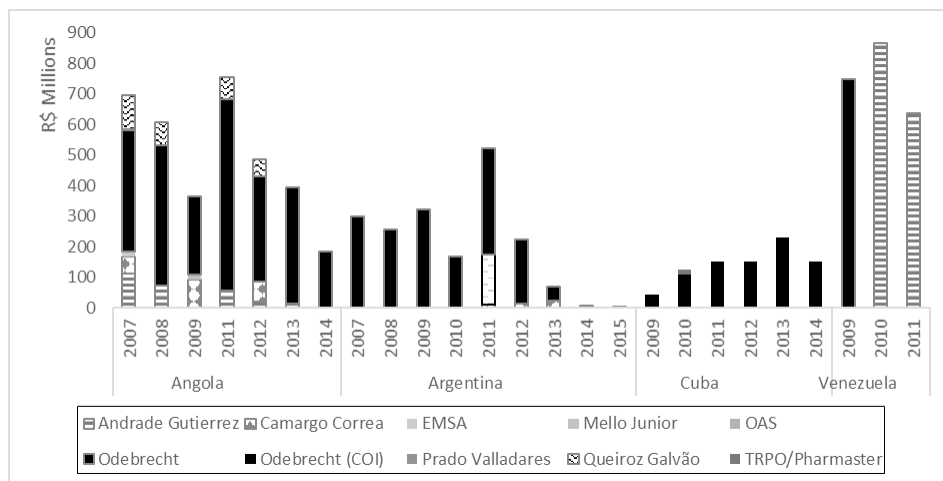
<sup>27</sup> Types of political risks are better detailed by Henisz (2000).

<sup>28</sup> In the Brazilian case, as interpreted by Vigevani and Cepaluni (2007), the “experience of Lula da Silva government suggests a significant weight of ideas, tempered by the constraints of international realities - political, economic and strategic” (p. 276).

tion of Brazilian firms in Angola. A series of descriptive data on investments, trade, cooperation projects and BNDES support to companies operating in Angola corroborates the argument of economic gains encouraged by government incentives and the policy actions taken by the Brazilian foreign policy, the so called South-South cooperation<sup>29</sup>.

According to a survey from Dom Cabral Foundation (2014), 12 of the 100 most transnationalized Brazilian companies operate in Angola. Among them, at least 7 are from the construction sector and are subject to receive special indirect benefits from the Brazilian government. The Development Bank (BNDES) counts with a special line of credit to foreign clients to buy services from Brazilian companies and it has benefited largely some of the most important firms in the construction sector. The BNDES financing data on exports of engineering services and capital goods show that, from 2007 to 2014, Angola was the country that most received the modality. Among the benefited companies, Queiroz Galvão, Andrade Gutierrez, Camargo Correa and, especially, Odebrecht can be listed and are present in the country since the 1980s.

Figure 3: BNDES disbursement by firm, year and country



Source: the authors. Based on data from BNDES (2015).

The list of the top countries that are preferred destinations of BNDES benefits does not reflect the role of political and ideological affinities between

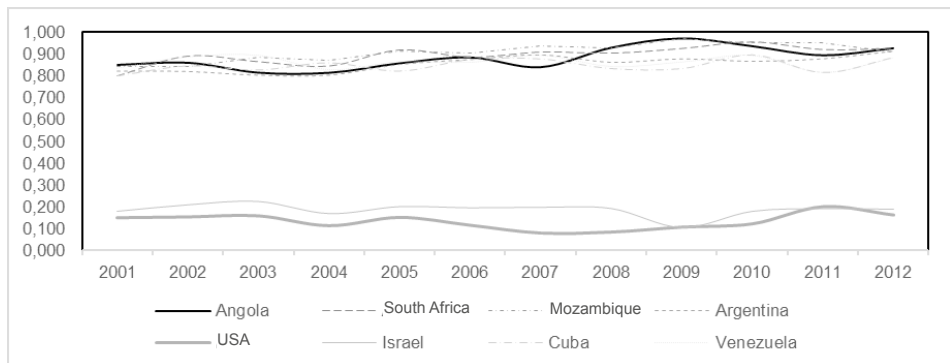
29 The assumption that the BNDES financing are indicative of governmental proximity to the country, exports destination of goods and services is presumed here.



the Brazilian government and partner countries. One way to verify this connection is ascertaining the alignment on international issues of these economies with regard to Brazil. Among the works seeking to find similarities and proximities between countries from the positions taken in international bodies, stands out the voting pattern of the representatives at the United Nations General Assembly (Gartzke 2000; Voeten 2012).

Because of its broad scope, alignment from the votes in the UNGA is often considered a good indicator of affinity between countries<sup>30</sup>. Examples in the Brazilian foreign policy literature are relevant. Amorim Neto (2011) evaluates the relative weight of domestic and systemic political variables in determining the Brazilian foreign policy. Particularly, it is in the interest of the author to demonstrate how the convergence of votes between Brazil and the United States at the United Nations General Assembly is a good indicator of changes in the direction of Brazilian foreign policy over time. Similarly, Malamud (2011) assesses in what extent Brazil is a regional power using the UNGA votes as a proxy to evaluate the adherence of countries in the region to the Brazilian positions. Ramanzini and Ribeiro (Ramanzini and Ribeiro 2013) compare the convergence of Brazil and China to some of their key strategic partners. The authors' findings strengthen the hypothesis that the political alignment between Brazil and China is followed by the increase in trade and investment relations between the countries.

**Figure 4: Votes Convergence in the UNGA (2001 - 2012)**



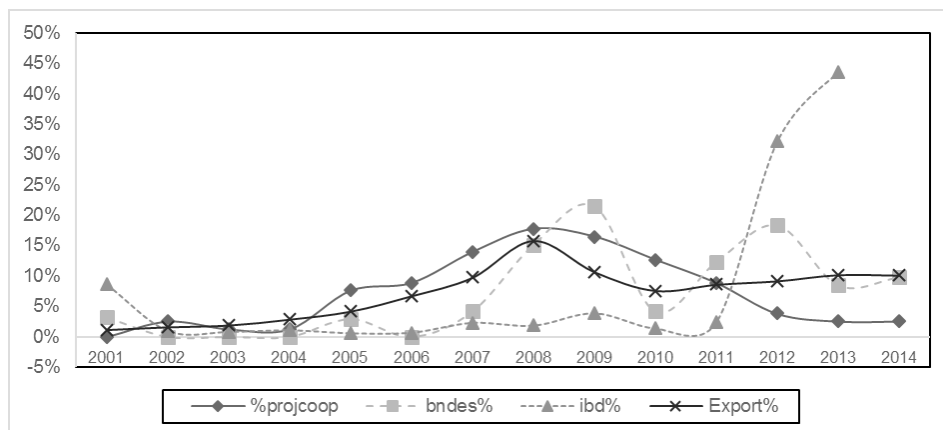
Source: the Authors. Data from Bailey, Strezhnev and Voeten (2015).

As we can see in the figure above, Angola had a high alignment with Brazil in relation to the pattern of votes in the UNGA between the years of

<sup>30</sup> These data was summarized and made available to the public by Erik Voeten, and they are available on the Harvard Dataverse Network (<https://thedata.harvard.edu/dvn/>).

2001 and 2012. This alignment is similar to that of other countries that are also common destinations of BNDES export incentives, namely, Argentina, Cuba and Venezuela. Analysing more precisely the variation of the convergence in the UNGA between Angola and Brazil, it is possible to see that in the period between 2006 and 2010 the alignment reached its peak. Coincidentally, this was also the period of growth of [1] the number of cooperation projects between Brazil and Angola, [2] the volume of disbursement from BNDES which benefited Brazilian companies and [3] the volume of Brazilian exports to the country. Also, it comprises the period in which Lula da Silva made three official visits to the country (2003, 2007 and 2010).

**Figure 5: Number of Cooperation projects, BNDES disbursement, Brazilian FDI and Exports to Angola (2001 - 2014)**



Source: the authors. Used data from Aid Data 3.0, BNDES, Brazilian Central Bank and Brazilian Ministry of Development, Industry and Trade (MDIC).

Preliminary statistical tests suggest a positive relationship between the variables- a relation that is even greater when considering the investment and trade variables lagged. The results were not brought here by the absence of more robust data able to allow any suggestions of causality. However, a simple correlation test points out the values of 0.67 between cooperation (projcoop) and votes in the United Nations General Assembly (UNGA), 0.87 between exports and cooperation and 0.80 between the votes in the UNGA and the financing of exports provided by BNDES. Although we are avoiding to presenting more elaborate theories about the effects of Brazilian cooperation over the flow of Brazilian investments in Angola, it is plausible to argue that the Brazilian economic activity in Angola, partly captured by the FDI and by the exports is related to major political events involving both countries. In the

case of exports, there is a clear relation between the increase of the Brazilian foreign policy activities (official visits, UNGA votes and cooperation projects) and the increase in exports.

Although this relationship is not clear in the case of the investments, it is reasonable to interpret that the Brazilian companies in Angola benefit from the actions of Brazilian foreign policy, especially large groups of engineering. If we consider the exports of services as a signal of direct activity of firms in Angola, it is clear that the stimulus provided by the BNDES works as a fundamental mechanism of connection between the Brazilian government and the host client, which is in this case mainly the Angolan government. The firms, the final beneficiaries of this relationship, by its chance, strengthen the Brazilian presence in the country. The causality is not clear, but these evidences may show us that there is a complementarity between governmental and private interests behind the Brazil and Angola bilateral relations in the last years.

## Final Remarks

When dealing with Brazilian investments in Africa, Souza (2012) suggests that the Brazilian development cooperation has contributed to financing the exports of goods and services, especially through incentives promoted by the BNDES. The evidences here presented meet with the author's view and point out that between 2001 and 2014, Brazilian companies have benefited not only from cooperation for development, but also from a broader political relation between the governments. The behavior of Angola and Brazil in the United Nations General Assembly, the number of cooperation projects signed between the countries, presidential visits, and public incentives as the BNDES credit line for exports, corroborates the argument that the economic benefits of Brazilian companies are associated to international political alignment of the countries.

The quest for autonomy as a primary objective of the orientation of Brazilian foreign policy - in which policies are oriented around the South-South cooperation as opposed to the hegemonic parameter of North-South cooperation - can induce external behavior of Brazilian companies. The intertwining between foreign policy and internationalization strategies of Brazilian companies can be seen as an important drive for the operation of Brazilian firms in developing countries, and in particular in Angola.

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## **ABSTRACT**

The literature has given increasing attention to the role played by Brazilian transnational companies in its international insertion. In this context, special attention has been given to Brazilian private activities in Africa and, in particular, in Angola. Some countries in Sub-Saharan Africa are understood as potential markets for investments, especially given the similarities of the challenges for development and expertise of some of the Brazilian firms in sectors as agriculture, mining and civil construction. The objective of this paper is to try to capture possible relations between Brazil-Angola bilateral relations over the international operations of Brazilian firms. Our argument is that the business environment to investments has been favoured by a simultaneous international political alignment, as a consequence of the changes in the Brazilian foreign policy orientation.

## **KEYWORDS**

Brazil; Angola; International Political Alignment; Foreign Direct Investments; South-South Cooperation.

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# TRANSNATIONALISM AND PARADIPLOMACY IN THE ECONOMIC RELATIONS BETWEEN BRAZIL AND ANGOLA: THE CONSTRUCTION OF THE CAPANDA HYDROPOWER PLANT BY THE CONSTRUTORA ODEBRECHT

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## Introduction

The diplomatic relations between Brazil and Angola can be traced from the independence of Angola in 1975 upon the pragmatic involvement of the Foreign Ministry, despite the internal pressures for bringing the country closer to the Popular Movement for the Liberation of Angola that was being supported by the USSR and Cuba.<sup>3</sup> In 2010 (Brasil 2010) the relationship changed from a pragmatic approach as started in 1975 to a strategic partnership that consolidated the need for a South-South approach in the diplomacy to strengthen the autonomy through diversification of partners. Thus, the relations between Brazil and Angola are a rich empirical field that goes beyond the rational actor model to an understanding of the diverse and complex nature of the Global South and the participation of the new transnational actors in this scenario.

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3 See Silva 2008.

The reconstruction of Angola after its independence from Portugal and later with the end of the civil war in the 1990s depended on, and still depends on, largely on the foreign investments. Therefore, the country has offered incentives for investments whose utility aroused interests of Brazil, China and the former Soviet Union despite the risks presented naturally in a country with low political and institutional stability during the process of decolonization. This movement had Brazilian companies as important actors investing in the country upon receiving credit lines and incentives specially granted for this purpose.

The stance adopted by Brazil in relation to its diplomatic objectives and the form of the rapprochement with Angola raises questions that guide the development of this work, namely: what is the reason that led Brazil to adopt an indirect influence exercise stance on Angola despite its explicit claim made by its foreign policy of the need to increase the South-South relations? How was the participation of Brazilian companies in this process and what were the implications of participation in the politics and in Angolan society?

The incentive for Brazilian participation in the process of reconstruction of Angola found an echo in the new orientation of Brazilian foreign policy that sought to identify new partners in the Global South with a view to modify the balance existing in the relationship with the North by the application of the principle of autonomy through diversification. Thus, the initial conditions were generated by the international system that in the early 1970 was tested with a growing number of decolonization processes in Africa, the oil crisis and the great dissatisfaction of the developing countries on how were treated by the developed North.

Considering this, the first initiatives of approach took place, having as one of its landmarks the construction of the hydroelectric of Capanda by Construtora Odebrecht (Odebrecht), which had already started its internationalization process by investing in the construction of a plant to provide power and irrigation in Olmos, Peru. The involvement of the Odebrecht in Angola followed an intermediate model to the Chinese model that is heavily dependent on the state and based on sending labor, and the Indian model that is fully driven by the private sector (Leite 2011). Brazil had to encourage and fund companies to participate in the country's reconstruction efforts and at the same time led its foreign policy towards new partners to build new foundations for cooperation.

Upon these initial considerations, the paper develops an analysis by considering two analytical dimensions: theoretical and empirical.

The theoretical dimension is a framework that accounts for transnationalism and paradiplomacy. The hypothesis in this paper is based on the as-

sumption that the participation of Odebrecht in rebuilding the infrastructure in Angola constitutes the practice of corporate paradiplomacy that promotes the transfer of economic, social and cultural capital to the recipient country, turning the company into an important transnational agent with direct political and social influence over national and local society. In this sense, the concept of transnationalism is associated with the activities of non-state actors on the international stage who are able to influence the policy-making process in the recipient states both politically and economically.

The rise of Transnational Corporations (TNCs) as important political actors in international relations is widely recognized by academics and policy makers due to their growing influence on transnational and local affairs. According to Stopford (1994, 274), one of the issues that this influence raises is connected to the competing interests represented by these corporations: “[...] if firms fail to rise to the challenge of acting more as diplomats and continue to act on the basis of short-run perceptions of shareholder requirements, they may provoke policy responses that are the opposite of longer-run shareholder interests.”.

In spite of that, the author argues that instead of waiting for governments to enact new rules for their participation in the economic and political processes in both domestic and international spheres, TNCs should intervene and actively provoke policy responses by means of a triangular diplomacy strategy that will develop a greater degree of partnership between the TNCs and the states in pursuing wealth generation (Stopford 1994).

Stopford (1994) presents empirical evidence that points to the fact that TNCs have been acting in such a way since the 1970s. The author uses the case of General Motors in Brazil, in which the company policies required the establishment of a partnership with local suppliers and workers to set up the business, requiring that hundreds of the company’s engineers spend long periods in Brazil to make sure local labor force and suppliers met the standards of the company in the U.S. Has this model been followed by the Brazilian TNCs during the internationalization process? In order to approach this question, I will firstly consider the case of the construction of the Capanda Hydroelectric Plant in Angola by Odebrecht.

The international expansion of Odebrecht began in the 1980s after the signing of a contract with Angola agreeing to provide engineering services to build Capanda.

The reconstruction process, the timing of the Brazilian TNCs internationalization, and the new Brazilian diplomatic approach successfully worked well together in the 1980s, as national and international variables combined. Therefore, the first steps towards the reconstruction of Angola and the con-

solidation of the Brazilian diplomatic strategy to diversify partners have an important link to the construction of Capanda by Odebrecht due to the related facts discussed below. The Brazilian government not only provided political support, but funded the company through a special line of credit to participate in the efforts to rebuild the destroyed infrastructure, as well as the infrastructure necessary for development, thus acting as a facilitator with private interests in expanding business to new markets while building the foundations for cooperation in the Global South. This specific case presents a paradigm that shows companies identifying opportunities and launching into new international markets backed up by states, which consequently initiate state-state relations (Coviello and Munro 1995).

The empirical dimension constitutes a survey and analysis of direct and indirect sources that account for the construction of Capanda and associated initiatives implemented by Odebrecht in connection with the project, as well as its implications on Angolan society. The underlying strategy for this methodology is conducting a micro-analysis in which the case's relevant context, facts, and patterns are examined to find the minimal conditions necessary and evidence to support our theoretical claim and the implications for a future research agenda.

Despite the difficulties that this research can present in terms of the difficult access or one-sidedness of the sources and the treatment of the data discovered within the theoretical framework, we expect to find the presence of the minimally sufficient conditions to confirm the feasibility of the theory presented in this study. Furthermore, the work will identify the additional implications of the presence of the CO in Angola, however, due to space constraints will not be explored here but will certainly contribute to an expansion and / or deepening of the research agendas that focus on this topic or related issues.

## **The construction of the Capanda Hydroelectric Power Plant by Odebrecht**

The development of our analysis starts with the background conditions in relation to both the internal political turmoil in Angola and the economic external pressures that made it possible to accommodate public and private interests. Internally, the decolonization process left the country with an urgent need for structural and institutional reconstruction to provide basic public goods and services to the population. The international pressures generated by the Cold War upon marginalized countries, and severe economic

pressures arising from the oil crisis in the 1970's initiated a revisionist process in North-South relations.

### Angola's internal context and international pressures

The fight for independence lasted years; however, formal independence did not bring peace to the country, as the three national revolutionary groups that fought against Portugal began fighting each other for control of government institutions (Visentini 2012). The influence of the Cold War began to be felt within the country's borders. The former USSR and Cuba supported the MPLA. South Africa supported UNITA. Zaire supported the FNLA, which also received the support from Chinese, Portuguese and British mercenaries, and South Africa. The United States initially supported the FNLA but soon started to help UNITA as well, thus, keeping a division strategy in Angola (Whitaker 1970).

The civil war lasted until 2002, in which period several attempts to promote peace were made with special emphasis on the Lusaka Agreement of 1994 (Embaixada da República de Angola em Portugal 1994).

Externally, structural changes in the international system due to decolonization processes (especially in Africa) and the oil crisis in the 1970s had strong impacts on the South. Countries became aware of their vulnerability to the effects of such structural changes, as well as their restricted or complete lack of influence over the centers of power in the North, thus having little or no influence over the world forum and agenda setting before multilateral organizations. Thus, these countries began to act according to the rules of the game, basing their behavior on 1) the decline of the American relative power, 2) the search for support by institutions that could catalyze their interests and 3) the establishment of an ideological coherence between countries in the South, given the sharing of experiences in North-South relations (Krasner 1983).

In this matter, Brazilian diplomacy adopted an approach of building strategic partnerships with developing countries based on speculative and pragmatic factors. While working on furthering its own interests, Brazil sought to identify a new international dynamic that would consider the shared historical process in their relationship with the North and also included a range of views, perceptions and ideas.

Stuenkel (2014) presents a record of Brazil's position in relation to Angola after the Second World War, which was initially marked by the indifference of the elite in minimizing the role of blacks in the formation of



national identity, coming to the point that Juscelino Kubitschek declined to provide support for independence movements. Quadros took the first steps towards forming diplomatic ties in naming the black journalist Raymundo de Souza Dantas to head the Brazilian Embassy in Accra and welcoming the embassies of Ghana and Senegal (the first African embassies in Latin America). General Castelo Branco viewed Africa as a continent of little importance to his policy, only monitoring the context of the “communist threat.”

In the 1970s the scenario changed and relations between Brazil and other countries intensified. According to Borges Filho (1985), the recognition of the independence by president Geisel was based on the premises of a *pragmatic and responsible* foreign policy towards such new international behavior, as he recognized that the MPLA was the only Angolan party with popular representation and support. However, this seems to present an ambiguity in terms of ideology, which is explained by former Ambassador Paulo de Tarso Flecha de Lima: “it was a right-wing government and was a left-wing policy to strongly promote the interests of more conservative segments of society” (Borges Filho 1985, 12). Along these lines, according to Cunha (2002), what draws attention to the recognition of independence conveys more than the political act itself:

Part of the strategy to place Brazil as a bridge between the interests of the first and the third world. (...) On the one hand, it guaranteed Brazil a privileged foothold in Angola and the opening of new fronts in Africa, particularly in Portuguese-speaking countries. On the other, the role of “Western interlocutor” by the MPLA.

The relations with Africa again became cold under the government of Collor who returned to the United States (in the 1980s trade with Africa accounted for 10% of the Brazil’s foreign trade, which was reduced to 2% under Collor). Under Lula, the relationship Brazilian-African gained unprecedented momentum, with 12 trips to the continent in his first term, the opening of 34 embassies on the continent, and the influx of Brazilian investments in Angola after its independence in 1975 increased to US\$ 18 million by 2002, and to US\$ 1 billion by 2012 (Badin and Morosini 2014).

With approaches ranging between idealism and realism in the conduct of foreign policy, Lula stepped up the approach towards Angolan-Brazilian cooperation with a speech extolling the shared culture and language between the two countries, as well as the historical debt to the continent whilst seeking change relationship bases with the North (Vigevani and Cepaluni

2011).<sup>4</sup>

It is in this context of a combination of internal and external conditions that the Capanda project was initiated, being one of the first infrastructure works in post-independence, the greatest work of construction of this kind on the continent and the most important for the Odebrecht that, encouraged by the Brazilian government began its internationalization process.

The Capanda construction is considered the most important infrastructure project in the post-independence era, being the largest construction work of this kind in the African continent. It began in the mid of the 1980s and its construction involves important empirical elements that demonstrates the presence of idealistic and realist approaches in practical Brazilian foreign policy and an important step towards the consolidation of the internationalization process of the Odebrecht.

### **Building Capanda: a model**

In a reference to the Angola Energy Resources Survey 1980, the environmental impact report for the construction of Laúca dam commissioned by the Middle Kwanza Exploitation Office (GAMEK) pointed out the hydroelectric potential of the Kwanza River:

[...] the most notable of which, in terms of hydroelectric generating potential, was the Kwanza River, a finding that served to confirm the SONEFE studies. Based on the results obtained, a decision was taken within the scope of Angola's infrastructure restructuring process to invest in the hydroelectric potential of the Middle Kwanza River Basin through construction of the Capanda Dam, which entered into operation in 2004 with an installed capacity of 520 MW.<sup>5</sup>

Angola recognized this project's importance to the country, especially for the city of Luanda and the surrounding region. However, in terms of resources, the new Angolan government was fully involved with the war. For this reason, until then the government had considered modernizing the Cambambe dam complex to expand its production, rather than start a new project from scratch in an inhospitable area with no minimal infrastructure and with limited funding from the former Soviet Union to supply equipment only.

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4 Regarding the historical evolution of the Brazilian position towards Africa see Penna Filho and Lessa 2007; Pinheiro 2007; Stuenkel 2014.

5 Accessed May 21, 2015. <http://www.oekb.at/de/osn/DownloadCenter/projekt-und-umweltnalysen/U807-Final-Report-May-2013.pdf>

On the other hand, in the late 1970s and early 1980s Petrobras (the Brazilian oil company owned by the government), suffering with international financial crises and oil producer boycotts, entered into Angolan oil exploration contracts. (Toscano 2004; Fletcher 1996). By helping Odebrecht participate in the bidding of Capanda and in the construction process, Petrobras could increase the oil volume purchased by the Brazilian government, thus benefitting Brazil. Hence the solution to the problem may appear to have been the result of both corporate-private and corporate-state strategy.

The obstacles for Angola, Brazil, and Odebrecht were overcome according to the document *The Future in Construction*<sup>6</sup> in the following way:

Marc Altit, who acted as director of business development in the international area of Odebrecht, **has structured an innovative contract with many variables and a guarantee mechanism: the oil produced by Angola.** The idea was presented to the Brazilian government, which although resisted the novelty, had welcomed the prospect of having a reliable source of oil at a stage when international prices were high and there was great contention for the product. Thus, it was that in early 1982, the Brazilian financing transaction was authorized (p.84 - Emphasis added).

It is not the intention of this work to present a complete picture of the grandeur of the Capanda works nor even present to the reader with highly technical and complex information about energy generation.<sup>7</sup> It is sufficing to say that when it became operational in 2004 the plant began to produce 520 MW, enough to supply electricity to the cities of Malanje and Luanda with 734,000 and 2,449,000 inhabitants respectively (Angolan Statistical Institute), which according to African Dams Briefing 2010:

Capanda Dam **is the largest ever civil construction project in Angola** and provides power to the cities of Malange and Luanda. An estimated \$4 billion has been invested in the project. It was started in 1986 with a state investment of \$750 million **paid in oil supplies to foreign companies** (International Rivers 2010 - Emphasis added).

The deal planned was formally concluded in 1984 between the Ango-

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6 A document published in 2009 by Odebrecht for occasion of the celebration of the 25th anniversary of the signing of the contract for the construction of Capanda. Although it is an advertising piece and provided a one-sided view of the process, the document brings interesting aspects that are not found in other materials and its comparison with other documents analyzed do not show incompatibility or bias that disqualifies as empirical evidence. Available at the Library of the Law School of São Paulo-FGV.

7 For a technical analysis of the construction we suggest: Fedosov 2000.

lan Government and a consortium formed by Odebrecht and Technopromexport for the construction of the Capanda dam in Malanje province. The contract stated the initial cost estimated at US\$ 650 million - the largest involving the participation of a Brazilian company overseas – to provide engineering services that would be partially paid by Angola using oil (10,000 barrels/day). Technopromexport was responsible to the supply and install the necessary equipment for operation (Santana 2003, 22).

It is important to note that this was not the first contract between the two companies, as both companies had already participated in a joint project of irrigation and power generation in Olmos, Peru in 1979. Therefore, when the Angolan government decided to launch the construction bidding process, Technopromexport executives suggested to Odebrecht executives thus: “Why not Capanda in Angola?” (*The Future in Construction*, p.83 and Zebinden, Oli-va and Gaspar 2007).

According to Fragoso (1984) and Calcagnoto (1985), it was exactly during the second half of the 1970s that progressive emphasis took place in relation to the export of Brazilian technology and service sales operations - specifically in the areas of civil engineering, connected to business enterprise, such as the construction of industrial plants and infrastructure projects involving the construction of roads, railways and hydropower.

Cooperation agreements and exploration contracts that can be seen as the result of the adoption of the strategy mentioned by Minister Antonio F. Azeredo da Silveira in that 1976 secret memorandum:

What impressed me most after hearing those evaluations was that the price factor per barrel of oil is today a less determinant element than it was a few years ago. I believe, therefore, that while it is indispensable to endeavor to obtain the lowest possible price, it is even more important that, in the final analysis, the net balance for Brazilian trade should be the least negative possible. **For this reason, it seems to me essential that oil purchases always be made in parallel with the sale of Brazilian products to the suppliers of that fuel** (Wilson Center 1976 - Emphasis added).

In the same memorandum as mentioned before for President Geisel, Antonio F. Azeredo da Silveira, after a meeting regarding the main aims of Brazilian International Petroleum Policy with several Petrobras directors, Scholl Isnard, Carlos Sant’Anna and Plínio Junqueira, he wrote:

Dr. Isnard, in particular, made a thorough investigation of the principles that guide the oil purchase policy followed by our State Company. He stressed the dominant concern with the assurance of supply, which has in-

spired origin diversification initiatives and categories of suppliers that have been adopted lately. He gave the recent purchases of Nigerian, Mexican and Algerian oil, as examples. As a counterbalance to the effects of the cost increases generated by this question, Director Isnard stressed that PETROBRÁS has been increasingly interested in pursuing trade opportunities that may bring a better balance for global Brazilian purchases (Wilson Center 1976).

Following this strategy in the case of Iraq, Interbrás (a subsidiary of Petrobras created in 1976) emerged as an arms-length trading of BRASPETRO. The official justification for the creation of this entity was to leverage Petrobras' purchasing power to promote a state-incentive policy regarding the export of Brazilian enterprises' goods and services.

During the Brazilian currency crisis, Interbrás signed, with the intermediation of Petrobras, a barter agreement with Iraq in which Brazil exported manufactured goods and received payment in oil. To that end, a symbolic exchange contract was put in place to feed the Brazilian Central Bank's datasets. In this operation, the negotiated structure involved consisted of: a) The construction services rendered by Mendes Junior; b) Banco do Brasil granting credit to enable the exportation of services; c) The payment was to be made by the Iraqi government part in cash and part in oil barrels; d) The transfer of the credits regarding the oil barrels to Interbrás/BRASPETRO by Mendes Junior; and e) The payment to Mendes Junior.

This case is a form of counterpurchase that in the words of Mensah (1989, 14) is:

A scheme whereby an exporting country sells to a foreign trade organization and contractually agrees to make reciprocal purchases from that organization, or from another commercial agency in the same country, within a specified period of time (often of a short-term duration). It operates through the use of two separate contracts which may be linked by a Protocol.

In order to be compatible with the expectations of a countertrade operation, a network of contracts had to be in place between Angola and the consortium to facilitate the operation (De la Rosa 2011, 27; Fletcher 1996).

The contract network was set up as follows: a) in September 1982 an umbrella contract was signed between the Government of Angola and Consortium Capanda, b) in December 1983 the Credit Agreement between Angola and Banco do Brasil was set up, c) in November 1984 an amendment was made to the Master Contract and General Conditions of Contract, and d)

in the same month in which they enter into the Consultancy and Technical Assistance Agreements between GAMEK and FURNAS (Revista Furnas, year XXXI, n° 322, July 2005 and Decreto Presidencial 26/84, published at the Diário da República, series I, No 263 of December 1<sup>st</sup>, 1984 -attached at the end of this work). Furthermore, there was the need to set up an internal contractual network to secure the intervention of the Banco do Brasil to provide credit advancing and flow in order to start the project, which made it necessary to create a line of credit that, according to some analysts, absorbed US \$ 1.5 billion (Pinheiro 1987).

Upon completion of this contractual network, the challenge was the construction and delivering promises made. The construction plans started in 1985 with Odebrecht taking measures regarding the safety of workers and equipment, as well as making plans to gain access to the construction site that was located in a region where armed conflicts were still in place. The building works at the site initiated in 1987 (Francisco 2004).

Although the project foresaw starting power generation in December 1993, the UNITA attacks at the end of 1992 led to the disruption of activities and the evacuation of the construction site (Francisco 2004). From 1992 to 1994 the construction site was under the control of UNITA, causing severe damages to the previously constructed structure, which continued to deteriorate even after UNITA left the site in 1994 as it was then occupied by the population living in the region and by the Angolan military army (Francisco 2004). During successive periods of occupation, the structure did not receive any maintenance that could preserve it for a period of approximately five years, which meant losing a significant portion of the initial investment (Francisco 2004).

In May 1997, the parties resumed a series of technical visits and inspections with the aim of establishing an infrastructure recovery plan that was set in motion in 1998. The construction site was attacked in 1999 and the work halted once again until January 2000. However, this time, contrary to what had occurred previously, the site was under the control of the Angolan army. This prevented attacks further damaging construction that had been made up to that point. The work resumed in January 2000 (Francisco 2004).

Nevertheless, in addition to the fact that the country had been plunged into civil war, and that the works were taking place in an inhospitable region without infrastructure 450 km from Luanda, there was still the problem of the lack of skilled workers. The strategy of Odebrecht to overcome this challenge was crucial for business continuity in the country.

The company adopted an approach that favored the gradual replacement of Brazilian employees initially sent on a large scale, by local workers

trained throughout the construction phases with the help of special programs. In the first year of the construction of Capanda, there were 1,100 Brazilians and 300 Angolans. In 1992 at the work's zenith, out of 4,200 employees, 530 were Brazilian. In its 2013 activity report CO reports that Angola makes up its third largest workforce (9,169 employees), behind Brazil (127,166) and Peru (10,541), thus being one of the largest private employers in the country.

Much time has passed by since the beginning of the project and so many dramatic events occurred during its execution that its completion was no longer seen as a technical challenge or even merely the performance of a contractual obligation. Those involved in the project came to see it more as a demonstration of victory than the carrying out of a duty. The finished project was delivered to the Angolan government in 2002 at an estimated total cost of US\$ 4 billion, of which US\$ 400 million resulted from damages caused by the civil war (Francisco 2004). Therefore, the case is representative in the way that Odebrecht adopted a contingency approach, meaning that the company transformed the needs of the states (Brazil needed oil and Angola needed infrastructure but had no money) into a window of opportunity, so these factors determine a model for entering into a new foreign market, and keeping the business by building thrust (Turnbull 1987; Okoroafo 2001).

It is important to emphasize that in addition to the direct economic benefits generated by Capanda, Odebrecht received an additional benefit: the knowledge of creating and operating a subsidiary abroad enabled it to become specialized in international business brokerage, as had occurred with Petrobras by virtue of its international operations with BRASPETRO. Odebrecht also made use of its accumulated experience in coping with complex situations during the construction planning and execution abroad, enabling it to become a market broker (*empresariadora de mercados*) (Wosiak and Nique 2007), thereby diversifying its operations beyond participation in tenders of infrastructure construction. With this knowledge of the international engineering and construction services market, the company is now able to provide diverse planning and development projects and expand and consolidate relationship networks between subcontractors and service suppliers (Wosiak and Nique 2007). This is what Wosiak and Nique (2007, 36) called “delegated entrepreneurship”, as described in their words:

Odebrecht not only generates income for the country, but also provides conditions for small and medium enterprises to also conquer opportunities in the international business arena. Of the approximately 1,700 exporters partner suppliers, about 1,550 are small and medium-sized companies that would not export alone and whose exports of goods and services brought approximately US \$ 2 billion to Brazil between 2000 and 2005, Thanks

to Odebrecht contracts, these companies export food, steel products, light and heavy equipment, clothing, electrical materials, tools, engineering and environmental studies, and other technology-intensive products.

However, that could easily qualify as “intermediation” that, according to the document entitled “Odebrecht Entrepreneurial Technology” (TEO), which provides the ethical, moral and conceptual blueprint for members of the Organization’s actions. The potential of human beings is valued, such as the willingness to serve, the capacity and desire to evolve and the will to overcome results. The document also provides for a planned delegation process, based on trust and partnership between leaders and subordinates.

According to Roberto Dias, director of institutional relations of the Odebrecht Group:

Our team also has the advantage of bringing on board several Brazilian companies to develop our work. They consist of design firms, suppliers of building materials, equipment, vehicles, and even suppliers of supermarket items. **Thus, they not only represent Brazil abroad but also further the country’s own interests and, as it turns out, that of Brazilian business itself** (Engenharia v. 580, 2007, 75- emphasis added).

In addition to the condition assumed by Odebrecht as an intermediate, which for us presents the elements of corporate paradiplomacy, the company also started to interject in the cultural arena in recognizing and promoting cultural bonds between the two countries and people.

According to Cunha (2002), the company has adopted a clear strategy. The company has sponsored some Angolan-focused initiatives, such as the African music group Ile Aiye Bahia’s CD record, as well as the Angola Week event held in Salvador (State of Bahia), and has promoted television debates between Brazilian personalities and Angolan authorities, in which Angola took every opportunity to demonstrate that it was there “to stay”. In an interview with Francisco (2004), a director of the Brazilian company, he mentions that one of the strategies to convince the representatives of the Angolan government of the existing cultural proximity between the Brazilian company and the African country was to present it as a “baiana” company and use Bahia as a synecdoche for Brazil. To achieve this, numerous events were conducted to highlight the cultural links between Bahia and Angola (Francisco 2004).

An example of this partnership is the Casa de Angola, a cultural center that “aims to consolidate the cultural ties between Brazil and Angola, enabling the Bahian community access to Angolan culture in particular and



to Africa in general,” created by Angolan Embassy’s initiative in Brazil, with support from the Government of the State of Bahia, Municipality of Salvador, and Odebrecht (there is no evidence at this point of the volume invested to set up or to sustain the activities).

In this context, this paper expands the analysis of the business strategies adopted by Odebrecht vis-a-vis the theoretical framework comprised of transnational theory and the practice of corporate paradiplomacy. The next section aims to present an analysis showing how and to what extent Odebrecht began to influence the formation of public policies on both sides of the Atlantic.

## **Transnacionalism and Paradiplomacy in the actions of Odebrecht**

Nowadays globalization is undoubtedly a phenomenon with normative pressure and a decisive policy presence in international relations, putting pressure on States to become minimalist, increasingly deregulating the market and embracing free trade to focus exclusively on the functions of state, while civil society takes on more control over operations and other actors emerge with importance in political, institutional and legal dimensions (Dupas 2005; Matthews 1997). In recent decades, we have increasingly seen the development of some positive aspects in terms of policy that may translate into a greater number of elected governments, which in turn start to adopt policies related to economic liberalization, law’s empire and respect for human rights.

Paradoxically, these achievements have the power to weaken the state while strengthening the participation of civil society in the course of world politics, bringing new and powerful players who come to compete with the state on some fronts given their influence or economic power, thereby marking a profound change in local and global economies, defying the basic understanding of the world order to expand the forms of regulation and governance. Thus, the heavy investments in infrastructure are made by the international investment funds, foreign companies or the establishment of public-private partnerships; the minimum realization of the human rights or environmental protection depends on the direct and decisive participation of the non-governmental organizations (NGOs); and the rating agencies have a significant impact on how countries conduct economic policies, constitutes a direct link between how successful states are in implementing their public policies and the performance of the non-state actors in maintaining opera-

tions around the world, thereby, generating a new dynamic policy and reality in the relations between these units.<sup>8</sup>

The communication improvements that technology has brought the world has had great influence upon this process, with information being quickly disseminated and shared, especially among countries' elites (in this sense not only the rich, but interest groups), Whether developed or developing, such elites possess shared values and identities. Thus, the proliferation of non-governmental organizations with various agendas has spread to such an extent that they are now increasingly responsible and more effective in providing, for example, humanitarian aid, than the United Nations itself (Mathews 1997).

TNCs embarked on this process at the end of the Cold War, which encouraged increased economic exchanges among nations, with private investment increasing six fold in relation to the international aid system led by World Bank and IMF (Garten 2002, 156). TNCs also greatly benefitted from increased communications speed, taking into account that in business agility is critical. For them, operations can take seconds whilst for states and their bureaucratic structures, they can be counted in days, at best, taking into account that have the capability of response (Mathews 1997).

Conceptually, a TNC is

[...] an enterprise comprising entities in more than one country which operate under a system of decision-making that permits coherent policies and a common strategy. The entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the others and, in particular, to share knowledge, resources and responsibilities with the others. (UNCTAD 2015).

Regarding the expansion of the TNCs in the world, Sauvant, Mendoza and Ince (2008, 7) point out to 3 main factors that made it possible:

[...] the worldwide liberalization of FDI regimes, which opens new opportunities for firms to expand; advances in transport, communication and information technologies, which create opportunities to manage integrated international production networks consisting of parent firms and their foreign affiliates located in various countries; and competition among firms, which drives firms to take advantage of these new opportunities and possibilities.

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<sup>8</sup> According Cohen and Kupçu (2005, 8), the relationship between states and non-state actors have the direct engagement dimensions, selective engagement or episodic burden sharing, non-state actors circumventing States, conflictual relations, and agenda setting.

The expansion to new markets requires from TNCs a set of competences such as the development of new relationships, which is incremental over the years as it follows the “learning by doing” model, and maintaining the knowledge acquired (Górska 2013; Fleury and Fleury 2011).

The expansion, however, is not without obstacles and criticism. The most important obstacle is the risk of direct investment commitment in unfamiliar surroundings, which is a transactional cost (Wink Junior; Sheng and Eid Junior 2011). As a way of dealing with this risk, the Uppsala School maintains that TNCs seek to start its internationalization process in culturally close foreign countries. The case of Odebrecht in Angola seems to confirm this assumption.

Its supporters depart from liberal doctrines used in the economy to justify trade liberalization and free competition as factors that will benefit emerging markets, which traditionally receive the greatest influx of FDIs. Sauvart (2009, 10) even claims that “[...] they need to see the rise of TNC’s from emerging markets not as a threat but an additional avenue of opportunity to integrate emerging markets fully into the world economy.” On the other hand, some claim that the TNCs are:

[...] instruments of a market tyranny that is extending its reach across the planet like a cancer, colonizing ever more of the planet’s living spaces, destroying livelihoods, displacing people, rendering democratic institutions impotent, and feeding on life in an insatiable quest for money’ The worst aspect of this tyranny is that it hits hardest at the most vulnerable people, the poor (Sauvart 2009, 10).

By looking at Capanda in light of increasingly intense movements of TNCs in the world and the fact that the State still remains the most important catalyst force of the national interest, we see interesting implications emerging as the concepts of transnationalism and paradiplomacy are applied to the case, confirming that Brazil chose to seek new partners to change the existing balance of power between the North and the South as part of its foreign policy strategy (Fletcher 1996). In this sense, its approach to Angola occurred naturally considering the shared history between two countries with regard to Portugal and their shared language, arguments that were later on amplified by Lula in his speech suggesting that Brazil has a “historical debt” with Angola.

This approach towards Angola was made via the promotion of investments granted to Brazilian companies that decided to invest in Angola by Banco do Brasil and the BNDES. This contract contained a collateral clause (called the Angola model), which according to Corkin (2012, 7): “As in the

Chinese case, the loan is also collateralized by oil. The Angolan government has pledged to provide 20,000 barrels of oil per day to guarantee the loan.”<sup>9</sup> Upon this model, the relations between the countries progressed strongly to other fronts of cooperation and development.<sup>10</sup>

The foundations laid by Capanda made it possible for Odebrecht to stay in Angola up until the present day, leading to increasing involvement in infrastructure projects and mining. This has occurred because: 1) CO kept its commitment to the project even during the civil war; 2) the government and its agents possess a good reputation, and 3) especially its involvement with Angolan society in developing ground rules that generated social development (Roberto Dias in *Engenharia* vol. 580, 2007, 75).

The concept of paradiplomacy refers to a set of activities or initiatives undertaken by provinces, states, municipalities, autonomous communities as in Spain, landers in Germany and oblasts in Russia to promote their interests, without interfering with the state foreign policy (Soldatos 1990). In this sense, Kuznetsov (2015, 3) states that:

[...] paradiplomatic activities, even if they only include the articulation of some regional “private interest” often represent the force within the state from its lower levels, which plays a significant role in shaping the foreign and domestic policies of the central governments.

The introduction of new players in this scenario is part of the process of globalization and transnationalization, which has been characterized by the increasingly active participation of TNCs in spheres once dominated by governments alone, influencing public policies to some extent whilst setting up business, thus practicing corporate diplomacy (Dasie 2011).

Kuznetsov (2015, 50) teaches that paradiplomacy operates in 11 possible dimensions ranging from traditional paradiplomacy to the dimension of globalization, which for the purpose of study the dimension of interest is the link between transnationalism and the activism of the TNCs.

Thus, the presence of new actors with great political importance and capable of producing changes in the international system becomes critical to understand the paradiplomacy practiced by the TNCs. In this sense:

[. . .] The point is merely that states are still the primary medium through

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9 See also Zongwe 2010.

10 “In 2008, Angola was Brazil’s second largest African trading partner, comprising 16% of Brazil’s total trade with Africa, after Nigeria (32%)” (Corkin 2012, 7).

which the effects of other actors on the regulation of violence are channeled into the world system. It may be that non-state actors are becoming more important than states as initiators of change, but system change ultimately happens through states. In this sense states are still being the center of the international system. (Kuznetsov 2015, 75)

In this same sense, Senhoras (2011, 2) states “corporate paradiplomacy” refers to companies’ international operations covered by a set of guidelines, principles and strategic practices that display greater autonomy from state diplomacy. Autonomy understands the premise that corporate paradiplomacy has different incentives from those that explain the actions of state diplomacy, although sometimes they may develop simultaneously, in parallel to each other and may, in certain situations, share the same interests. He also considers the hypothesis that the relative position within a network of relations is essential to build power, whether it is political (in the case of the State), or economic (in the case of a company). It is clear that some past events, involving the Angolan State and the Brazilian State, and the Odebrecht company can be seen as clues to measure the results of this strategy: Brazil was the only State with whom Angola managed to solve the payment of external debt, from 1980s to 2000s. Still, Odebrecht is the largest foreign company acting in the country. The framework of organized “exchanges” is most likely rooted in these results, previously based on countertrade economic operations.

While the drivers for State diplomacy are the national interest, macroeconomic stability and peacekeeping, for TNCs the motivations are the need for growth, increasing returns (profits) and increase in production scale. There is, however, an interest in which is possible to see an alignment between both: access to scarce natural resources.

The concept of paradiplomacy also allows the theoretical exploration of another dimension of autonomy: the issue of dependence on business-state relationships in the international arena. The mutual dependence between TNCs and nation states can be traced from the creation of large mercantile companies, for instance, through the comment attributed to Charles E. Wilson Eisenhower that *what is good for GM is good for the United States*.

In addition, the efforts in keeping up with Capanda in spite of variable conditions might be explained as a strategic position adopted by Odebrecht in obtaining the privileged position as “broker” for the Angolan State. In both situations it is obvious that the relative position within a network of relationships is essential to the construction of power, be it political (for the state), or economic (for the company) as pointed out by Fletcher (1996). In this sense, Brazil was the only state with whom Angola was able to renegotiate its foreign

debt from the 1980s up to the present day. According to Moreira (2006) the Brazil - Angola Memorandum of Understanding (MEBA) signed at the end of the 1980s, and renewed twice (in the 1990s and 2000s) enabled Angola to have access to US\$ 1 billion and for Brazil in turn to receive oil from Angola, which amortized the debt and regained 45% of the payment in the form of new loans to import Brazilian goods and services. Also, according to Moreira (2006), on April 2004 the renegotiations resulted in granting an additional credit of US\$ 150 million to Angola until 2006.<sup>11</sup>

In addition to the legal and political aspects of the Odebrecht operations in Angola, its relationship with civil society and its ability to alter individual and collective status during and after the construction of Capanda were important to the business continuation to enjoy relatively good reputation before the civil society, which makes important contributions to our hypothesis.

One of the most important connections between the company and Angolan society was built through the company's workforce in the country. As seen before in this study the company decided to increase as much as possible the local workforce. Angolan personnel started working on low-skilled jobs, but after receiving training and incorporating the company's values, they started to gradually fill higher-level positions in different sectors. There are plenty of stories reinforcing the company's discourse regarding employee qualification and its positive impact on their lives in the company's web journal *Odebrecht Informa*, for instance:

Odebrecht has brought a lot to Angola, mainly the empowerment of people. One of my children, for example, studied to be a power technician in the company, working at Capanda. **After he was demobilized, he had no trouble finding another job. (...) The qualification made the difference** (Odebrecht - Emphasis added).

The investments made in the training of local people are one of the factors that promotes continuity and stability for business in Angola. Nowadays Odebrecht has 27.000 locals working for it:

Training workers is an essential part of every project implemented by Odebrecht. As of mid-2012, 79,000 Angolans have benefited from the company's training programs. University student recruits receive special training and are prepared to occupy senior positions in the company. In major projects, Odebrecht also offers technical training for the population living in the surrounding areas, preparing any interested young people – not just

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<sup>11</sup> There is hypothesis that sees the discourses of friendship and historical debt as a form of sub imperialism (Bieler 2004).

potential employees – for construction jobs. These technical courses are provided through the company’s “Believing program”, which so far has trained some 3,000 workers in its three Angolan units (Odebrecht).

According to the accounts of Justino Amaro, the first Angolan employee promoted to the post of manager, Capanda served as a “school of the elite” that trained technicians, who afterwards went to fill up important positions in government and business. He was one of the first employees who faced the hardships of jungle and civil war, and in staying at Odebrecht, they provided to him with the means to support him to continue his distance-learning studies in economics, even taking courses in Brazil.<sup>12</sup>

This trend is also found in the report provided by Rufino Alvarez, a Peruvian Odebrecht employee for over 25 years. He went to Angola in 2009 to work in a two-front job. He describes his role in his own words: “I have one job at the work site and another teaching Angolans, so that this country can continue to grow” (Osava).

These are only two examples that show the compromise with the TEO that is a set of principles and concepts directed to the making of a policy of corporate responsibility focused on the formation and the evolution of the human being,

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Given its economic weight and its social presence, the company is in a position to influence the conduction of some public and social policies in the country (despite the complaints of slave labor by Brazilian personnel), thus, acting as a true paradiplomatic agent, for instance:

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12 Accessed June 22, 2015. <http://www.democraciaycooperacion.net/espacio-colaborativo/america-latina/adjunta-tus-documentos-para-el/traduccion/portugues-387/articulo/a-diplomacia-da-construcao-angola>

13 Accessed June 22, 2015. <http://odebrecht.com/pt-br/organizacao-odebrecht/tecnologia-em-presarial-odebrecht>

This year the Brazilian multinational Odebrecht will invest between 800 million to one billion dollars in the country's most diverse areas; it was announced on Wednesday, in Luanda, by its head, Emilio Odebrecht, at the end of a meeting with Angolan President José Eduardo dos Santos. Regarding the meeting, Emílio Odebrecht told journalists that he was always looking for an opportunity for "*accountability to the President about what he has entrusted to us, not only in the area of service delivery but also in Brazilian investments in Angola*" (Jornal de Economia e Finanças 2009). (Emphasis added)

## Conclusion

It is undisputed that the news we see coming from Africa are often associated with humanitarian catastrophes, which background conditions are usually the disputes for power and low degree of institutionalization that can guarantee the most basic needs of its population. These two factors can be generalized to the continent as a whole, however, it cannot be the only ones to be used to draw conclusions or even promote an analysis of countries considering their individuality. In this sense, the development of models that had a positive impact on society, especially in periods of great turbulence that were the case of the decolonization processes (notwithstanding the challenges that arose in the period soon followed), took into account the importance of the foreign investment.

The development model that Odebrecht actively worked to implement in Angola shows traces of a very successful one in many instances, that sheds more light on the issue of TNC's behavior in the international arena, which in the 1970s and 1980s is associated with business expansion without any corporate responsibility towards developing countries whatsoever, leading to several scandals and environmental accidents. It has had a positive impact upon Angolan society in a period of great turbulence, right after the decolonization process, followed by the civil war that left the country both economically and politically broken, thus in great need of FDI for reconstruction.

The construction of Capanda by Odebrecht followed this model and gave rise to a relationship with the government and civil society of such a magnitude that the company not only consolidated its position in the market, but also demonstrated the ability to invest in local people. Local workforce replaced Brazilian employees after an intense process of training and investment, including promoting a greater participation of Angolans to supervisory, managerial and directorial positions.

In addition, the local community is involved with other initiatives



such as the Program Accredited that promotes necessary construction training as well as related projects that can assist the country as a whole in the reconstruction efforts by providing the skills that locals will use for their country's benefit.

Of course, such model is not flawless or exempt of criticism. However, the case presents many positive dimensions that outnumber the negative ones, which are more related to Brazilian workers and how Brazilian labor law regards some aspects of working abroad than to Angolans per se. As such, in this context Odebrecht appears as an important agent of Brazilian foreign policy seeking to establish the country's presence as an interlocutor between South and North, while Odebrecht internally consolidated its presence in Angola by building a good reputation with government and society.

In conclusion, the evidence found in this case study indicates important implications regarding how TNCs participate in the global arena, sometimes as precursors of Nation States seeking to implement foreign policy goals indirectly, thus confirming that the theoretical framework of transnationalism and paradiplomacy is appropriate, although we recognize that it is only an initial analysis, contributing to a larger research agenda.

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## ABSTRACT

The reconstruction of Angola, with the end of civil war, depended and still depends largely on receiving foreign investments, thus, the reason for having the Brazilian companies as key allies as receivers of special government credit lines. What led Brazil to adopt an indirectly influential stance toward Angola despite its explicit foreign policy directed to increase the South-South trade? What has led the Brazilian companies to accept the risks of doing business in a country with low political and institutional stability, plagued by a civil war, and without a stable international legal framework in place? Using the concepts of transnationalism and paradiplomacy as theoretical framework, the answers to these questions will be discussed in this article, which focuses on the case of the construction and expansion of the Capanda hydroelectric plant.

## KEYWORDS

Transnationalism; Paradiplomacy; Brazil; Angola; Capanda; Odebrecht.

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# IMPACTS OF COOPERATION? COMPARING THE NATIONAL DEVELOPMENT BANKS OF BRAZIL AND ANGOLA

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## Introduction

How, in the last years, a deeper international cooperation between Brazil and Angola has been established? This thought-provoking question is being comprehensively debated in research forums that consider the so-called South-South cooperation, and show the inspiration of this paper.<sup>3</sup>

Our objective is contributing to this debate through a qualitative analysis both of the context of creation and the legal and institutional structure of the development banks of these two countries, namely: the Brazilian Development Bank (BNDES) and the Development Bank of Angola (BDA).

In particular, without attempting to judge motivations and implying if the choice for development banks was right or not, this paper is centered on

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3 Badin and Morosini (2015) offer a detailed historical review on international relations between Brazil and Angola. The debate on South-South cooperation started in the African-Asian Conference in Bandung (1955). In the 1950s context, South countries core objective was to challenge the hegemony of developed countries in the emerging transnational organizations. Nowadays, the international order and its power organization are still in question, but developing nations reached a better place in the international arenas of negotiation due to the adoption of stronger social and political institutions, which enabled them to cooperate horizontally with a greater degree of independence. (Ramanzini Júnior and Ayerbe 2015, 7-8).

one question: to investigate to what extent the creation of the BDA could represent a process of mutual transfer of knowledge between Brazil and Angola, or an import of institutions.

The political and economic relationships of both countries are historically significant. In the context of Brazil, the country traditionally relies on development banks to boost its economy and the BNDES is one of them – it was created in 1952 to act across the country. Our hypothesis is that Angola learned from the Brazilian experience when creating the BDA in 2006.<sup>4</sup>

We consider the argument that, no matter how the Brazilian expertise may have influenced the decision to create the Angolan development bank, it is possible to learn some important lessons when comparing the process of institutionalization and of consolidation of both countries development banks. One also has to consider the specificities of each context and historical moments of each bank's creation.

Whether the BDA is an institutional transplantation or not is irrelevant. We do not intend to raise controversies about this concept nor examine the issues of success or failure that usually accompany this approach.

In avoiding the use of terms such as “legal culture” or “legal transplant”, as did Delazay and Garth (2001, 241-255), we assume that one country's institutions could inspire another's. A country may import solutions, especially from the center - where there would be more development - to the periphery - where there would be less development.

In today's international order, Brazil certainly would not be considered an economic power as the United State, Britain or Germany, for example. But in a Southern context, and keeping the label of evolutionist approaches on development in mind, Brazil could be considered economically more advanced than Angola and thus serve as a source for the “import” of institutions.

Whether resulting in successful or unsuccessful results, what is traditionally known as institutional transplant could be explained as the process of import and export of institutions between countries, which implies horizontal learning. This is outlined in Delazay and Garth (2001, 253) when they argue that “rather than thinking of “culture” or “structure” per se, therefore, we try to employ a structural approach that sees how international strategies are played out within – and transform – local structures”.

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4 Besides the BNDES, there are other development banks in Brazil, such as the Banco do Nordeste do Brasil, also created by the federal government in 1952, the Banco Regional de Desenvolvimento para o Extremo Sul, created by the federal states from the Southern region (Rio Grande do Sul, Santa Catarina and Paraná) and some other development banks controlled by state governments.

To address these issues, we start by briefly showing how cooperation between Brazil and Angola evolved. Then, in the second section we present the different contexts of the creation of the BDA and the BNDES. Considering that the Brazilian model inspired the BDA, we appraise to what extent it represents an Angolan import of Brazilian experience with development banks and look at how the BDA is evolving locally in the third section. To illustrate this, some parallels between the BDA and Brazilian development banks are drawn.

## Reflecting on cooperation between Brazil and Angola

International relations for political and economic purposes between Brazil and African countries evolved in close ties since the 1970s and intensified in the first Lula government, particularly with Angola. First evidences of cooperation dates back to the year 1975, when, in the context of the international oil crisis, the Brazilian military government of Ernesto Geisel recognized the independence of Angola. This was a bold step taken by Brazil, since the party that took over - the Popular Movement for the Liberation of Angola (MPLA) – was labeled under the Marxist approach in the context of Cold War.

From then on, despite some ups and downs in their bilateral relations over time, Brazil and Angola concluded several agreements and protocols of understanding. The Economic, Scientific and Technical Cooperation Agreement concluded in 1980, which established a joint commission to work for cooperation between Brazil and Angola, was the first of these. Additionally, it is also known that Brazilian public funding resources in foreign trade were channeled to infrastructure projects in Angola, probably due to other agreements and protocols signed over time<sup>5</sup>.

In 1995, for example, Brazil and Angola concluded the Agreement on Rescheduling Debt. This referenced the liability of Angola concerning the Brazilian Federal Government's Financing Program for Exports (Proex), which should be repaid through oil shipments purchased by Brazil.

After, in the 2000s, Brazilian government offered a specific funding line to the exporting of Brazilian construction services to infrastructure projects in Angola, supported by the BNDES. These financing was intensified in 2007, when, after the celebration of the

Memorandum of Understanding between the governments, BNDES started to make resources available to through credit lines exclusively estab-

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<sup>5</sup> Badin and Morosini (2015) review the history of bilateral relations between Brazil and Angola in detail using primary data and was the source of this topic.



lished to make credit available to Brazilian companies that were proposing to undertake works and services in infrastructure for the reconstruction of Angola, after the civil war. It is important to notice that it is not mentioned in the BNDES official information about foreign trade that the bank had articulated its credit lines specifically for one given country,

It is true that Angola, as well as Brazil, does maintain important bilateral relations with other countries. For example, the African Development Bank, of which Angola is a member along with 52 other countries, is funded by 24 European, Asian and American countries, of which Brazil is only one. This bank aims to promote sustainable economic growth and to reduce poverty in Africa.<sup>6</sup>

However, Brazil-Angolan bilateral relations in political and economic issues, seem to be strategic for both countries and justify the analysis of how they are establishing mechanisms of institutional interchange.

## The Context of the Creation of the Banks

In 1952, in the government of Getulio Vargas, the BNDES was created under the name of Bank of National Economic Development. The bank was the major financier of the policies of development of the import substitution period since the 1970s.<sup>7</sup>

Its creation was the result of the recommendations of the bilateral Joint Commission Brazil-United States (CMBEU), installed in 1951. Industrialization had already been boosted since the Estado Novo period in the 1940s with the creation of the Companhia Vale do Rio Doce and the Companhia Siderúrgica Nacional, for example. But the national economy was still going through an early stage of industrialization in the 1950s and in need of incentives to boost basic industry and the most volatile sectors of production.

Thus the Brazilian government agreed to receive financial aid from the United States through loans from the International Bank for Reconstruction and Development (IBRD) and the Export-Import Bank (Eximbank). Brazil also established the Economic Reequipping Fund (FRE) by an increase in

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<sup>6</sup> More information about the African Development Bank in the website: <http://www.afdb.org/en/about-us/>. Accessed October 26, 2015.

<sup>7</sup> Since 1982, the BNDES has been called the National Bank for Economic and Social Development, due to the official inclusion of the social aspect of development in its goals. In that year, the BNDES was restructured and the bank started to manage the Social Investment Fund (Finsocial) (Paiva 2012, 75). See also Monteiro Filha (1994) and Schapiro (2010).

income tax, which funded the Economic Reequipping Plan<sup>8</sup> along with the foreign aid. These funds helped to establish the BNDES<sup>9</sup>.

Regarding the BDA, it is worth noting that in 2006, when a Brazilian team of experts from the Banco do Nordeste do Brasil (BNB) landed in Angola to assist a local commission in creating a development bank<sup>10</sup>, the country was in a moment of recovery after almost three decades of war, which devastated its economy, among other negative impacts<sup>11</sup>.

This period coincided with the increasing in prices and production of oil in the international market. Countries aggressively sought access to mineral and petroleum resources despite the ideological orientation of the exporting countries. And since oil products are the outliners in Angola's producing and exporting agenda, it felt the positive impact on its gross domestic product (GDP) fastly.<sup>12</sup>

This situation inspired the government of Angola at taking urgent measures to better distributing such extraordinary resources. This concern was justified not only due to the need of a macroeconomic restructuring of

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8 "Expanding infrastructure, specially for basic services of collective transport and electrical energy, which jeopardized the process of industrialization, was the core purpose of such plan" (Paiva 2012, 16, translated by the authors).

9 See respectively Paiva (2012, 15-27) and Prochnik and Machado (2008, 2-34) for further information on the context of creation and the initial capital structure of the BNDES. The CMBEU, which was formed by more than two hundred American and Brazilian experts, made several recommendations for the first financial disbursements of the BNDES to national projects (Paiva 2012, 24).

10 In March 22th, 2006, the director of development management of the BNB, Mr. Pedro Eugênio Cabral, and Mr. Augusto Archer Manguiera, economic advisor of the President of Angola, concluded a protocol of understandings in which they agreed to establishing "partnerships for commercial and technical assistance to creating the BDA" and forming a team of experts to come from Brazil to Angola in the future, when the BDA would be ready to start operating. We collected such information in the BNB's website: [http://www.banconordeste.gov.br/content/aplicacao/investir\\_no\\_nordeste/principal/docs/mailclipping\\_12.pdf](http://www.banconordeste.gov.br/content/aplicacao/investir_no_nordeste/principal/docs/mailclipping_12.pdf) Accessed October 26, 2015. Angola established the Commission for the Creation of the BDA in the Resolution number 24.06.

11 This was the civil war started due to political disputes raised after independency, in 1975. Some argue that the United States pushed for such war to curb the expansion of communism in the region. Many other conflicts occurred earlier in Angola Sogge (2009, 1, translated by the authors) argue that "along all 20th Century Angola saw only 20 years of peace, from 1941 to 1961, which started when the last colonial military campaign concluded and ended with the first anticolonial revolutions".

12 Jensen and Paulo (2011, 1), based on data from the Center for Studies and Scientific Research (CEIC) of the Catholic University of Angola (UCAN), founded an increase of 20.9% in the GDP of Angola in 2007. This differs from the increase founded by the International Monetary Fund (IMF), according to which it was been even higher: 22.7%. See also Sogge (2009, 6)

the country, but also due to the economic vulnerability resulting from the excessive dependence on a single product.<sup>13</sup>

Therefore, this was the scenario in which the BDA was created: a period of peace restoring and of influx of extraordinary financial resources from international oil trade. Such resources depended on strategic allocation and upon institutional efforts to channel them into reconstructing and developing Angola in a “sustainable basis”<sup>14</sup>

Such efforts led to the economic and social development programs introduced by the Angolan government and anchored in the Federal Constitution of 1992, the one in force when the BDA was created<sup>15</sup>. The strategic priority after the war was clear: to promote and support “national entrepreneurs” enabled to boost the economy after the war.<sup>16</sup>

Similarly, both the current Constitution (enacted in 2010) and the National Development Plan of Angola (PND) - 2013-2017<sup>17</sup>, highlight the importance of the “diversification of the Angolan economy”, to be enabled by the “strengthening the development of the domestic private sector and of enterprises.”<sup>18</sup>

Therefore, it was necessary to fill a gap in the financial system for long-term credit. This would be made possible through granting to the manufacturing sector loans with advantageous conditions – that is, longer terms of repayment. A public development bank would be the best choice to performing such a task.

Until then, there was an Economic and Social Development Fund (FDES), which was responsible for mobilizing resources to fund development

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13 See Mitcheel (2008) on the problems surrounding excessive dependency on oil exporting. See also Jensen and Paulo (2011).

14 According to the preliminary considerations of Decree number.37/06 that created the BDA.

15 Articles 110, h; 112, f; and 113, of the 1992 Federal Constitution, that was in place when the BDA was created.

16 According to the preliminary considerations of Decree number.37/06 that created the BDA.

17 This was the first medium-term plan drawn up after the approval of the General Basis of the National Planning System Act, which established a Long-Term Development National Strategy to rebuild the country destroyed by war.

18 This is what is also observed in the Entrepreneurship Promotion Act of Angola (Act number 14/2003), which outlines the creation by the Angolan government of “create conditions to encourage and promote productive activities of national entrepreneurialism”. The aim behind this act was that economic development depended on the private sector, which, at its turn, depend on the state to provide favorable conditions, as well as legal, material and institutional tools to “foster synergies between domestic and foreign investors”.

projects<sup>19</sup>. The formation of FDES occurred in 1999, which was an earlier government initiative to address the manufacturing sector need for credit. But even back then the government concluded that in order to enhance mobilization and effectiveness in channeling funds, a special bank for development would be a better solution.<sup>20</sup>

So, the BDA was created by the same act that abolished the FDES, which also transferred its assets to this new bank. Hence, the BDA started with resources from the old FDES and in the midst of favorable political and social conditions enabled by the restoration of peace and the financial stabilization Angola was finally experiencing.<sup>21</sup>

## Searching the parallel between the banks

To what extent is the BDA an Angolan import / Brazilian export and how is it consolidating locally?

From 1952 to 1989, the federal government was responsible for choosing which sectors and what companies would benefit of the credit from the BNDES investments. Such decisions depended on the great national plans Brazil used to develop (Monteiro Filha 1994, Paiva 2012).

The BNDES was created to fund sectors in need of long-term investment under the so-called Economic Reequipping Plan<sup>22</sup>. Later, during Juscelino Kubitschek's government, it provided funds for another long-term plan called the Targets Plan (Plano de Metas in Portuguese)<sup>23</sup>. The BNDES focused its disbursements of the Triennial Plan for Economic Development During the João Goulart's administration<sup>24</sup>. During the military dictatorship the fed-

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19 This fund was created by Decree number 21/99 and finished by Decree number 37/06, which also created the BDA.

20 According to the preliminary considerations of Decree number.37/06, which created the BDA.

21 According to the preliminary considerations of Decree number.37/06, which created the BDA.

22 "Among the objectives of this plan was the expansion of basic infrastructure, especially in transporting and electrical energy services, which jeopardized the process of industrialization" (Paiva 2012, 16, translated by the authors).

23 This plan consisted on a "set of projects related to energy, transportation, food, basic industries and technical education" as well as on the plan to build a city to place the new capital of Brazil, to be called Brasilia (Paiva 2012, 29, translated by the authors).

24 The core objectives of this plan were: reducing inflation, renegotiating foreign debt, giving incentives to economic growth and basic legal reforms to restructuring areas such as tax, banking, the use of urban space, higher education and land distribution (Paiva 2012, 39).

eral government kept exercising a great extent of control over the BNDES credit channeling its resources, especially for the implementation of the First - I PND and the Second National Development Plan - II PND<sup>25</sup>. Even after the end of the great national development programs, the input from the federal government remained relevant for choosing the projects the BNDES would fund. This happened until a Credit Area was created in the bank, in 1989. Since then, the BNDES started taking better risk analysis before channeling credit (Paiva 2012, 21-96).

BNDES started operating using some taxes and other means of government funding to form its capital structure. The disbursements needed to be channeled to the sectors chosen by law. From 1952 to 1995, the BNDES relied on the FRE and other funds such as the Federal Fund for Electricity (FFE), the Merchant Navy Fund (FMM) and the National Port Fund (FPN). From the late 1960s, a percentage of a tax known as the Tax over Financial Transactions (IOF) as well as other contributions granted by the National Treasury expanded the bank's capital structure. From the late 1970s, PIS and PASEP, some of the taxes paid by the workers in Brazil, were also channeled towards the BNDES and, until 1995, these resources, or the bank's net return (depending on the period), was the most important components of its structure capital (Prochnik and Machado 2008, 3-34.).

In 1974, three wholly-owned BNDES subsidiaries were established: Brazilian Mechanic (Mecânica Brasileira S.A.-Embramec), Basic Inputs S.A. (Insumos Básicos- Fibase) and Brazilian Investments (Investimentos Brasileiros S.A.- Ibrasa). The purpose of these subsidiaries was to purchase shares and other securities in domestic companies, whether public or private, which would fit within the II PND purposes and that required investment, but lacked collaterals to offer in return of loans (Paiva 2012, 65-71).

From the start, the BNDES relied on two types of direct investment<sup>26</sup>: the fixed income investments, which consisted in loans with subsidized interest rates and demanded offering collateral; and variable income investments,

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25 The first PND investments was focused on infrastructure, mainly in the sectors of energy, transportation, telecommunications, steel and petrochemical, added to the support of education, science and technology. On the other hand the II PND was conceived to reinforce the policy of import substitution industrialization of the former plan, in order to "diversify and consolidate the national industrial park, by focusing on petrochemical, steel, mining, copper and heavy industry." (Paiva 2012, 57-60)

26 Nowadays, in addition to direct operations, the BNDES also provides indirect forms of financial support, carried out through the intermediation of third parties and mixed financial institutions, when the direct and indirect modes of financing are combined in the same project. This information are available on the electronic site of the BNDES. Accessed October 26, 2015. [http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_pt/Institucional/Apoio\\_Financeiro/](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Apoio_Financeiro/).

carried out through the acquisition of securities issued by the benefited companies. The variable income investments were supposed to be temporary and the equity interests should be in the minority of capital stock (Velasco Jr. 2010; Paiva 2012).<sup>27</sup>

In 1982, the BNDES System was restructured.<sup>28</sup> Embramec, Fibase and Ibrasa merged to forming BNDES Participações SA (BNDESPAR), which became the only wholly-owned subsidiary of the BNDES, turning to be the only operator for all equity investments from then on (Paiva 2012, 76).

In the 1980s, the BNDES followed the trend of neoliberal reforms inspired by the Washington Consensus.<sup>29</sup> The bank pioneered the Brazilian privatization process (Velasco Jr. 2010). Despite the expectation that variable income investments should be in the minority of the capital stock, BNDESPAR had assumed control of most companies in which it had equity interests in the mid-1980s. This was due to the practice adopted by the BNDES to support companies in crisis, converting the debt from defaulters into equity of the BNDESPAR (Pinheiro, Bonelli, and Schneider 2004, Velasco Jr. 2010, Paiva 2012).<sup>30</sup> However, BNDESPAR had no legal tools to control those companies. Additionally, it was unable to fund the companies to prevent bankruptcy (Velasco Jr. 2010).

From 1987 to 1989, 17 state companies in which BNDESPAR and / or the BNDES participated were privatized, which assured financial surplus in 1988, for the first time in six years. The experience the BNDES accumulated when privatizing its defaulters influenced the national privatization plans that took place in the 1990s, in which 36 other Brazilian state-owned business

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27 Besides the types of direct investment, the BNDES channel resources so other intermediaries operate indirect investments using its funds. Currently, a company is able to ask for funding both from BNDES and the other intermediaries and even benefit from more than one of such types of investment in the same project. We found such data in the website of the BNDES: <[http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_pt/Institucional/Apoio\\_Financeiro/](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Apoio_Financeiro/)>. Accessed October 26, 2015.

28 According to information from the bank's website, the BNDES is today composed of the bank itself, BNDESPAR and the Special Agency of Industrial Financing – FINAME: [http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_pt/Institucional/O\\_BNDES/A\\_Empresa/](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/O_BNDES/A_Empresa/). Accessed October 26, 2015.

29 The Washington Consensus consisted on taking following measures, which the Bretton Woods institutions advised both developing and transition economies to comply with in the 1990s: fiscal discipline, reorientation of domestic budget, tax reform, liberalization of finance, trade and foreign investment, privatization and strengthening of property rights, among other neoliberal reforms.

30 Such practice became known as “hospital operations”. The BNDES rescued 6 companies which were going bankrupt in the beginning of the 1980s, turning their debt into equity. They were all privatized latter (Pinheiro, Bonelli and Schneider 2004, translated by the authors).

groups were privatized between 1991-2000 (Schapiro and Trubek 2012, 36-37). The BNDES operated such privatization plans from the Collor's government onwards (Velasco Jr. 2010, 324).<sup>31</sup>

Besides financing and operating the privatizations, since the 1991 the BNDES has been funding projects of exportation of high-value added capital goods. The credit provided for exportation is recognized by literature as significant for the domestic balance of payments during the peak of economic liberalization (Cartemol 2005, 3-30).

When the Credit Area of the BNDES was created and risk analysis was strengthened, it was part of a wider set of changes on internal governance gradually adopted until the current model was established (Paiva 2012). Today, the BNDES System relies mostly on an Executive Board<sup>32</sup> and some Operational Areas<sup>33</sup>, which carry out technical analyses over the applications for funding. There is also a Board of Directors<sup>34</sup>, the most senior management body, providing the Executive Board with advice.

In all credit analysis, both for non-automatic direct and indirect funding, a Committee of Suitability first checks if the applying company complies with the BNDES's guidelines for financial support and then the Credit Area undertake risk and return Analysis. In a second step the Executive Board judges if the project submitted fits in the BNDES's policy requirements for

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31 See Mantega (2001) and Velasco Jr. (2010) for further assessment on the role BNDES played in the process of privatization in Brazil.

32 A Chairman, a Vice-Chairman and 7 managers, all appointed by the President of Brazil, forms the Executive Board. Both the Chairman and the Vice-Chairman occupy their position indeterminately, which are occupied by the managers for a 3-years term. The President of Brazil is able to fire them anytime. Since 2013 one of the managers is appointed by the Chairman to add subjects related to Latin America, Caribbean and Africa to his assignments. A Supervisory Board Committee to supervise all other bodies of the BNDES is also in place, which is formed by 3 counselors nominated by the Ministries of Development, Industry and Foreign Trade and of Finance. The counselors of the Supervisory Board occupy their position for a 2-year term and benefit of alternate members to substitute them in situations of conflict of interests. There is also the Accounting Committee, to be formed and appointed according to the judgment of the Board of Directors and under the regulation of the National Monetary Council of Brazil.

33 The Executive Board assigns the competences of the Operational Areas and also appoints their chiefs, which have to be selected among the BNDES's staff. The bank hires such staff only after a public contest is taken, even though they may have previous work links in the private sector.

34 11 counselors and their alternates, a representative of the employees, a Chairman and its Vice-Chairman form the Board of Directors of the BNDES. 4 of the counselors are appointed, respectively, by the Ministers of State for Planning, Budget and Management; Labor and Employment; Finance; and Foreign Affairs, and the others are appointed by the Ministry of Development, Industry and Foreign Trade, except for the employee representative, who is nominated by the Chairman.

funding and, if it is decided to go further and fund the project, the third step is to choose what type of investment to use<sup>35</sup>. The final step is the hiring of the project, with a contract elaborated by the specific operational area that also supervises the investment <sup>36</sup>.

If the application for credit requests less than 20 million Brazilian reais and was made to one of the intermediaries this is an automatic indirect investment, which demands simpler analysis. Companies make such credit applications necessarily to one of the financial intermediary agents, who do the risk analyses and close the contract, taking the credit risk for full. If the intermediary is willing to approve one automatic indirect investment, it is necessary to send the proposal to an Indirect Operations Area (AOI) of the BNDES, which review and decide whether to issue approval or not. The chief of the related Operational Area and his manager endorse approvals or return it to the respective AOI. If approved in the BNDES, the intermediary is able to close the contract and channel the resources requested.

There are credit lines, or products, offered by the BNDES System, which meet the ongoing policy for financial support from the bank and have no budget limits previously established. That means any source of capital with unrestricted expenditure is free to be used in the credit lines as demands for funding are approved. BNDES's Programs are different. They seek to meet specific transitional policies with a term and pre-established budget limits. Programs could turn into credit lines when Executive Board decides a transitional policy became a permanent priority in the Brazilian economy<sup>37</sup>.

All funding possibilities by the BNDES in the debt (or fixed income) mode require guarantees, preferably collateral<sup>38</sup>. In the case of foreign trade, however, depending on the nature of the export, (such as whether it consists of products or services), or depending on the program or credit line of the bank, securities may be used as collateral. This includes promissory notes or specific bills of exchange, used especially in cases of post-shipment export. Both the Investment Guarantees Fund (FGI), structured by the BNDES for smaller companies - and the Fund for Guarantees for Exports (FGE), which was established by law, provide guarantees by the government to foreign investments. The Ministry of Finance manages the FGE under a government benefit called Export Credit Insurance (SCE), which aims to "provide insur-

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35 The Committee of Framework and Credit, responsible for the first analysis, is composed by the directors of the BNDES.

36 All the chiefs of Operational Areas form the Committee of Suitability.

37 See the 2012 Annual Report of the BNDES for further information on the difference between programs and credit lines (or products).

38 These collaterals are set out in the resolution number 665/87 of the BNDES.



ance to Brazilian exports of goods and services in the face of commercial, political and extraordinary risks that could affect investments related to credits for exports”<sup>39</sup>.

It is also important to mention the recently created Brazilian Agency to Manage Collateral and Funds (ABGF), a state-owned company to manage public funds and provide guarantees on various types of investment. We believe guaranteeing investments made by the BNDES is under the purposes of the ABGF, yet we found no data regarding its operations so far<sup>40</sup>.

Since 1995, the main sources of BNDES’s capital structure have been the raising of funds in stock markets in Brazil and abroad in addition to the net return on the banks own investments. None of such sources needs to be channeled to specific sectors or projects (Prochnik and Machado 2008, 3-34.). Also during the 1990s, the BNDES started to manage the resources and special deposits under the Workers Assistance Fund (FAT) as well as the Fund for National Development (FND)’s due to the provisions of the Constitution of 1988. Such funds increased the bank’s capital structure. Occasionally, the BNDES raises funds in international bodies such as the World Bank, the Japan Bank for International Cooperation (JBIC) and the European Investment Bank (EIB). From 2008 to 2012 BNDES also received exceptional donations from the National Treasury, which needed to be channeled to specific sectors depending on the Act that had authorized them<sup>41</sup>.

The relevance of the BNDES in supporting Brazilian industry is undeniable until today. The bank is the second largest source of credit to manufacturing companies in Brazil since 2001, after enterprises own net return (Coutinho 2013, 39). BNDESPAR was the largest institutional investor in Brazilian securities market in 2013 (Schneider 2013, 27-31).

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39 See Act number 9818/1999 for further information on the FGE and the Act number 6407/1979 for further information on the SCE. Regarding the FGI, see: [http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_pt/Institucional/Apoio\\_Financeiro/Programas\\_e\\_Fundos/FGI/index.html](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Apoio_Financeiro/Programas_e_Fundos/FGI/index.html). Accessed October 26, 2015.

40 The ABGF was created by the Decree number 7976/2013, which had been authorized in the Act number 12.712/2012. This Act establishes the purposes of Brazilian government in creating the ABGF.

41 See the annual reports of the BNDES (years 2008-2012) on the website of the bank: [http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_pt/Institucional/Relacao\\_Com\\_Investidores/Relatorio\\_Anual/](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Relacao_Com_Investidores/Relatorio_Anual/). Accessed October 26, 2015. The exceptional donations approved by the Act number 12.452/2011 were channeled to investments in the following sectors: acquisition and production of capital good, including related components and services; production of consumer goods for exports; electric energy sector; infrastructure for the export of liquid bulks; engineering projects; technological innovation; and Financing of Studies and Projects-FINEP, only in the modality of technological innovation (article 10 one the Law).

BNDES's stake as the main source of credit to manufacturing companies in Brazil is enabled by the subsidies in its interest rates and its long-term liquidity preferences. Due to such particularities, BNDES was relevant as provider of countercyclical credit during the global economic crisis of 2008 (IPEA 2011, 9)<sup>42</sup>.

Until recently, Brazil had adopted again the planning strategy through national development plans, such as the Policy for Manufacturing, Technology and Foreign Trade (PITCE), launched in 2004, the Productive Development Policy (PDP) of 2008, and the later one, the Plan for Brazilian Growing (PBM), released in 2011. Such planning strategy had been abandoned in the 1980s and took place again in the first Lula government.

At the core of the PITCE was the support to the sectors of softwares and services, the microelectronics and pharmaceutical industries, focusing on projects with high technological content and innovative potential (Almeida 2009, 16-17). PDP and PBM extended such purposes. The scope of this plans, especially the PDP, is summarized by Coutinho, Ferraz, Nassif and Oliva (2012, 100-133) as follows: they aim to i) expand and consolidate Brazilian international leadership pressured by international competition through supporting mergers and acquisitions, the internationalization of companies and the strengthening of their governance frameworks; ii) increase the export competitiveness and internal expansion of other emerging sectors with comparative advantages, in order to provide positive externalities along supply chains; and create competences with high value technology, that could lead the country to frontier of international competition.<sup>43</sup>

These comprehensive issues were applied as guidelines by the BNDES' Executive Board when judging if a credit application was suited to the funding policy of the bank. The government planning observed until the late 1970s was never in place again after the 2000s. The BNDES seek to take investments combining wider guidelines of economic policy with the assessments of risk and return required to preserve its capacity of self-sus-

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42 The cost of the credit provided by the BNDES varies depending on the sector receiving financial support and the type of investment. Normally, the Long Term Interest Rate – TJLP is applied, which adopts the method of calculation approved by Act number 10.183/2001 and ends up set in levels way below the interest rates usually charged by private banks. In 2012, for example, the TJLP averaged 5.75%, while the interest rates charged by private banks in the same period went up to the average of 13.9%. See Lopes (2013) and the website of the BNDES: [http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_pt/Ferramentas\\_e\\_Normas/Custos\\_Financeiros/Taxa\\_de\\_Juros\\_de\\_Longo\\_Prazo\\_TJLP/](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Ferramentas_e_Normas/Custos_Financeiros/Taxa_de_Juros_de_Longo_Prazo_TJLP/). Accessed October 26, 2015.

43 Coutinho et al. (2012, 100-133) accesses only the PDP. Yet, taking the assessment Schapiro (2013, 7-50) made on the PBM into account, we believe the same scope applied to both PDP and PBM.

tainability.<sup>44</sup>

On the other hand, the BDA is an emerging bank in a country undergoing a process of political, social and economic reconstruction. The need to set up a financial institution more comprehensive, able to act as a developmental agent and to operate the country's new investment policies justified replacing the FDES with the BDA. A development bank would be the best choice to manage the extraordinary flow of tax revenue from the increasing in oil prices in international market and promote Angola's manufacturing companies by proving them with special credit conditions.<sup>45</sup>

To accomplish its mission, the BDA was created in the form of a state-owned company, which has autonomy to manage and channel its assets. In any case, the bylaws of the BDA states its purpose is to fund projects under the "Investment Policy for Development of the Government".<sup>46</sup>

By providing credit, the BDA aims to "increase production capacity, alleviate poverty, create jobs and income, substitute imports and promote exports," and also to "accelerate the balanced and sustainable development of the Angolan Republic," modernizing "economic and social structures" and to ensure "the international competitiveness of the economy."<sup>47</sup>

Among the BDA's assignments it is: i) to finance programs included in the "Economic and Social Development Program" of Angola; ii) to raise resources from domestic sources, public or private, or from abroad to form its structure of capital; to assess, plan and supervise the execution of projects benefited by its funds; and to "facilitate the participation of the private sector" and "community organizations" from Angola in development programs. The BDA is able to acquire equity "in companies already established or to be established" by "entrepreneurs and manufacturers from Angola" that seem able to "recover the productive capacity of the country" and increase "competitiveness and productivity in Angola".<sup>48</sup>

The statute of the BDA established the initial capital of 50 million dollars (fixed in Kwanzas), which could increase by "capitalization with new resources, incorporation of reserves or by other means", as long as in compli-

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44 See Colby (2013) on how the BNDES combine the public policy purpose behind its investments with the risk and return requirements needed to preserve self-sustainability.

45 According to the preliminary considerations of Decree number 37/06 that created the BDA.

46 According to the preliminary considerations of Decree number 37/06 that created the BDA.

47 According to the preliminary considerations of Decree number 37/06 that created the BDA.

48 According to article 2nd, items 3 and 4 of Decree number 37/06.

ance with applied regulation.<sup>49</sup>

In addition to the initial capital, net return, donations, financial applications and “return on debt issued” by the Ministry of Finance of Angola are possible alternatives to increasing BDA’s capital structure. However, the most relevant source of capital of the bank is the National Development Fund (FND) that it manages.<sup>50</sup> Such fund is formed by the rents from oil and diamond taxation, which goes up to 5% and 2% of their annual global revenue, respectively.<sup>51</sup> The Ministry of Finance channels resources to the FND quarterly, according to the estimates made under the Financial Programming of the Treasury.<sup>52</sup>

Financial charges are fixed as follows: (i) Interest Rate: 6.7% per year; (ii) Interest Rate on Arrears: 1% to 4%; (iii) Interest Rate Subsidy: granted according to business sector, geographic area and punctuality in repayment.<sup>53</sup>

The BDA is also able to provide safeguards to investments made by third parties. Such type of financial support is believed to have greater relevance than investments in the bank’s initial years of operation (Manuel 2010, 12).

Applications for credit in the BDA require submitting a project, which must comply with the guidelines of the national program for development of Angola. The BDA then take technical and economic analysis on the project and its possible externalities, taking also risk analysis and assessing the suitability of the applicant company to legal requirements demanded by law.<sup>54</sup> Collateral or personal guarantee are required in the case of fixed income investments.<sup>55</sup> The BDA’s Board of Directors is responsible for approving credit applications and establishing contracting terms.

The BDA channel credit directly or using intermediaries.<sup>56</sup> Within its scope, the bank should “fund investments made by domestic companies

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49 According to article 4th of Decree number 37/06.

50 Act number 9/06 created the FND.

51 In 2011, the resources from the FND channeled to the BDA increased by approximately 16.5 billion Kwanzas, according to the Annual Report published in April, 2012. See the BDA’s website <http://www.bda.ao/relatorios-e-contas/>. Accessed October 26, 2015.

52 According to the items 3 and 4 of article 4th of the FND’s regulation.

53 The interest rates the BDA charges are below the Basic Interest Rate announced by the National Bank of Angola in 2014, which went up to of 8.75%. The Monetary Policy Committee of Angola defines such Basic Interest Rate aiming to reflect the interest rates charged by private banks.

54 According to article 10, items 3 and 4 of Decree number 37/06.

55 According to article 11, items 3 and 4 of Decree number 37/06.

56 According to article 9th of Decree number 37/06.

abroad” if they provide evidence of contributing to the Angolan economy long-term. The BDA could also “make investments abroad and raise funds both in domestic and foreign sources”, and should “fund and foster exporting of goods and services”, invest in research programs in the “scientific and technological field” and regarding social subjects, as well as invest in stock markets.<sup>57</sup>

A Board of Directors, an Audit Committee and an Advisory Council form the governance structure of the BDA. The Board of Directors is formed by 5 directors appointed for the term of 5 years and is assigned to run day-to-day operations, establishing internal rules and the budget. It also examines development policies and programs made by the government and may propose new projects as well as approve non-refundable investments. The Board of Directors should send the National Bank of Angola the external auditing reports, since it is the authority to supervise the BDA. The Audit Committee, which is formed by 3 members nominated for a term of 3 years, takes care of internal auditing. The Advisory Council supervises if investments made by the BDA complies with the government’s public policies for Angolan development.

The Board of Directors may also create other executive boards to assure investments comply with policies and programs of the government, to prospect and promote new investments, to control and manage risks, to develop new systems and new technologies and running the bank by accomplishing any delegated assignment. The executive boards act under the rules established by the Board of Directors when it decides delegating assignments.<sup>58</sup>

Under such governance structure, the BDA is increasing its disbursements, which are channeled according to thirty-two different credit lines, most of them focused on the agricultural sector. In 2011, the BDA funded one hundred and forty-nine projects that created nearly three thousand five hundred jobs. Eighty of these investments took place under a special program called Investment for Agricultural Credit.<sup>59</sup>

Despite the criticism usually raised in the media arguing there is misallocation of resources, delay in credit analysis, lacking of criteria to choose beneficiaries and inefficiency in supporting small companies, the government of Angola keeps releasing how important is the BDA to support development policies.

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57 According to article 10 of Decree number 37/06.

58 According to article 19, item d, of Decree number 37/06.

59 According to the Annual Report published in April, 2012. See the BDA’s website <http://www.bda.ao/relatorios-e-contas/>. Accessed October 26, 2015.

The improvement in the economic performance of Angola, attributed to domestic structural reforms has been even recognized by the Bretton Woods institutions.<sup>60</sup> Although the International Monetary Fund opposed the strategy of creating a development bank when the BDA was established, the Angolan government believes its creation is currently justified, among other reasons, due to its good performance.<sup>61</sup> The BDA is believed to have improved the redistribution of rents from oil to other sectors, due to which Angola would have reduced economic dependence to oil resources as well as economic vulnerability.<sup>62</sup> The government argues there is causality between the performance of the BDA and the growing participation of the non-oil sector in Angola's GDP, which grew more than the oil sector in 2011.<sup>63</sup>

The increasing of partnerships with financial intermediaries is believed to have contributed to redistributing rents, by channeling credit to Angola's most remote regions. The improvement in the BDA's performance is also related to partnerships with other institutions in order to develop new operating systems, training employees, giving guidance to small entrepreneurs and controlling risk management.<sup>64</sup>

The memorandum of understandings agreed by the BDA and the BNDES on 27 May 27<sup>th</sup>, 2014 exemplifies such partnerships. Such agreement was made in order "to promote the interchange of information in order to share experiences" and would range from financial support to operational questions, such as training and exchanging of officials from both institu-

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60 The alternate deputy of the 25th Executive Constituency of the World Bank Council, Ana Dias Lourenço, has considered Angola "a country of reference on the African continent" because of its "infrastructure advances and macroeconomic stability". See the website of the Angolan Embassy in Washington, DC: <http://www.angola.org/index.php?mac-t=News,cntnto1,detail,o&cntnto1articleid=963&cntnto1origid=15&cntnto1detailtemplate=detail&cntnto1returnid=81>. Accessed October 26, 2015.

61 In news published by Afro News, an IMF representative argued the experience of other countries have shown that public development banks are prone to poor governance, misallocation of credit and low economic performance. See the website: <http://afrol.com/articles/18798>. Accessed October 26, 2015.

62 According to the Annual Report published in April, 2012. See the BDA's website <http://www.bda.ao/relatorios-e-contas/>. Accessed October 26, 2015.

63 Over the past five years, the Angolan economy would have grown at an average rate of 9.2% per year and, taking only non-oil sectors into account, this rate would go up to 12%, what means nearly doubling the output of the production in non-oil sectors in the period (Ministério do Planeamento 2010).

64 According to the Annual Report published in April, 2012. See the BDA's website <http://www.bda.ao/relatorios-e-contas/>. Accessed October 26, 2015.

tions.<sup>65</sup>

## The BDA: A process of institutional import / export?

There is no consensus over the definition of a development bank. In Brazil, for example, if we rigorously take regulation into account not even the BNDES would be one. According to Resolution number 394/1976 from the National Monetary Council, development banks are financial institutions controlled by state governments to promote local development policies, by granting credit to the private sector. Yet, the federal government created the BNDES before Resolution number 394/1976 went into force, and from the beginning the bank's comprehensive scope was to fund projects for Brazilian development, according to the different meanings such developmental purpose acquired over time.

Thus, we assume development banks are those created to promote public policies, and believe this kind of financial institution could adopt a broad or a specific scope, which are limited to pre-established sectors, markets or projects if the choice is for the later type of scope.<sup>66</sup> That said, we argue that both the BNDES and the BDA adopt a broad scope due to the comprehensive purposes established in their bylaws. Yet, the channeling of credit under such broad scopes works according to the idiosyncrasies of each bank's context.

In the case of the BNDES, its creation in 1952 was due to the Brazil-U.S. Joint Commission recommendation instead of any government assessment on how useful a development bank could be in development planning. Managing the resources donated by international aid institutions, as the BIRD and the American Exim-Bank, required a bank with the governance structure originally adopted by the BNDES, which was similar to the Exim-Bank's. Therefore, the BNDES itself could be seen as resulting of an import of institutions in the 1950s.

In the first two decades of operation, the BNDES became known as the National Steel Bank. About 60% of its resources were channeled to companies in steel and metal sectors, whose pricing regulation was recognized to

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65 According to news published in the BDA's website: <http://www.bda.ao/parcerias/bda-assina-memorando-com-banco-brasileiro/>. Accessed October 26, 2015.

66 Ferraz, Além and Madeira (2013, 8-16) review different development bank definitions found in the literature and conclude there is no consensus over it. As for the scope of such financial institution, which is usually state-owned, the authors argued they use to adopt: "(i) a term of investment in specific markets or sectors that could promote relevant socio-economic impacts; or (ii) a broad scope to provide funding for social and economic development of a specific region."

be problematic. Indeed, the government used to fix prices below market value rather than associating them to the demands of the companies' management in such sectors (Schneider 1994, 155-170). From the 1970s on, the federal government itself encouraged expanding BNDES's credit to other sectors. Paiva (2013, 65-88) explains the sources directed from taxation to form the BNDES's capital structure increased, as mentioned above. Brazil was growing above international average rates in this period: it was the "Brazilian miracle". With a stronger capital structure, the BNDES was able to channel credit to industry with greater autonomy.

The government changed the legal form of the BNDES, which was a public autarchy and turned it into a state-owned company. This enabled the bank to start raising resources in capital markets in Brazil and abroad to keep increasing its capital structure. According to Decree number 200/1967, in Brazil both autarchies and state-owned companies have autonomy over managing their assets and taking decisions, but only state-owned companies are able to perform economic activities such as issuing debt in capital markets. Since the 1980s, the BNDES saw an increase in its management autonomy regarding both to invest and disinvest, and it was a pioneer in the process of privatization in Brazil. By the end of the 1990s, net return on own assets were the main source of the bank's capital structure and, in the scope of its decision-making autonomy, the bank invested in emerging companies, in export companies, first capital goods, and later on other sectors, including the privatization auctions that it managed through a subsidiary. From the 2000s on, the Brazilian economy was stronger. At the same time, Lula's government came into power, which had a more interventionist stance in the economic national policy. From this period onwards, the credit from the BNDES increased steadily, both regarding volume and eligible beneficiaries. The bank played a decisive role in providing countercyclical credit along the crisis of 2008 and remains the largest source of credit to manufacturing sector in Brazil.

The creation of the BDA presents a significant difference: it seems that the bank was created much more from a desire of the won Angolan government than from an external imposition. Multilateral institutions dedicated to development, such as the IMF included, showed some misgivings towards the initiative. However, one cannot ignore that Brazil provides great amount of credit to infrastructure projects in Angola, being one of its most important partners in international trade, and that a technical committee from BNB arrived in Angola in 2006 in order to help taking the BDA into operation. Evidences do not indicate any imposition, but the Brazilian presence in Angola may have influenced the decision to create the BDA due to the long-term horizontal learning both countries are experiencing.



As the BNDES, the BNB was also created in 1952. Evidence shows that after returning from a trip to the Northeast region to see the damage caused by the drought of 1951, the former Minister of Finance, Horacio Lafer, presented a memorandum to President Getúlio Vargas recommending the creation of this bank. Such initiative in addition to the cooperation of some foreign diplomatic missions took to creating the BNB to promote development projects in the Northeast region, which had been devastated by constant droughts and the scarcity of stable resources, lacked a financial organism able to structure its economy. Contrasting the BNDES, which is a state-owned company, the BND is a mixed capital company publicly negotiated since 1977 to raise funds in the domestic stock market. Its scope is limited to regional development projects in the nine federal states of the Northeast area, namely Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe and Bahia, in the northern Minas Gerais and in the northern Espírito Santo. Within such regional scope, the BNB addresses agricultural credit and micro-credit and supports infrastructure projects particular o the needs of the so-called “Polygon of Drought” area, placed in the Northeast region of Brazil.<sup>67</sup>

According to what BNB stated, its particular regional scope took its staff to Angola to assist in the creation of the BDA. Such technical assistance makes sense, since the agricultural sector has been the main beneficiary of the Angolan bank financing in its first years. In any case, the government of Angola seems to be planning to extend real scope of the BDA mandate. So it is, that since 2014 a partnership with the BNDES, not only for financial aid, but also for exchanging of institutional experience.

It is possible to identify the parallel between the banks, even if taking their contexts of creation into account. Just as the BNDES, the BDA's initial capital structure consisted of part of the taxation on oil and diamonds, its main exporting products. In its early years of operation, its investments focused in one relevant sector. The BNDES addressed the steel industry, while the BDA focused on the agricultural sector. The types of investment, which could be taken directly or by using financial intermediaries and include debt and equity investments in both cases, are very similar. The governance of the BDA is simpler. The Board of Directors accumulates assignments similar to those of the Executive Boards of the BNDES. The Advisory Council takes the place of the Brazilian bank's Board of Directors. Executive boards envisioned by the BDA for the future, in turn, could become close to the Operational Areas of the BNDES, which are isolated from public policy guidelines outlined by the federal government, since such guideline are incorporated in the

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67 See the BNB's website for further information on its scope and context of creation: [www.bnb.gov.br](http://www.bnb.gov.br). Accessed October 26, 2015.

decisions made by the Executive Board. Operational Areas focus on technical issues related to managing the credit portfolio. Perhaps, the BNDES-BDA cooperation has, as its most sensitive issue of institutional learning, the matter of governance in order to enlarge the capacity of credit direction of the Angolan bank.

Even criticisms over both banks are similar. If public opinion in Angola argues the BDA has been benefiting few well-established companies, same kind of criticism over the BNDES in Brazil has never stopped. As much as the Brazilian bank has managed to expand its sectorial scope of investment and has also benefited from increasing autonomy in decision-making, its ratio of credit distribution is of about 70% of funds channeled for large companies compared to 30% disbursed in small and medium-sized enterprises in the 2009-2013 period (Coutinho 2013).

If the BNDES inspired Angola in creating and operationalizing the BDA, perhaps both banks could use a process of cooperative learning to solve their bottlenecks performance, that seem closer as well as its functioning structure.

## Conclusion

In search of a parallel between the experience of Brazil and Angola with development banks, we took the BNDES and the BDA into account at the core of our study. In order to this, we examined the context in which each institution was created in prospective analysis. Considering their historical and local specificities, we investigated the institutional and public policies range related to each bank, as well as the investments source that are most relevant for them, and the agents that were significant for the creation and internal governance designed for each of their operations.

Both experiences proved to be closer, despite the fifty-years difference that separates the creation of each bank. Therefore, there is strong evidence that the BDA is the result of the export of the Brazilian model of development banks. The involvement of the BNB, in addition to the BNDES, in the process of institutional cooperation indicates that in Brazil the experience is already consolidated.

For their turn, BNDES and the BNB themselves in Brazil, seem to be a process of an institutional import that occurred in the 1950s. Whereas considering the theoretical framework provided by Delazay and Garth (2001, 41-255), therefore, the BNDES and BNB resulted from the Brazilian learning, that assumed their own structures during the country's development process.

One expects that the same happens with the BDA, which process of institutionalization is taking place in Angola, according to its local context.

By observing the organizational parallel, the criticism presented and the clues of institutional cooperation found, we expect that the process of BDA's institutionalization takes place coherently in Angola locally. In addition to that, we also expect that Brazil makes use of the institutional learning opportunity to acquire new capabilities in the process of cooperation between banks, since the challenges of enhancing the BNDES and the BDA are similar to the ones of their functioning.

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## ABSTRACT

Importing institutional solutions is a theoretical alternative to cases non-identified with the transplants approach. Studying the context of the creation of the Brazilian development banks and the Angolan bank, the BDA, illustrates the utility of such approach. Judgment regarding convenience and suitability of institutional solutions is beyond our scope in this paper, which also did not aim at contributing to the critical literature on institutional transplants. By taking an exploratory qualitative research based on the comparison of cases, our core purpose was reflecting if Angola imported the Brazilian institutional model when it decided to create the BDA, noting as well how it has been consolidating locally.

## KEYWORDS

Import and Export of Institutions; Development Banks; South-South Cooperation.

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The Brazilian Centre for Strategy and International Relations (NERINT) was the first center dedicated to the study and research in International Relations in Southern Brazil. It was established in August 1999 at the ILEA/UFRGS aiming the argumentative and innovative study of the main transformations within the post-Cold War international system. Since 2014, it is located at the Faculty of Economics of UFRGS (FCE-UFRGS). In parallel, NERINT has sought ways to contribute to the debate on a national project for Brazil through the understanding of the available strategic options to consolidate an autonomous international presence for the country, from the perspective of the developing world. Brazil's choice of an "active, affirmative, and proactive diplomacy" at the beginning of the 21st century has converged with projections and studies put forward over numerous seminars and publications organized by NERINT.

An outcome of its activity was the creation of an undergraduate degree on International Relations (2004), ranked the best in Brazil according to the Ministry of Education (2012), and a graduate level program, the International Strategic Studies Doctoral Program (2010). Two journals were also created: the bimonthly *Conjuntura Austral* and the biannual and bilingual *Austral: Brazilian Journal of Strategy & International Relations*. Thus, besides ongoing research on developing countries, NERINT is also the birthplace of undergraduate and graduate programs, not to mention its intense editorial activities.

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The International Strategic Studies Doctoral Program (PPGEEI) started in 2010, offering Master and Doctorate degrees, both supported by qualified professors and researchers with international experience. It is the result of several developments on research and education at the Universidade Federal do Rio Grande do Sul (UFRGS).

Its roots can be traced to the Brazilian Centre for Strategy and International Relations (NERINT), a centre established in 1999 which conducts research, seminars, and edits two journals. Other main partners are the Centre for Studies on Technology, Industry, and Labor (NETII/FCE) and the Center for International Studies on Government (CEGOV), located at the Latin American Institute for Advanced Studies (ILEA/UFRGS). In 2004, an undergraduate degree in International Relations was created at the Faculty of Economics/

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